Chapter 5

Improving Your Aim

Using Strategic Management to Create Clarity of Direction

***Improving Your Aim*, often called strategic management, helps governments define their visions and core purposes—the outcome goals that are most important to them—and aim their entire systems at fulfilling them.**

In November 1990, after 15 years of frustration with rising property taxes, voters in Oregon passed a massive property tax cut, called Measure 5. Because it required state government to make up local governments' and school districts' revenue losses, it forced deep cuts in state spending. As Governor Barbara Roberts prepared her 1993–1995 budget, her staff told her she needed to cut *10 percent* from the general fund—$600 million out of a $6 billion budget. In the midst of the carnage, however, she proposed 21 new initiatives. And the legislature funded 18 of them, with $130 million.

Why spend new money while gutting the rest of state government? Were these pet programs? Was there a court mandate? No. The governor and the legislative leadership had simply reached agreement about the direction they wanted Oregon to go, and the new investments promised to help move things along. Why did the state's leaders have that clarity and consensus? Because of a remarkable innovation called the Oregon Benchmarks.

In the early 1980s, Oregon had experienced five years of wrenching economic pain. Employment in the state's lumber and wood products industries had collapsed—plunging from 83,000 in 1979 to 55,000 in 1982. By 1987, state wages and per capita income had fallen from the national average to 10 percent below it.

Neil Goldschmidt, a former Democratic mayor of Portland and U.S. secretary of transportation, campaigned for governor in 1986 on an economic platform he called "the Oregon Comeback." Once in office, he pulled 180 business, labor, government, and education leaders together to develop a vision and strategy. In a report called *Oregon Shines: An Economic Strategy for the Pacific Century,* they recommended three "strategic initiatives" for revitalizing the economy: Oregon should build a superior workforce, maintain an attractive quality of life, and develop a global outlook. They called for a new Oregon Progress Board to "serve as the long-term caretaker of Oregon's strategic vision, identify key activities that need to be undertaken, and then measure our progress over the next several decades." Appointed and chaired by the governor, it would have nine members.

Businesspeople from the governor's task force recommended that the Progress Board start by setting specific, quantifiable goals for the state. After conducting surveys and convening 12 community meetings around the state, the board proposed 158 outcome goals, which it dubbed the Oregon Benchmarks. It called 17 of them Lead Benchmarks, those related to urgent problems that required progress within five years, and 13 of them Key Benchmarks, the most important long-term goals for the state. Table 1.1 offers examples of the original Lead Benchmarks that focused on people, including historical data and quantifiable goals.

Table 1.1 Sample Lead Oregon Benchmarks

Lead Benchmarks for People	***1970***	***1980***	***1990***	***1995***	***2000***	***2010***
Teen Pregnancy. Pregnancy rate per 1,000 females ages 10–17		24.7	19.5	9.8	8	8
Drug-Free Babies. Percentage of infants whose mothers did not use illicit drugs during pregnancy			89%	95%	99%	100%
Drug-Free Teens. Percentage of 11th-grade students free of involvement with illicit drugs in the previous month			68.2%	85%	98%	99%
Job Skill Preparation. Percentage of high school students enrolled in vocational or technical education programs		7.3%	9%	18%	35%	55%

Source: Oregon Progress Board, *Oregon Benchmarks: Setting Measurable Standards for Progress. Report to 1991 Legislature* (Salem: Oregon Progress Board, 1991), p. 5.

Governor Goldschmidt's successor, Democrat Barbara Roberts, fully embraced the Progress Board and Benchmarks when she took office in 1991. Because *Oregon Shines* and the Benchmarks put a spotlight on education and workforce development, she and key legislators pushed through major reform legislation in both areas. As Measure 5 kicked in, Roberts decided to use the fiscal crisis as a lever, to get agencies to shift their spending to activities that would help achieve the Lead Benchmarks (now called Urgent Benchmarks). She asked them to begin preparing budgets with only 80 percent of their projected "current service level" spending, but she told them they could get more money if they could demonstrate that it would help achieve an Urgent Benchmark.

"The Benchmarks were our set of priorities," she explains.

> *We didn't have to invent them—they already existed. Nobody had apparently thought about linking the budget and the Benchmarks directly. But the Benchmarks literally came to life when I tied them to my budget. Agencies sat up and paid attention when I said the money is tied to the Benchmarks.*

Roberts also directed the agencies to develop performance measures consistent with the Benchmarks. Though not all followed through, the process spurred several key agencies to rethink their goals and strategies. For instance, *Oregon Shines* recommended a focus on industries critical to the state's future. So the Department of Economic Development convened meetings of leaders in those industries to talk about the challenges facing them and how to respond. Next it convened a Key Industry Benchmark Summit, in which leaders of 13 industries met in the same room—one table per industry—to hammer out benchmarks for their industry and a brief action plan.

"About 60 percent of it was education or workforce development," remembers department director Bill Scott.

> *So then [in 1994] we had a big meeting we called the Industry Education Summit. We brought in a team from all areas of education—K–12, community colleges, higher education—and we got a team from education assigned to each industry team. And they each came out with one project they were going to try to accomplish.*

When the state police developed 27 strategic performance measures tied to the Benchmarks, the process forced them to rethink many of their basic assumptions. One Key Benchmark was the rate of deaths due to "unintentional" (accidental) injuries. "The patrolmen could say, 'There's nothing about the traffic safety rate there, so that's not me,'" explains Major Lee Erickson.

Yet motor vehicle crashes drive this statistic for people up to age 45 or 47. So we said to the Highway Patrol: "You own the crash rate on state and federal highways; that piece of this benchmark is one of your strategic performance measures."

Each patrol office then says, "OK, what's driving motor vehicle collisions in our areas?" They find the bad roads where accidents are happening. They come up with intermediate performance measures to help them decide whether they're being effective.

But the only way to limit accidents was to get other players involved: the public, local police forces, and the state department of transportation. "For years the state police said, 'We don't handle all the problems there, therefore we can't be responsible,'" Erickson says. "The change is: 'You are responsible to go out and get some partners involved, identify your role, and then implement these things.'"

Outside state government, the Oregon Community Foundation and the Metropolitan Portland United Way both adopted the Benchmarks to guide their funding decisions. Six counties and five local communities created their own benchmarks, progress boards, or similar steering organizations. And a statewide consortium of hospitals, insurance companies, HMOs, and state and local health agencies decided to focus on the immunization benchmark, which aimed to raise the percentage of two-year-olds who were "adequately immunized" from 47 to 100 percent by the year 2000. With a combination of "immunization days," public education, and a massive database on immunization, they pushed the rate up to 81 percent by 1997.

Bumps in the Road

After the death of her husband, Governor Roberts chose not to run for reelection in 1994. Though a Democrat succeeded her, the Republicans swept the state legislature, just as they swept the U.S. Congress. Few of the new legislators were familiar with the Progress Board or the Benchmarks, and the Republican leadership had little use for an initiative sponsored by two Democratic governors. "The membership was somewhat hostile in 1995," says Representative Bob Repine, a Republican. By now there were also far too many Benchmarks, and data on many were either absent or questionable. (The number had expanded from 158 to 259 as the Progress Board refined and updated them every two years.) Legislators felt that "this thing was getting unruly," says Repine.

They decided to fire a shot across the Progress Board's bow—without sinking it. They let the authorizing legislation for the board expire, but allowed its appropriation to pass. The new governor, former state senator John Kitzhaber, reauthorized the board by executive order, hired a new director, and convened a 46–member task force, which included leaders from both legislative chambers, to reassess the entire process. After six months of meetings and public hearings, the task force voted almost unanimously, by secret ballot, to continue with the Benchmarks and Progress Board. They published a document called *Oregon Shines II,* which modified the original strategic initiatives and cut the number of Benchmarks to 92. Based on this work, the 1997 legislature overwhelmingly passed a bill making the Progress Board and Benchmarks a permanent part of state government.

Ten Years of Effort: How Much Impact?

By creating a steering organization and setting outcome goals, Oregon's leaders have changed the way a good deal of the public's business is done in their state. Throughout Oregon, the Benchmarks have acted as "magnets for collaboration," to use an oft-repeated phrase. On immunization, welfare reform, education reform, and a series of other issues, commitment to a benchmark has spurred public organizations, businesses, and community groups to come together and make dramatic changes. "What I see is an energizing of people to tackle really big problems that people in other places are viewing as hopeless," says Bill Scott.

> *There are so many times in political life where people say, "If we can afford to send a man to the moon, why can't we feed the children? We're rich enough to do this." The assumption is that there's somebody in a position of power, and if they only had the will, this would happen. The truth is, you need a whole lot of somebodies—you need a real collective. It takes a tremendous amount of shared responsibility, and to me the Benchmarks are a way of mobilizing that.*

It is now widely accepted by public leaders in Oregon that defining outcome goals should be the starting point of any initiative and that measuring performance against those goals should be standard operating procedure. When the legislature created the Oregon Commission on Families and Children to overcome the fragmentation of human service programs, for example, it defined 11 of the Oregon Benchmarks as its goals. When Governor Kitzhaber decided to do something about declining salmon stocks before the federal government stepped in and declared coho salmon an endangered species, he started with the existing Benchmarks for stream quality, stream flow, and wild salmon stocks.

There is much unfinished business, of course. To create an entire steering system, in which statewide outcome goals drive state government strategies—and therefore all agency missions, goals, and activities—Oregon will need other tools, particularly performance budgeting and strategic evaluation. But Oregon is the only state in the nation whose public and private leaders have agreed on a detailed vision, a set of strategic priorities, and a set of measurable outcome goals. That decision has clarified for many just what their priorities should be—leading to significant reforms in education, welfare, and job training; improvements in agencies as diverse as economic development and the state police; and public-private partnerships to increase immunization rates, prevent teen pregnancy, and the like. Ask yourself whether leaders in your own state or province have such shared vision and clarity of direction—as well as methods to measure their progress—and you will begin to understand how remarkable Oregon's achievements have been.

IMPROVING YOUR AIM: THE TOOLKIT

Improving your aim is about creating a system that helps your government stay focused on its most important goals, even as those goals change over time. The New Zealanders call it *strategic management.*

Think of reinvention as a voyage, a great crossing from the bureaucratic model characteristic of 20th-century governance to the entrepreneurial model necessary for successful 21st-century governance. *Visioning* helps your leaders, crew, and passengers get clear on where they want to go. (This is what *Oregon Shines* did.) *Outcome goals* (like the Oregon Benchmarks) give them targets to aim at and ways to measure their progress. *Steering organizations* (like the Oregon Progress Board) help them create their visions and goals, develop strategies to achieve them, fund those strategies, and measure progress. (By *strategies* here we do not mean the five strategies for reinvention, around which this book is organized; we mean strategies chosen to achieve particular policy goals, such as economic development strategies or education strategies.) *Strategy development* is the process of figuring out how you will achieve your vision and goals—how you will successfully complete your voyage. *Mission statements* help individual organizations—the various ships in your fleet—keep themselves headed in the right direction. *Performance budgets* help you shift your resources to the strategies you have chosen. *Long-term budget forecasting* helps you make those resource decisions with as much knowledge of likely future consequences as possible. And *strategic evaluation* helps you determine if you are drifting off course—and what to do about it.

Few governments use many of these tools—and when they do, they typically call what they are doing *strategic planning.* We prefer to avoid that term, for several reasons. First, it suggests that the key activity is creating a *plan*—which is hardly the case. Second, the business models of strategic planning normally imported into the public sector don't include most of these tools. And third, those models don't usually work very well in government.

Because strategic planning was developed to manage private organizations, not democratically elected governments, it subordinates politics to rationality, something that is usually impossible in government. It requires long, formal planning processes, which are difficult to sustain in public organizations. It creates plans that sometimes take on lives of their own, often acting as impediments to strategic thinking and action when circumstances change. And it rarely drives budgetary decisions, because those decisions are usually made quite separately and are shaped by political needs rather than strategic thinking. Hence funding rarely shifts to the strategies selected, rendering strategic planning relatively powerless.

Even in the business world, formal strategic planning has fallen into disrepute. In an influential *Harvard Business Review* article, Gary Hamel captured the problem with one sentence: "The essential problem in organizations today is a failure to distinguish *planning* from *strategizing.*" He and others argue that strategic planning has become too static—too much about *planning* and not enough about strategic *thinking* and *acting.* Too often, strategic planning systems are overly formalized, complete with their own planning departments that impose annual planning cycles on all managers. They create formal plans that act as straitjackets, crowding out vision, flexibility, innovation, and real strategic thinking.

In government, strategic planning is usually a disembodied exercise to force managers to define their goals in the absence of management systems that do so. In contrast, strategic management builds systems that define purposes and outcome goals, create conscious strategies to achieve them, construct budgets to fund them, and use performance measures and evaluations to see how effective they are. Creating such systems will help you think, plan, and act strategically all the time—rather than going through the motions every time the deadline for a new strategic plan rolls around.

Why is strategic management so important today? In a world of rapid change, global markets, and technological revolution, governments must respond constantly to changes in their environment. "The ability to make consistently good decisions over time, enabling an organization to adapt quickly to changes in its environment, has become a critical determinant of success," explains New Zealand's State Services Commission. Indeed, a nation's, region's, or city's strategic capacity is now a key element of its competitive advantage or disadvantage.

Part of this competitive advantage is a government's ability to anticipate and prevent problems rather than trying to ameliorate them after they appear. In an age of global competition and fiscal limits, an ounce of prevention truly is worth a pound of cure. And strategic management holds the key to that

ounce of prevention. A strategic management system gives leaders the ability to anticipate future trends, define the future they want, and bend their resources and staff to the task of creating that future. Without it, preventive government is impossible.

Strategic management is also critical because it eliminates the need for many rules, procedures, and internal controls in entrepreneurial organizations. When managers and employees are clear on the vision, mission, goals, and strategies chosen by their leaders, they require fewer rules to stay on course. These tools give leaders the leverage they need to steer effectively, without overly constraining the methods chosen by managers and employees to row the boat.

"The sense of purpose that strategic alignment provides can be unconscious," notes former New Zealand treasury secretary Graham Scott.

> *Many organizations that have it do not see it as particularly remarkable, unless they remember the times when it was missing. . . . People who know "why they are there" derive greater satisfaction from their work, and they are rarely cynical about it. Strong commitment to the job is a cultural norm, not a trait deserving great notice or reward. People stop playing power games and distorting information flows to enhance their position at the expense of the organization's performance.*
>
> *An absence of strategic alignment can be recognized by the opposite characteristics: an internal focus on rules and procedures, conservatism about changing things, uncertainty about who has authority to make decisions and frequent referral upstairs, territorialism and patch [turf] protection, unwillingness to share information and cooperate or to accept peer review, detachment, resignation and blame shifting about inadequacies in performance, [and] refusal to take responsibility for results.*

Improving Your Aim: Lessons Learned

Getting clear on your vision and goals is the logical place to start a reinvention effort. But politics is rarely about logic. Strategic management requires political leaders to make decisions rationally and visibly, with a longer time frame than that defined by the next election—and that is not easy. In politics, short-term crises usually crowd out long-term thinking. Particularly when power is divided between multiple branches of government, as in many American systems, partisan politics often defeats rational efforts to reach consensus about goals.

The payoff for strategic management is also quite long-term. "You don't get to measure it in your term, while you're in office," says Governor Roberts. Hence few politicians put it high on their priority lists.

Some elected officials avoid clearly articulating outcome goals because they fear that if they fail to meet them, the voters might hold them accountable. Many also prefer to finesse political differences over goals rather than resolve them; at budget time, they split the difference. And some simply don't want their control over resources limited in any way. As Linda Loomis Shelly, then chief of staff to Florida governor Lawton Chiles, told *Governing* magazine, "The whole concept of accountability driving funding decisions is anathema to legislative types who want complete discretion as to what to spend money on. If you programmatically determine whether something is working, it limits the discretion of the legislature, and they don't like that."

Hence the biggest lesson about strategic management is that not all jurisdictions are ready for it. Before starting down this path, you should assess whether your elected leaders are willing to follow. Our first four lessons focus on these political realities. These and the other lessons articulated here apply to the entire approach—to all of its tools.

1. Focus on improving your steering capacity only after you have developed some momentum that builds faith in the effort.

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It takes a long time to get results from this approach. Oregon has been at it since the late 1980s. Texas has been perfecting its performance budgeting system since 1991. Most reinvention efforts will require faster results to generate momentum. In many situations, then, we recommend starting with other approaches and strategies. Once people have faith that reinvention can yield important results, you can begin the long climb up the mountain of strategic management. The payoff can be huge, but it comes slowly.

Don Forbes, a successful reinventor during his tenure at the helm of the Oregon Department of Transportation, watched the Benchmarks' slow progress for years. But he didn't wait for it to reach his department; he started reinventing in other ways. "You've got to get the organization producing results for customers, day in and day out," he says.

> *Once we got our people to think in terms of customer and performance, I think we got the organization moving again. It's like redeveloping the muscles. Get the horse running again; don't put it in the Kentucky Derby right away. Once you develop a certain set of muscles, you can push it harder, toward longer-term efforts.*

2. The executive must take the lead in improving steering capacity, but he or she should involve the legislature, council, or board in the process.

If you don't have top-level leadership, you won't succeed in implementing this approach. By its nature, strategic management does not happen unless those who make the strategic decisions—elected officials and their advisers—buy in to these new tools. Without their commitment, you have lots of process work with no payoff, because they will continue to make decisions the old way.

Lip service does not cut it. What made the Oregon Progress Board work, in Governor Roberts's view, was her presence as chair at every monthly meeting. What made the Benchmarks come to life was her decision to use them to make budget decisions. Without visible gubernatorial support during her successor's first year, the Progress Board quickly foundered.

In most systems, executives have the greatest capacity to be strategic, whereas legislatures are more reactive. Hence it is far easier for an executive to lead this process than it is for a legislature. But as Michael Marsh, Roberts's former budget director, learned, "It does not work to complete the process and then say [to the legislature] 'Here it is.' You must work with the legislative branch in developing the process."

Representative John Watt, a legislative champion of the Benchmarks, is blunt about the issue:

> *People who serve in elected offices have to go through a certain ego thing. That's just the nature of the beast. So I would tell a new governor that you have to sell them ownership; convince them that this was their idea, or at least convince them that their input was absolutely essential. And to do that, I think you have to involve them up front a little bit more.*

Progress Board director Jeff Tryens cites four ways to get legislators to buy in: get them involved; listen to them and take their concerns seriously; show them how this approach can make a real difference in policy choices and spending decisions; and show them that it is meaningful to their constituencies. "If the legislative leaders aren't feeling this is having some effect on the way Oregonians view the world, they're going to wonder about it," he points out.

3. *To get elected officials to take steering seriously, publish scorecards and help citizens and interest groups grapple with how to improve outcomes.*

The $64,000 question in strategic management is whether elected officials will take it seriously. If they do not—if they care only about meeting the short-term needs of interest groups—their behavior will force top managers off any strategic focus and onto short-term issues. This is the norm in government. How do you break it?

In addition to educating, involving, and listening to elected officials, the key is to show them that improving outcomes is meaningful to their voters. If politicians are to focus on steering, they must be convinced that serving the collective interest is just as important to their future as serving special interests is. The only way we know to do this is to publish meaningful, digestible "report cards" that voters and interest groups will pay attention to, then get them involved in discussions about how to improve those outcomes. The media love to publish report cards and rankings—particularly when they come from a neutral, objective source.

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Publishing scorecards that include 92 different measures, like the current Oregon Benchmarks, is not terribly effective, however. They must be broken down into bite-size pieces the public can digest—for example, one scorecard for each of several basic policy areas (crime, children and families, education and training, environmental protection, and so on). And they must be presented in visual formats that make their implications clear.

Nor is publishing a visually arresting report enough. Beverly Stein, the elected executive of Multnomah County, discovered that her Benchmarks report had little impact because the city and county didn't quite know what to do with it—how to use it to engage the citizens. You need to create forums in which citizens and interest groups that care about the issues can discuss progress (or its absence) with their elected officials—and help them think through new strategies to improve outcomes.

4. If you want politicians to take steering seriously, don't expect them to give up immediate constituent service.

Having said all of the preceding, we must also share some more practical advice. In a democracy, one reality will never change: elected officials will always need to solve short-term problems for their constituents. If managers ask them to focus on steering and "leave the problem solving to us," elected officials will not be happy. A city manager who wants the city council to quit micromanaging and focus on steering, for example, must make sure there is a reliable system in place they can use when their constituents call with problems. When someone calls about a vacant lot filled with trash, or drug dealers on the corner, or drivers speeding through their neighborhoods, the manager must have some kind of quick response mechanism that will solve the problem. Otherwise the politicians are going to continue micromanaging. Managers should make a conscious deal with their elected officials: we will help you respond effectively to your constituents' needs, if you will help us create and use a strategic management system.

5. Keep the steering process bipartisan.

Governor Roberts went out of her way to make the Progress Board bipartisan; she even appointed the Republican she had defeated to the board. But by the time she left office, four years later, she had provided such active leadership that the board was closely identified with her. Its director was also one of her key aides. When the opposing party took control of the legislature, the combination spelled trouble. As Jeff Tryens told Congress in 1997, "A single champion or party affiliation can be deadly."

6. *Build the whole strategic management system, not just a piece of it.*

To quote Tryens again, "Benchmarks do not a system make." Oregon discovered what happens when you develop outcome goals without formally tying them to budgets and agency performance measures: some agencies take them seriously; some don't. Other governments have discovered what happens when you develop performance measures and budgets without getting clear on your long-term goals. In neither case do you propel departmental and agency managers to rethink what they do to accomplish the public's most important goals. You need them in the loop; otherwise the best steering in the world won't lead to different *actions.* Clarity of direction comes from using most or all of these tools—not just one or two.

7. *Steering well is expensive; be prepared to pay the price.*

Building a strategic management system takes a lot of time. You cannot expect busy staff to do it on top of everything else. You will need full-time staff dedicated to this process—and that costs money. If you're not prepared to invest serious money in gathering data and building steering organizations and converting your budget system, don't venture down this path. The secret is to finance your efforts through the savings you create—by using your outcome goals to help clear the decks and by eliminating line items, budget reports, and budget analysts as you convert to performance budgeting.

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8. *Find powerful, high-level champions to drive this approach in both the executive and legislative branches.*

"If you don't have somebody who's going to push this session after session, it's not going to happen," says Representative Henry Cuellar, who led Texas into performance budgeting. "You've got to have a legislative leader or leaders or a governor, depending upon your structure." If you don't, your efforts will stall and no one will be there to restart them.

Minnesota provides a perfect example. It has an excellent set of outcome goals, developed in 1991, called the Minnesota Milestones. But Governor Arne Carlson never made them a priority, and no other champion has emerged, so they have had little impact.

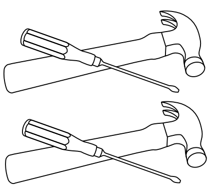
9. *Get an early success—and then get some more.*

"One of the things we learned was that you have to have an early success," says Governor Roberts. Oregon did that first by dramatically lowering workmen's compensation rates, second by dramatically increasing immunization rates. Both victories created significant enthusiasm for the Benchmarks process.

10. Be careful not to oversell the power of strategic management.

Strategic management will not change the fact that governing is a political process. Personalities will still play a big role. Partisan spats will still derail decisions. Constituencies will still fight to protect their interests at the expense of the common good. Strategic management will help you sort through all these pressures more rationally, but it will not eliminate them.

Nor will data and analysis answer every question. Outcome goals and performance budgeting are very useful, but they often point to the right questions rather than the right answers. Data simply cannot answer many of the most profound questions we have about public policy. Some issues are too complex



TOOLS FOR IMPROVING YOUR AIM

Visioning is a process for achieving agreement on the kind of future a community (neighborhood, town, city, county, region, state, province, or nation) wants to create for itself—and a shared commitment to creating that future. See p. II/35.

Outcome Goals are the long-term results a jurisdiction needs to achieve to realize its vision. See p. II/39.

Steering Organizations are boards, councils, departments, or other groups that create visions, set goals, choose (and often fund) strategies, and measure performance against those goals—or advise elected officials who do these things. See p. II/44.

Strategy Development is the process of developing, choosing, and refining strategies to achieve outcome goals. See p. II/48.

Mission Statements help everyone in an organization develop a shared understanding of its basic purpose. See p. II/52.

Performance Budgets define the outcomes and outputs policymakers intend to buy with each sum they appropriate. See p. II/52.

Long-Term Budget Forecasting projects current fiscal trends (spending, revenue, debt, and net worth) into the future, to indicate the long-term implications of today's decisions. It gives that information power by tying it directly to actual budget decisions and making it available to the press, the public, and decision makers. See p. II/63.

Strategic Evaluation is the systematic analysis of the results produced by government strategies and programs. It goes beyond traditional program evaluation to include analysis of the cause-and-effect relationships between outputs and outcomes and between program outcomes and broader societal outcomes, extraction of lessons learned for future efforts, and recommendations for changes to produce improved outcomes. See p.II/65.

for effective analysis, at least with the tools we now have at our disposal. Others come down to value choices, not data.

The danger is that champions of strategic management will, in their naïveté, promise more than they can deliver. And when the results do not materialize, elected officials will decide this approach is not worth what it costs. "What I've been consciously trying to do since we started is undersell," says Portland auditor Gary Blackmer, whose office audits performance against the Portland/Multnomah County benchmarks. "We need to make sure that we don't promise more than we can deliver on this."

VISIONING

***Visioning* is a process for achieving agreement on the kind of future a community (neighborhood, town, city, county, region, state, province, or nation) wants to create for itself—and a shared commitment to creating that future.**

The soul . . . never thinks without a picture.

ARISTOTLE

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When Neil Goldschmidt ran for governor, Oregonians were very unsure about their future. For decades, they had prided themselves on their quality of life, often contrasting their pristine state with California, which seemed to be turning into one big smog-ridden suburb. Yet by 1986 Oregon could no longer afford this insularity. The economic pain of the early 1980s made the old vision unsustainable; Oregonians now wanted jobs and growth. But how could they achieve them without ruining what they so valued about their state? To have both growth and a pristine environment, they would need a new vision.

When Goldschmidt brought 180 leaders together to work on *Oregon Shines,* they analyzed Oregon's economy, looked at international trends, figured out what the state would need to flourish in the global economy, and articulated a new vision. Although Oregonians' values would be preserved and their "quality of life would be undiminished," they said, the economy would have to diversify.

> *Industries requiring skilled, knowledgeable workers would abound, and Oregon would be a noted producer of products in microelectronics, computer software, biotechnology, specialty metals, and light manufacturing. Oregon's professional services would rank among the best in the country, and would be sought out by clients in other states and regions. . . . The work force would be Oregon's pride. . . . Quality would be the hallmark in all phases of Oregon life—quality jobs, workers, products, attractions, communities, environment, and overall quality of life. All these hallmarks of quality would be present alongside and within a dynamic, competitive, internationally oriented economy.*

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Oregon Shines then listed six broad "goals that reflect this vision" and several strategic priorities. All in all, it was a classic example of visioning. It told everyone in the state where the governor and other state leaders wanted to go. And it left behind a new institution to carry the vision forward: the Oregon Progress Board.

As this example demonstrates, visioning is about far more than painting a picture of the future a community wants to create. When visioning focuses not on one organization but on the future of an entire town, city, region, state, or nation, it must be informed by careful analysis. (For a treatment of organizational visioning, see p. VI/116.) It should involve community members, inspiring them while winning their allegiance. It needs to give some indication of how they can realize the vision—what priorities they must pursue—and thus act as a springboard for outcome goals and strategies. Unlike an organization, a community is not usually cohesive enough to be motivated and aligned by a vision alone. You have to start moving it toward action.

As Harrison Owen says in his eloquent book *Leadership Is,* "The equation of vision with a vision statement is at best weak, and at worst, a total perversion of what vision is all about."

All of this makes visioning a difficult tool to use effectively. On the rare occasions when it is used well, however, it has real power. It can:

- Help leaders step outside their current mind-set and think anew about their community's condition, potential, and strategic priorities.
- Help both leaders and community members internalize a new understanding of the challenges they face, a vision, and a new path to achieve that vision—a new "road map."
- Help leaders from different political parties, institutions, and sectors agree on a common vision and goals.
- Act as a "magnet for collaboration," inspiring thousands of people to work together to achieve a common purpose.
- Simplify thousands of decisions and avoid months of needless discussion by providing a guide that can help people figure out what to do and what no longer needs doing.
- Create a new vocabulary that can reshape public perceptions.

Do's and Don'ts of Successful Visioning

Make sure the right people launch the process. The call for visioning must come from people with significant power; otherwise, once the visionin is complete, no participant may have enough power to launch the necessary change efforts.

Create a leadership team. No matter how many people take part in a visioning process—and some have involved thousands—it needs a leadership team. That team should be broadly representative of those whose buy-in the leader hopes to secure. And it should include acknowledged leaders in the community, to build confidence in the process. Credibility comes from the involvement of institutions that have authority: chambers of commerce, universities, businesses, unions, and community organizations. Without support from some of these institutions, significant change is almost impossible—and every potential participant knows it.

Analyze the cards you've been dealt. "Although a good vision has a certain elegant simplicity," John Kotter points out in *Leading Change,* "the data and the syntheses required to produce it are usually anything but simple. A ten-foot stack of paperwork, reports, financials, and statistics are sometimes needed to help produce a one-page statement of future direction."

Kotter was writing about business, but this statement is just as relevant to the public sector. Many a community has painted a rosy vision of a robust high-tech economy, without any base from which to build that economy. In contrast, Oregon took the time to analyze its economic base. To develop a credible vision, it had to marry the past and future, describing a feasible path from its low-tech economy to a future that embraced technology, innovation, and quality.

Don't settle for plain vanilla. When visioning processes skip real research and analysis, the result is often a plain-vanilla statement acceptable to all and compelling to none. Such statements may be uplifting, but they do nothing to differentiate the community from others, define strategic priorities, or motivate action.

Communicate the vision. In a community of any size, a vision is only useful when it becomes widely shared. Once you have it written down, the hard work begins. You must take every opportunity you have—in speeches, meetings, videos, performance reviews, chance encounters, newsletters, and interviews—to communicate your basic vision, goals, and strategic priorities.

Tell a story. The more you can boil the challenges facing your community down to their essence—and communicate that essence with a story about where you have been and where you are going—the better you will communicate. In 1983 and 1984, Michigan produced a very sophisticated, analytical vision document called *The Path to Prosperity.* Yet it managed to boil the state's future down to three memorable choices: it could "get poor," by letting manufacturing wages fall to remain competitive; it could "get out" of manufacturing; or it could "get smart," by nurturing advanced manufacturing technologies like robotics and machine vision, making Michigan the place to go for cutting-edge manufacturing technology.

Create some structure to implement the vision. "Many community vi-

sioning efforts break down once the vision and strategic initiatives are identi- efforts. ied," report David Chrislip and Carl Larson in their book *Collaborative Leadership.* To avoid this, you need to plan for further implementation. The executive or legislative body may take the lead, but often you need a structure more rooted in the community and more committed for the long haul. Perhaps the first big community visioning exercise, Goals for Dallas in the 1960s, created 12 "Goal Achievement Committees" to build public support and push both public and private institutions to work on the goals. The Phoenix Futures Forum left behind a Futures Forum Action Committee to oversee implementation for two years, organized into six action groups to mobilize partners who could help implement the recommendations. And, of course, Oregon created the Progress Board.

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Don't forget to refresh your vision. Seven years after *Oregon Shines* was completed, Oregon's leaders discovered that they had to revisit their vision because conditions had changed. "The vision must act as a compass in a wild and stormy sea," Tom Peters writes, "and, like a compass, it loses its value if it's not adjusted to take account of its surroundings." Revisit your vision every five to seven years. By involving many others in the process, you can bring it back to life for those who have forgotten it.

CHARACTERISTICS OF AN EFFECTIVE VISION STATEMENT

An effective vision statement is:

- *Outcome-based.* The vision is stated in terms of end results.
- *Inclusive.* It resonates with a majority of its target community.
- *Vivid.* It creates a picture of the desired future.
- *Clear.* It is easily understood.
- *Communicable.* Kotter suggests this rule of thumb: it "can be successfully explained within five minutes."
- *Unique.* It differentiates your community from other communities.
- *Inspiring.* It appeals to the public spirit.
- *Challenging.* It includes audacious goals and has the power to motivate.
- *Realistic.* It does not require miracles; it builds on the cards you have been dealt.
- *Credible.* People believe they can bring it to life.
- *Focused.* It is specific enough to provide guidance in decision making.
- *Widely shared.* It is embraced across party lines and in the public, private, and nonprofit sectors.

RESOURCES ON VISIONING

Clement Bezold, ed. *Anticipatory Democracy: People in the Politics of the Future.* New York: Vintage Books, 1978. Though out of date, this is the best single text on community visioning. It includes useful case studies on several ambitious examples from the 1960s and 1970s.

David D. Chrislip and Carl E. Larson. *Collaborative Leadership: How Citizens and Civic Leaders Can Make a Difference.* San Francisco: Jossey-Bass, 1994. Although this study covers other forms of collaborative leadership as well, three of its six case studies began with community visioning, and many of its lessons apply to community visioning.

Merrelyn Emery and Ronald E. Pursur. *The Search Conference.* San Francisco: Jossey-Bass, 1996. A good description of search conferences: two- to three-day events involving 20 to 35 people who work together to develop a vision, goals, strategies, and action plans.

John P. Kotter. *Leading Change.* Boston: Harvard Business School Press, 1996. Although focused on private corporations, Kotter's chapters on developing and communicating a vision are among the best we have read.

Reinventing Courts for the 21st Century: Designing a Vision Process. Washington, D.C.: Institute for Alternative Futures, Hawaii Research Center for Futures Studies, and National Center for State Courts, 1993. Though written for court systems, this workbook has a great deal of clear, hands-on information about visioning in the public sector, including exercises, worksheets, and information on specific techniques. The Institute for Alternative Futures works with public organizations and communities and publishes useful material on this and other futures processes. Phone: (703) 684–5880. Fax: (703) 684–0640. Web: www.altfutures.com.

OUTCOME GOALS

***Outcome Goals* define the long-term results a jurisdiction needs to achieve to realize its vision.**

Outcome goals are your compass: they tell you whether you are going in the direction you want to go in. (We are referring here to policy outcome goals, like the Oregon Benchmarks, not program outcome goals, which are specific to individual programs.) You can set out *without* an explicit vision; indeed, visions are often implicit. But if you don't articulate explicit outcome goals and measure your progress against them, you won't know whether you are on the right course. When Oregon set goals of raising per capita income to 101 per-

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cent of the national average by the year 2000, or lowering teen pregnancy rates from 19.5 to 8 per 1,000 girls age 10–17, it made it very easy to tell whether the state was on course.

In bureaucratic governments, policy is often made without a clear consensus about goals. The process is ad hoc and political, driven by elections, the balance of power in legislatures, media coverage, scandals, personalities, even accidents. Outcome goals do not eliminate these things, but they do provide some balance. They give elected officials a more rational framework within which to make their political decisions. And they give managers much clearer guidance about what elected leaders want to achieve. "They counter the instant gratification and fast-food policy making that we unfortunately have all too often," says Multnomah County executive Beverly Stein, a former state legislator.

Because the Oregon Benchmarks have received so much attention—and because they make such intuitive sense to most people—other states, cities, and counties have begun to copy them. Minnesota, Florida, Texas, Utah, and Vermont all have statewide outcome goals or indicators now, and many cities and counties in Oregon and Florida have followed suit. National governments are also beginning to use this tool. New Zealand and the U.K. have strategic management systems that begin with long-term outcome goals. The U.S. has set national goals for education and the war on drugs.

Unfortunately, *setting* outcome goals changes little. The key is *using* them to shift priorities and drive improvement throughout the system. By the late 1990s, very few governments had figured out how to do this in any systematic fashion. The U.K., New Zealand, Oregon, Texas, Florida, Alberta, Sunnyvale, California, Multnomah County, Oregon, and a few other jurisdictions were working on it.

One challenge they all face is elected officials' reluctance to hand their opponents a report card on their performance. In New Zealand, for example, the outcome goals (now called Strategic Priorities) set by the cabinet have been fairly general and nonquantifiable. (Typical examples: "achieve and sustain a prudent level of debt" and "ensure stable/predictable tax rates.") In contrast, output goals are specified for each department, and outputs are measured rigorously. So the government knows whether it is producing the outputs it wants, but it has little data to say whether those outputs are producing the desired outcomes. Lacking any requirement to focus on outcomes, some managers have fixated on producing their outputs at the expense of innovating to find ways of improving outcomes.

According to most observers with whom we have discussed the issue, the elected ministers' reluctance to measure outcomes stems from their desire to avoid the perception of failure. In 1996 New Zealand hired American public administration expert Allen Schick to review its reforms and make recommendations. In his report, Schick addressed this issue:

In my view, a system that would hold politicians accountable for conditions they only partly control invites loose definitions and evasions of responsibility. If outcomes were reported as the causal results of the outputs purchased by Ministers, politicians would be positioning themselves to be blamed for matters that are not truly their doing. In this situation, they are likely to devise expedient escape routes; one of the most popular is to define outcomes vaguely so that progress cannot be measured.

One way to avoid the problem of elected officials' shying away from outcome measurement is to have a nonpolitical, community-based body like the Oregon Progress Board measure outcomes. If a neutral, respected body measures and reports on progress toward the outcome goals, elected officials will have little choice but to pay attention and push for improvement.

Another good solution, in our opinion, is to hold steering organizations—rather than elected officials—accountable for outcomes. We believe that elected officials should appropriate budgets to steering organizations to deliver specific outcomes. Those steering organizations should then purchase program outcomes and outputs from rowing organizations, both public and private. The directors of the steering organizations would be held accountable for achieving their assigned policy outcomes. With this system, it would not be politicians who were held accountable but high-level policy managers. A performance management system would then be built to hold operational managers and employees accountable for the specific program outcomes and outputs they produced to contribute to the policy outcome goals.

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Using Outcome Goals: Do's and Don'ts

All ten lessons for improving your aim apply to this tool. In addition, we have compiled a list of "do's and don'ts" based on the experience of Oregon, New Zealand, Sunnyvale, Multnomah County, and other pioneers:

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Sell outcome goals as a way to achieve things the public cares about, like better schools, more jobs, and less crime. If you sell them simply as "good government," you won't get far in most communities. The Oregon Benchmarks originally took hold because they grew out of Governor Goldschmidt's process for producing *Oregon Shines,* which focused on how to rebuild the Oregon economy. When you communicate about your outcome goals, don't sell the process, sell the *benefits* the public will experience.

Take a look at other jurisdictions' outcome goals as you craft your own, but don't copy them. You can learn from what others have done before you, but be careful to craft your own process and goals rather than copying another jurisdiction's. Shortcuts may save you time, but they may also help you void the work that is necessary to get stakeholders to buy in to the goal-setting process.

Set realistic goals. Enthusiasm is wonderful, but if goals cannot be reached, people will become discouraged with the process. The Oregon Progress Board originally set very ambitious goals: cutting teen pregnancy in half within five years, for example. In 1997, it reset many of its targets to more realistic levels. Sometimes the goal should simply be improvement, rather than an arbitrary number picked because it sounds good.

Measure not only how you're doing against your goals but also how comparable jurisdictions are faring. Otherwise, you often won't really know whether you are succeeding or failing. As Portland, Oregon, auditor Gary Blackmer points out, "If you find that all other places in the country have a 15 percent increase in teen pregnancy, and you only have 5 percent, then maybe you're doing the right things."

Check to confirm that citizens agree with the basic priorities and values expressed by your outcome goals. Otherwise your goals won't have power for long. In Oregon the Progress Board took its draft to 20 different communities around the state, using electronic voting at community meetings to get feedback. After the first version of the Benchmarks was published, the Oregon Business Council did a survey to see if they were on target—and found that they were.

Make the goals and indicator data readily accessible, in a user-friendly format. If people can't find or understand the data, it won't do much good. Publish progress reports periodically, distribute them to the media and the public, and put them on the World Wide Web. Vermont even televises an annual interactive program to report on its Community Profiles and statewide Well-Being Report, which has 51 indicators. When important and newsworthy pieces of data come in, send out press releases. And always try to present data graphically, using some form of charts.

Refresh your outcome goals periodically. "The Benchmarks were developed following the campaign of a guy who ran for governor using the slogan of 'the Oregon Comeback,'" says Representative Watt. "There's been a complete turnaround since then; now people are worried about managing the problems of rapid growth. So you have to constantly refresh and revise, and make sure the benchmarks continue to be relevant to current problems."

Tie your outcome goals to the budget process, to yoke your government to them. When you use performance budgeting to develop outcome goals for programs, strategies, or departments, make sure they contribute to your overall outcome goals. If you don't, your agencies may work harder and harder to achieve goals that have little to do with those your community cares most about.

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Don't have too many outcome goals. For most jurisdictions, we recommend keeping the number of broad policy outcome goals under 15, so everyone in the community can focus on what is most important. The fewer you have, the better. If you have too many, none will have much power, because there will be so many of equal urgency—as Oregon discovered. Legislators' eyes will glaze over. It will be difficult to shift resources toward achieving your goals, because there won't be enough money for all of them. And so much measurement will be needed that the system may collapse under its own weight.

Experience suggests that there will always be pressure to have too many goals. If the process is taken seriously, every department and every interest group will want to come up with at least one key outcome goal. But if they all get an outcome goal, then no goals will stand out. Setting outcome goals is about picking the few critical outcomes the community wants to achieve over the next 10 to 20 years. It does not mean that nothing else should be done; it means nothing else is quite as important.

One solution to this conundrum is to create a hierarchy of goals. Multnomah County, Oregon's largest, offers a model here. The first time around, in 1994, its board of commissioners picked 85 Benchmarks—to make sure no division felt left out. Discovering its mistake, the board selected 12 of the 85 as "Urgent Benchmarks." But eventually it decided even that was too many. In 1996 it chose three high-priority long-term Benchmarks: increasing school completion rates, reducing the percentage of children living in poverty, and reducing crime. Then it developed a hierarchy, with other goals feeding into these three. From there, each department has adopted outcome and output goals that contribute, called Key Result Areas.

"I came to this reluctantly," says Beverly Stein, who chairs the board.

> *But I find this very useful, because I can now actually remember it. Whenever I speak, I say, we have three long-term Benchmarks, and we need the community to help with this. I think it's hard to remember more than three or four Benchmarks.*

We recommend deciding on the number of long-term outcome goals you want before you begin the process of choosing them. If you can agree in advance on a number, you'll have much better discipline—even if you decide in the end to exceed the number by two or three.

Don't ignore areas for which there is no data. Some of your goals will not be measurable, because no relevant data exist for those outcomes. For example, in Oregon and elsewhere, improving literacy rates is a crucial outcome goal. Yet no one measures literacy rates—and as Oregon discovered, doing so is quite expensive. In such cases, the temptation is to eliminate the goal. If you

succumb to this temptation, however, you are letting the task of gathering data drive your goals, rather than the other way around. You will end up telling everyone to work hard to achieve certain goals simply because they are measurable, while ignoring others that are more important. We recommend that you keep the goals you want and work to convince decision makers to appropriate the money to measure them.

RESOURCES ON OUTCOME GOALS

Oregon Progress Board Web Site: www.econ.state.or.us./opb. This site includes the Oregon Benchmarks; semiannual reports on progress toward achieving the Benchmarks; papers on the Benchmarks, the history of the Progress Board, and other topics; and links to other relevant sites.

State Services Commission Web Site: www.ssc.govt.nz. New Zealand's State Services Commission (SSC) has produced the best work we have seen on this subject, including a series of papers by SSC staff and outside consultants and an evaluation of the New Zealand reforms authored by Allen Schick. All are available on the SSC Web site.

STEERING ORGANIZATIONS

Steering Organizations are boards, councils, departments, or other groups that create visions, set goals, choose (and often fund) strategies, and measure performance against those goals—or advise elected officials who do these things.

Steering is perhaps the most difficult work the public sector does. It takes a set of rare skills that few elected officials possess. Even those who do have some of these skills rarely have the expertise to set policy effectively in all the different arenas they face, from education to public safety to environmental protection. Most elected officials are simply too busy and too pressured by political demands to steer effectively.

As demands have escalated for dramatic improvement in areas like public safety, workforce development, and support for children and families, elected leaders have increasingly begun to create organizations designed to help with steering. Many are quasi-public organizations, at least partially insulated from political pressures. Some, like the Oregon Progress Board, are focused on the entire range of policy concerns in the community. Others, like workforce development councils and public safety coordinating councils, focus on one policy arena. Some are new organizations; others, like Sweden's small policy

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ministries or the U.S. Domestic Policy Council and National Security Council, have been around for decades—even (in the case of Sweden) centuries. Still others, particularly in the U.K. and New Zealand, are the remains of large departments that have been uncoupled from their rowing functions. In smaller local governments, mayors', city managers', and county executives' offices often act as steering organizations for the entire government.

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The most important role of a steering organization is to purchase outputs and outcomes on behalf of citizens, whether through contracts, charters, vouchers, flexible performance frameworks, or other methods. When they do this, they act as the steering side of systems in which steering and rowing have been uncoupled, as we describe in Chapter Seven.

In addition, steering organizations:

- Do research and analysis.
- Convene community leaders, particularly to do visioning, strategy development, and goal setting.
- Develop outcome goals.
- Keep the vision and goals visible to the entire community.
- Educate elected officials and other policymakers about strategic issues, goals, and strategies.
- Develop and modify strategies.
- Recommend policy changes to elected officials.
- Monitor the progress of strategies toward outcome goals.
- Evaluate why strategies are succeeding or failing.
- Do research and development work on new strategies.
- Catalyze the creation of new initiatives or organizations.
- And coordinate the work of diverse organizations (public safety coordinating councils do this, for example).

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How many of these roles a steering organization takes on depends on its mission, its level of political support, and its context. One size does not fit all situations. But in general, the more of these roles the organization can play, the more effective it will be at steering. Those that play only a few roles, such as research, analysis, and policy advice, tend to be quite weak. Those that control resources and fund strategies and operational organizations tend to be the strongest. When used in this way, steering organizations become the linchpins of strategic management.

Steering Organizations: Do's and Don'ts

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All of the general lessons about improving your aim apply to steering organizations. In addition, we offer several pointers that are more specific to this tool:

Give steering organizations control over significant resources. Legislatures and county boards are increasingly authorizing steering organizations to shape entire service systems, such as workforce development or services to children and families. Unfortunately, they are seldom willing to face the storm of protest that would come from giving the steering organization real control over the resources in the system, so they give it control over a token amount of resources—and doom it to failure.

The Oregon legislature created the Commission on Children and Families to reshape the human services system, but gave it less than 1 percent of the resources in the system. The Massachusetts legislature created the Mass Jobs Council to steer the workforce development system, but gave it real control over only about 5 percent of the federal job training dollars in the state, which were already just a fraction of public workforce development spending. Both steering organizations tried to push operational agencies to change their priorities and fund new initiatives; soon they were as welcome in those departments as lepers. Since they controlled far fewer resources—and hence had far weaker constituencies—than those agencies, they inevitably lost the power struggles that ensued.

All too often, steering organizations don't have enough money even to field an adequate staff. The Progress Board has labored for years with only three staff members. Many counties in Oregon do not fund staffs for their public safety coordinating councils—and it is precisely those councils that are least effective.

Spread the involvement net as wide as necessary to achieve your mission. Some steering organizations have enough formal power that they do not need to involve a broad spectrum of citizens and stakeholders. But most don't. Because their authority rests largely on persuasion, they must bring many stakeholders together and build a consensus behind their goals and strategies.

Create accountability mechanisms for your steering organizations. This is very difficult, but it is important. Many steering organizations—particularly those that oversee a particular policy arena or group of agencies—should be able to negotiate with their authorizers (typically the elected officials who fund them) concerning which policy or program outcomes are most important to achieve. When a steering organization meets those goals, its members and staff should be rewarded. When it does not, the authorizers should explore what it needs to do better and try to provide it. If the organization still fails to achieve its outcome goals, the authorizers might want to replace its director or the membership of its board. Authorizers should do this with caution, however, because it often takes a long time for even the most effective strategies to produce outcomes.

For steering organizations without much formal power to influence outcomes, such as the Oregon Progress Board, different measures are necessary. The authorizers of such organizations might want to define their key customers, then survey them annually to determine their satisfaction with the organization. The board could in turn develop a performance contract with its staff director.

Select the members of a steering organization carefully, and then train them. Effective steering takes very rare skills. Members of a steering board or council need bold vision, a focus on results, and an ability to think strategically. They must also be able to work well with others and be patient. John Carver, in his excellent book *Boards That Make a Difference,* outlines a series of other qualities that apply to members of steering boards:

- "Commitment . . . to the specific mission."
- "Propensity to think in terms of systems and context"—to see the whole rather than just the parts.
- "Ability and eagerness to deal with values, vision, and the long term."
- "Ability to participate assertively in deliberation."
- "Willingness to delegate, to allow others to make decisions."

Anticipate and plan for succession problems. Few things are more destabilizing for steering organizations than political turnover. Executives, legislative leaders, department heads, and ministers all come and go. When this happens, steering organizations can quickly lose their base of support. Their leaders must anticipate such problems and plan for them—by including members of both political parties and both branches of government, by developing close relationships with key up-and-coming leaders on both sides of the partisan aisle, by developing powerful constituencies outside government, and by painstakingly educating legislators, their staffs, and key executive branch members about the organization's role and value.

Don't let steering organizations step over the line into operations. Their role is to set outcome goals, develop strategies, set direction for managers in operational agencies, measure those agencies' performance, and hold them accountable. But they must let managers develop and implement their own action plans to carry out those strategies and produce those outcomes. If they step across that line, they will get sucked into making operational deci-

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sions and lose their focus on steering, while undermining the authority and morale of managers.

Don't give providers seats at the table. If service providers sit on a steering board, they bring an inherent conflict of interest. When departments (or private entities) that act as service providers are represented on steering councils and boards, for example, their leaders tend to focus on protecting their interests. This can paralyze a steering organization, taking many strategic options—even topics of discussion—off the table. (The exception is a coordinating council, which must include those who are seeking to coordinate their efforts.)

Don't tie steering organizations' hands with categorical funding. Organizations that deal with children and families, for example, typically use funds from various departments and agencies, plus categorical grant funds from the federal government. If they cannot pool the money to finance their chosen strategies, their hands are often tied. Iowa invented "decategorization boards" to allow pooling of state funds. Made up of county government and community leaders, these are steering boards responsible for helping at-risk children. The state pools different departments' funds and then disburses the money to the counties to implement the boards' plans, so the boards can fund comprehensive strategies with categorical state money.

Don't promise too much too soon. It takes time to deliver improved results. First, a steering organization has to build an infrastructure of outcome goals, performance measures, and accountability. That task alone can take several years. Those who create and fund such organizations should understand that delivering improved outcomes will be a 5- to 10-year process, not a quick fix.

STRATEGY DEVELOPMENT

***Strategy Development* is the process of developing, choosing, and refining strategies to achieve outcome goals.**

Once you have created steering organizations and outcome goals, how do you develop strategies capable of meeting those goals? As *Oregon Shines II* says, "Identifying the Benchmark and target is only half the battle. Strategies are needed to achieve those targets."

This is a challenge most governments fail. They make strategies in ad hoc, highly political ways, with little data and less analysis. The biases and whims of key politicians and managers often play a dominant role, and the legislative process turns even well-thought-out strategies into sausage.

Every organization has a strategy or strategies, even if they are only implicit. Strategy development is about making those strategies explicit, then reexamining them and testing alternatives to see if there are better ways to achieve the desired outcomes.

As Henry Mintzberg explains in *The Rise and Fall of Strategic Planning,* the strategic planning literature is strangely silent on how the process of developing a strategy actually works. Based on his studies of business, Mintzberg believes that successful strategies are rarely planned; rather, they emerge from practice. Visionary, insightful, dogged individuals often play the greatest role in creating them, far from the rational disciplines of strategic planning. Hence the key to good strategy development is good *listening* and *observing.*

> *In general, we found strategy making to be a complex, interactive, and evolutionary process, best described as one of adaptive learning. . . . The process was often significantly emergent, especially when the organizations faced unpredicted shifts in the environment, and all kinds of people could be significantly involved in the creation of new strategies. Indeed, strategies appeared in all kinds of strange ways in the organizations studied. Many of the most important seemed to grow up from the "grass roots" (much as weeds that might appear in a garden are later found to bear useful fruit), rather than all having to be imposed from the top down, in "hothouse" style.*

If strategy development is "overmanaged," Mintzberg warns, it may lose its creativity. "To manage this process is not to preconceive strategies but to recognize their emergence and intervene when appropriate. . . . To manage in this context is to create the climate within which a wide variety of strategies can grow (to establish flexible structures, develop appropriate processes, encourage supporting cultures, and define guiding 'umbrella' strategies) and then to watch what does in fact come up."

In other words, organizations that are good at strategy development make a lot of room for learning. They play with different options and examine their possible results, piloting some to see what happens. Their leaders encourage the visionaries on staff to experiment and analyze, and then nurture continued conversation about what is working and what might work. They listen carefully to what their visionaries have to say. As Mintzberg argues, "An overemphasis on planning—in fact, a belief that strategies can be created through formal procedures—tends to drive out" both visionaries and organizational learning.

The trick is to create a forum in which strategy development can occur when opportunity strikes, without forcing everyone onto a strategic planning calendar. We have seen many forums used: steering organizations, policy staffs, subcabinets, temporary task forces, retreats, design labs, search conferences, and so on. All can be effective, if they are not overformalized. "The experience of governments shows that there is no intrinsically optimal way to organize the policy-making process," the Organization for Economic Cooperation and Development (OECD) concluded after studying the matter.

Do's and Don'ts of Strategy Development

Use both hard and soft data. You need all the quantitative, hard data you can get, but it will never be enough. As Mintzberg points out, "Hard information is often limited in scope, lacking richness and often failing to encompass important noneconomic and nonquantitative factors. . . . That is why a conversation with a single disgruntled customer can sometimes be worth more than a major marketing research report." Hard data also tends to arrive too late to be useful, and "a surprising amount of hard information is unreliable." Hence good strategists use both quantitative and nonquantitative data—and both analysis and intuition.

Find ways to get outside the box. Strategy development is most creative when participants drop their assumptions and think in new ways. Any number of techniques can help people do this:

- Bring in outside experts with a broader perspective, who can push people outside their boxes.
- Use a facilitator who is skilled at helping people look at things in new ways.
- Lead site visits to places that are using strategies your people have never considered, or bring people from those sites in to talk with your group.
- Use exercises: for example, have all members of the group define the givens in the relevant policy arena, then decide which ones they can discard.
- Use a checklist of alternative strategies, to see if you have considered all of the possibilities.

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If possible, involve elected officials, policy staffs, and line managers. You will need the support of elected officials to implement many strategies, and the best way to get that support is to involve them in creating the strategies. Policy staffs should play a key role in managing any strategy development process. And line managers are the eyes and ears of the organization; they know what is actually happening on the front lines, what works, and what doesn't.

But don't expect elected officials to engage in lengthy strategy development processes. Very few politicians have the patience for this kind of process. If your authorizers don't, get your marching orders from them, round up an appropriate team, develop your strategies or strategic options, and present them to the elected officials. Involve them at the front and back ends, but don't expect them to sit on their rear ends through the middle.

Don't bother doing strategy development work on an issue unless at least one key leader feels a pressing need for it. If those who have the power to implement a strategy don't feel any need for it, they probably won't carry your water. Many policy offices have found their ideas falling on deaf ears because they have worked on issues the key executive or department head doesn't care about.

Don't fall into the ivory tower trap. Make sure your strategy development team is in touch with line agencies and the outside world. Keep their eyes and ears open through regular site visits, conferences, lunch discussions, e-mail networks, and the like.

Don't succumb to paralysis by analysis. You'll never have enough research or data; you'll always want more. At some point, you have to go with what you've got.

Don't invite all your stakeholders into your strategy development forum. Stakeholder councils can provide useful ideas and input, or feedback on proposed strategies, as a reality check. But if you bring them into your strategy development sessions, you run a real risk of getting watered-down, least-common-denominator solutions. Most will be in the room only to protect their constituents' interests. Once you have developed a strategy you'll need to get their reactions, their buy-in, and, hopefully, their help in implementing it. But don't expect them to help with your out-of-the-box thinking. Develop the strategy first; then try to build consensus around it.

Don't assume that strategy formulation means strategy adoption. The flip side of the previous advice is that you must consider the feasibility of implementation as you develop your strategies. If you come up with the most elegant conceptual approach in the world but every interest group hates it, you won't get far. That's one reason you'll need input from stakeholders—to test the feasibility of the ideas you are cooking up. You will also need to assign someone or some group to think through the politics of getting your strategy adopted.

Don't forget to link strategy development to budget decisions. Too often, new strategies are hatched but never funded because the strategy development process is so divorced from the budget process. You have to find a way to link them—an issue we will return to when we discuss performance budgeting.

RESOURCES ON STRATEGY DEVELOPMENT

John Bryson and Barbara Cosby. *Leadership for the Common Good: Tackling Problems in a Shared-Power World.* San Francisco: Jossey-Bass, 1992. A basic text on the wider topic of policy innovation, much of which is relevant to strategy development.

Henry Mintzberg. *The Rise and Fall of Strategic Planning.* New York: Free Press, 1994. A thorough dissection of the flaws of formal strategic planning, in which readers will find much wisdom about how strategies are actually developed and refined.

MISSION STATEMENTS

***Mission Statements* help everyone in an organization develop a shared understanding of its basic purpose.**

When one moves from the government-wide or system level to a specific organization, mission statements are an important strategic management tool. They help every employee in an organization (as well as external audiences) understand its purpose and how it fits within the goals of the larger system or government. Mission statements are covered in Chapter Twenty-Three.

pp. VI/113-116

PERFORMANCE BUDGETS

***Performance Budgets* define the outcomes and outputs policymakers intend to buy with each sum they appropriate.**

In government, the most important plan is the budget—and it is rarely strategic. Budgets are set through complex negotiations among program managers, executives and their budget offices, interest groups, and legislators. With a traditional budget process, the chances that an agency's budget will reflect its outcome goals and strategies are slim. When there is a conflict between the two, the budget will win every time. Performance budgeting is a tool that brings goals, strategies, and budgets into alignment: it helps you shift resources from past patterns to today's priorities.

A performance budget specifies what outcomes and outputs an agency, program, or strategy is expected to produce, at what price. This allows both the executive and the legislature to make their performance expectations clear, then track whether they are getting what they paid for. It also helps them learn whether the strategies and outputs they are funding are actually producing the outcomes they want. If not, they can ask for an evaluation to examine why—and what to do about it.

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In Oregon, for example, performance budgeting is the logical next step. The state has set broad statewide outcome goals, and some departments have developed performance measures that align with those goals. But neither the governor nor the legislature constructs a budget structured around those goals and measures. As a result, the legislature has not systematically shifted resources to achieve the Benchmarks, other than in 1993 at Governor Roberts's urging. A performance budget would help Oregon do this.

See *Reinventing Government* pp. 142–145, 158

Quite a few local governments use performance budgets, led by Sunnyvale, California, which pioneered the tool in the 1980s. In 1993 the U.S. Congress passed the Government Performance and Results Act (GPRA), which required agencies to develop performance measures and launched pilots in performance budgeting at a handful of agencies. By 1993 Australia, New Zealand, and Sweden had already adopted performance budgeting, and after GPRA passed, many

states followed suit. By 1997, fifteen states reported that they had performance budgeting initiatives under way—about two-thirds of them pilot projects, often in only a few departments. But Texas, Florida, Louisiana, North Carolina, Virginia, and Iowa were all building statewide systems.

Texas, whose legislature decided to convert to performance budgeting in 1991, is the furthest along. It has done for state government what Sunnyvale did for local government: proven that performance budgeting can work. As such, it offers a good illustration of the tool.

Every two years, Texas's governor prepares a statewide vision and goals statement, called *Texas Tomorrow.* It includes goals and benchmarks, but not the kind of quantifiable targets Oregon sets (such as a teen pregnancy rate of 8 per 1,000 females age 10–17 by the year 2000). The powerful Legislative Budget Board, made up of five key leaders from each chamber, reviews and adopts the statement.

p. II/23

Agencies are required to use a strategic planning process to develop their biennial budget requests. Each agency must articulate a mission statement; values; general goals; quantifiable objectives (outcome goals), with targets and indicators; the strategies it will use to achieve those goals and objectives; output measures; efficiency measures; additional "explanatory measures" that are not used for performance accountability, such as demographic data or caseload data; and action plans for implementation of each strategy.

Agencies assign a cost to each strategy, which becomes a line item in the budget. For small agencies, all administrative overhead (or "indirect costs") are folded into that line item. Originally this was true for all agencies, but the legislature later decided it wanted to see administrative costs separately for large agencies. The agencies have considerable flexibility to move money between strategies.

The final appropriations act includes part of this data, as shown in Exhibit 5.1.

When they submit their budgets, agency boards and commissions prioritize their strategies, deciding which are most important to achieve their outcome goals. They list them in descending order, indicating the cumulative percentage of last year's budget as they go. The total can rise above 100 percent, suggesting what the agency thinks it could do with more money. This prioritization of strategies helps the legislature decide how to increase or cut an agency's budget.

The Legislative Budget Office staff negotiate the proposed budget with the governor's budget office and agency staff. This is where most of the work of reviewing the goals, strategies, outcomes, and outputs takes place. Once this is done, the Legislative Budget Board forwards a proposed budget to the appropriations committees, which complete the job, making adjustments as they see fit.

Exhibit 5.1 Texas Department of Commerce (TDOC) Appropriations Act: Excerpt

For the Years Ending	***Aug. 31, 1998***	***Aug. 31, 1999***
A. Goal: BUSINESS DEVELOPMENT		
To improve the state's economy by assisting businesses and communities to be globally competitive while strengthening the state as an economic region in a worldwide marketplace.		
Outcomes:		
Number of Job Opportunities Announced by Businesses That Receive TDOC Assistance	18,125	18,175
Number of Actual Jobs Created by Businesses That Receive TDOC Assistance	6,380	6,530
Number of Defense Dependent Communities That Implement Programs Enhancing Their Capabilities to Retain, Expand, and Create Globally Competitive Businesses or Defense Missions	12	18
A.1.1. Strategy: ASSIST BUSINESSES	$40,929,099	40,129,099
Assist business to create and retain jobs by increasing productivity; developing worker skills; diversifying customer base; and accessing finance.		
Outputs:		
Number of Smart Jobs Participants Trained for New Jobs	15,167	15,622
Number of Manufacturing Companies Assisted by TMAC with High Impact Project	325	399
Efficiencies:		
Average Cost per Smart Jobs Trainee Served	$1,265	$1,265

Source: The appropriations bill for fiscal years 1998 and 1999 is available at www.lbb.state.tx.us.

Using a computerized system, the agencies track and report output and efficiency measures quarterly and key outcome and explanatory measures annually. Agencies must explain to the Legislative Budget Board any variance of 5 percent or more from the established target for a key measure.

Since 1993, the legislature has added four pilots to test refinements:

1. A benchmarking pilot, which requires every agency to choose (or develop) a performance measure for each of its broad goals that can be used to compare its performance over time with that of other institutions, or with some objective standard.

2. An investment budgeting pilot, which involves a few agencies in an effort to do cost-benefit analyses of agency strategies.

pp. IV/145-150

3. A customer survey pilot, which requires 30 agencies to define their customers and survey them.

pp. III/92-93

4. A pilot on activity-based costing, which requires a few agencies to determine the full cost of producing each output, to begin taking full-cost accounting down from the strategy to the output level.

The system has proven useful to state legislators—though not yet as useful as its designers had hoped. In a 1998 survey of state legislators, 53 percent of the respondents agreed that “performance measures are ‘always’ or ‘almost always’ useful in allocating the state’s resources,” according to a Texas Senate Finance Subcommittee report. The House has used performance information much more heavily than the Senate, whose 31 members are spread more thinly than the House’s 150.

In the past, says Representative Robert Junell, chair of the House Appropriations Committee, legislators’ impressions of agencies had more to do with what appeared in the newspapers or whether they liked the director than with performance. “I think this does give us an objective view of how an agency is doing and how they’re supposed to be doing,” he says. “In higher education it’s helpful in comparing universities to one another, because you do have a way of comparing an apple to an apple.”

Representative Henry Cuellar adds that legislators are far more willing to accede to agency requests for more money if the agencies have performed well. His subcommittee on performance-based budgeting reviews agency performance during the 18 of every 24 months that the legislature is out of session. It applauds those that are performing well, while inviting in those that are struggling for discussions on how to improve performance, often with knowledgeable people from the Legislative Budget Office and the State Auditors Office. The agencies are quite responsive to those sessions, he says.

But the legislature does not often use its performance information to make major decisions about which strategies to fund. “All these strategies have their own constituencies, which fight like heck to keep their money coming for their particular strategy,” explains Junell. Strategic funding shifts do take place, argues Albert Hawkins, Governor George W. Bush’s budget director, but the decisions are usually made by agency directors, not the legislature. Because the legislature has set higher performance standards for agencies, he explains, agency directors often have to change the way they do business—at times by shifting resources from one strategy to another, or shifting their mix of outputs within a strategy. Allen Schick, an expert on performance budgeting around the world, argues that this is typically the system’s greatest benefit.

Output Versus Outcome Budgeting

Definitions, pp. III/142-4

Perhaps the biggest debate among practitioners of performance budgeting is whether budgets should purchase outputs or outcomes. New Zealand's leaders chose outputs, for instance. Since departments did not have complete control over outcomes, they reasoned, it was unfair to hold them accountable for producing outcomes.

Output budgeting creates real pressure to increase efficiency, but it has several shortcomings. First, because the typical government produces so many discrete outputs, it leads to budgets almost as detailed and restrictive as traditional line item budgets. More important, citizens don't care about outputs; they want outcomes. They don't care how many people the police arrest or convict; they want lower crime rates and safer streets. They don't care how often the streets are swept; they want cleaner streets. This is why most governments that use performance budgeting, from Australia to Texas to Florida, focus more on outcomes than outputs.

Sunnyvale has experience with both systems. During the 1980s, it focused mainly on outputs, but in the mid-1990s, its leaders decided to shift to outcome budgeting. "That has a much stronger and more powerful capability to raise questions about policy setting, about strategies and tactics you use to achieve outcomes, and about fundamental organizational structure," explains former city manager Tom Lewcock. He cites police services as an example. Sunnyvale has nine outcome goals for the police, each given a weight of one to five to indicate how important it is. When the police began measuring these outcomes, they realized that domestic violence was producing 50 percent of the highly weighted crime. So the council quickly moved to spend more on dealing with domestic violence, and the Public Safety Department decided to reorganize internally so it could attack domestic violence more effectively. "This is taking the outcomes right back into the policy arena and using them as a frame," Lewcock concludes. "That wouldn't have happened with the old system."

Outcome budgeting has forced managers to think very hard about whether they are using the right strategies and producing the right outputs to achieve those outcomes. This in turn has forced them to look at whether their organizations are structured correctly and whether their internal rules are barriers to improvement. "It just *forces* people to take on those kind of issues," says Lewcock. "It has stimulated much more creative thinking by staff about strategic and tactical options—ways to do things differently to enhance the outcomes."

It is true that departments do not fully control outcomes. Sunnyvale's police are only one factor affecting violent crime rates. But most departments do *influence* outcomes. And if outcomes are what citizens want, a budget system—whose purpose, after all, should be to allocate resources to produce what citizens want—should focus on outcomes. If no one is actually held accountable for outcomes, as in New Zealand, no one will worry about how to improve them.

When you take the next step and create a performance management system—to *reward* performance—we suggest a different equation. It is clearly unfair to reward and punish people for outcomes they do not control. Hence, within a performance management system, a manager should be accountable primarily for what his or her organization can control. We suggest the following rules of thumb:

- A performance budget should include both outcomes and outputs but focus more on outcomes.
- A performance management system should include both outcomes and outputs but focus rewards more on outputs.

pp. III/106-8

Getting the balance right is tricky, in both cases. Budget makers need to see some outputs as well as outcomes, to determine whether the expected cause-and-effect relationship actually appears to exist. If an organization is hitting all its output targets but is not producing the desired outcomes, it may be producing the wrong outputs. Policymakers need that information, to push agencies to reexamine their strategies.

Similarly, since departments have *some influence* over outcomes, they can be held accountable *to some degree* for producing them. If they are rewarded only for producing outputs, they will have a strong incentive to produce those outputs, but no incentive to examine whether they are the right outputs. Hence an agency or department manager's performance bonus should usually depend on a mixture of outputs and outcomes. The trick is to define program outcomes that are more under the organization's control than policy outcomes. The right mixture of outcomes and outputs will vary from one unit to another—and will depend in part on the degree of control the unit has over the outcomes in question. As you go down the organizational hierarchy, to lower level employees, performance rewards should focus more and more on outputs.

Definitions, pp.III/142-5

pp. III/ 106-108

The same debate has raged for years in the private sector: how much of a manager's reward should be based on the company's profit (the outcome desired), and how much should be based on the specific performance of the manager's unit (its ability to produce the outputs expected)? There is no right answer. Getting the most effective balance for each particular business is an art, not a science.

The Issue of Consequences

As this discussion suggests, performance budgeting and performance management serve different purposes. Performance budgeting is designed primarily to improve your ability to steer, performance management to improve your ability to row. When budgets give executives and legislatures good information about performance, of course, agencies often face consequences of some form: successful agencies often have smooth sailing when they ask for more funds; others are raked over the coals at budget hearings. However, elected officials should not use budget increases and reductions as direct rewards and penalties for performance. If a program or strategy is failing to achieve its goals, it might need more money, not less. (Imagine cutting the budget for every school whose students are doing poorly, and you quickly see the problem.)

Definitions, pp. III/142-3

Though a performance budget should not be used to create consequences for performance, it should be aligned with a performance management system that does so. The two systems should support each other: the program outcomes and outputs rewarded in the performance management system should help achieve the policy outcome goals in the budget. But one should not be pressed into service to do the other's job.

Consider the issue of child abuse. A performance budget might include an outcome goal of reducing the rate of child abuse. Through the budget, in other words, a legislative body could make clear to a child welfare agency that this is the primary goal. But many factors influence the rate of child abuse, including economic conditions and the rate of alcohol and drug abuse. Hence it may be unfair to reward or punish agency managers for decreases or increases in the rate of child abuse. It might be wiser to evaluate their performance and assign consequences based on other goals, such as a reduction in the number of repeat incidents of child abuse.

When governments confuse the two systems, they create innumerable problems. When Minnesota began performance reporting, for example, it wasn't clear whether it was for legislative use or internal management use, so many departments were not sure what to measure. When legislators or city councilors talk about creating accountability for performance, managers typically throw up their best defenses. They worry that legislators will impose consequences without fully understanding why outcomes are stagnant or declining, or impose consequences for political reasons that have nothing to do with performance—that Republicans who hate taxes will use performance management to punish the revenue department, and Democrats who disagree with welfare reform will do the same to the welfare department.

These are very real dangers. We recommend that legislators stay away from making decisions about individual awards or pay. Instead, they should require the executive to create a performance management system—and change it through legislation if they are not satisfied with it.

Our Public Strategies Group colleague Peter Hutchinson, a former finance commissioner for the State of Minnesota, puts it this way: "If you believe that the executive proposes and the legislature disposes, then the role of the legislature is to say to the governor, 'When you deliver your budget proposal to us, we want that proposal to tell us what the results are going to be, how much it is going to cost, and what the consequences are going to be for success and failure in producing those results.' " If the legislature wants different consequences—higher bonuses, or fewer flexibilities, or more nonfinancial awards—it should amend the system. But it should then let that performance management system determine who gets rewarded.

Absent the power to refine and approve a performance management system, Hutchinson argues, "The legislature will exact consequences, but they'll do it on an ad hoc basis. They'll micromanage, they'll form oversight committees, they'll cut budgets, they'll torture people at budget hearings."

In sum, legislators should have the power to enact or approve a performance management system but not to administer it. If they try the latter, they will quickly destroy the value of both performance management and performance budgeting. Once the legislature starts imposing specific consequences on specific managers, those managers will find ways to make sure all performance targets are low, controllable, or irrelevant. Stretch goals will disappear, and everyone will concentrate on protecting themselves by gaming the system.

Other Lessons Learned About Performance Budgeting

pp. II/30-34
pp. III/140

All ten lessons about improving your aim apply to performance budgeting, along with much of what we present in Chapter Twelve, on performance measurement. A few more lessons complete the picture:

1. Create a process that helps legislators trust the accuracy, honesty, and appropriateness of performance measures.

When the U.S. General Accounting Office (GAO) studied performance budgeting efforts in five states, it pinpointed distrust of agency measurement as one of the reasons why legislators did not use performance data. Where performance budgeting has worked—from Texas to Sunnyvale to Multnomah County to Sweden—someone has been assigned to audit each agency's measurement process for accuracy. Typically it is the auditor's office, which gives an audit opinion akin to its financial audit opinion, either certifying that the measures are accurate or reporting problems and requiring corrective action. The best auditors also help agencies learn how to measure accurately.

pp. V/65-68

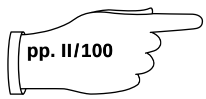
2. Create a forum outside the budget process for legislators to review agency or program performance and refine outcome and output goals.

"You can't do this stuff in the normal budget process," says Sunnyvale's Lewcock. "Budget development is a very intense period of time. You just don't have the time to focus on it." Every government that has tried performance budgeting has discovered this. The solution is to establish some other forum

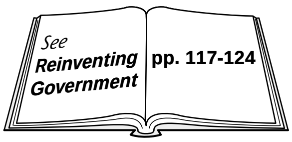
to handle this kind of review. In Texas, for example, the Legislative Budget Office does much of the review and refinement with agencies in the 18–month interim between legislative sessions, and Representative Henry Cuellar's subcommittee also holds review hearings between sessions.

3. Build in another forum outside the budget process for fundamental reexamination of programs and strategies.

If legislators are to view performance budgeting as something useful, they need to see it result in the elimination or redesign of programs that don't work and the expansion of those that do. The problem is, there is no time during the budget process to do this kind of fundamental review. Every government that has attempted to do it as part of the budget process has failed. In Chapter Six we present a tool for such reviews, a periodic options review.



4. Don't just insert performance measures into an existing line item budget format; drop the line items.



Performance budgets should appropriate one lump sum for each program or strategy. The idea is to give managers flexibility to spend their funds in new ways to achieve the results expected by the legislature. Detailed line items, specifying categories on which money must be spent, deny managers this opportunity.

When the GAO studied performance budgeting efforts in five states, it found that when they left detailed line items in the budget, that's what legislators focused on. They were accustomed to using line items to control spending, so they kept right on doing so. Sweden made the same mistake.

Removing detailed line items also saves a great deal of energy, freeing people and money to do the measurement, oversight, and auditing required by performance budgeting. You can afford this new work if you stop doing much of the old work.

5. To make more time for performance budgeting, shift to biennial

Performance budgeting makes it harder to finesse all the policy and political conflicts that go into budget decisions: it forces them out into the open and subjects them to rational analysis based on real data. In large governments this can slow the budget process down so much that legislators have a choice: either ignore the performance data and make decisions the old way, or adopt a longer budget cycle so they have more time. Some countries have even gone to three-year budget cycles to help address this problem.

Biennial budgeting is not a necessary precondition for performance budgeting, but it helps a great deal. Most participants in Texas agree that biennial budgeting has been instrumental in their success. Not every agency has to be

on the same budget cycle. Arizona has adopted biennial appropriations for 88 state agencies, while preserving annual appropriations for the largest 14, which received more than 95 percent of total appropriations.

6. Put performance budgets and reports in useful, user-friendly formats.

"How you organize data and give it to the council is critical," says former Sunnyvale city manager Tom Lewcock. "You have to look at it from their perspective." Simple reports, using graphs and other visuals, are best.

7. Don't put too many performance goals and measures in the budget.

In their desire to make sure there are adequate measures for every unit, governments typically overwhelm their legislators. Until 1995, Australian budgets included as many as 5,000 pages of "program performance statements." Not surprisingly, Parliament ignored them. In Minnesota, managers worried that if their measures weren't in the budget somewhere, their unit would be considered dispensable—so they too overwhelmed the legislature with detail.

The key is to understand that performance budgeting is not the same thing as performance management. You may need thousands of measures for effective performance management—but they don't all have to go into the budget. Even those measures of value to the legislature do not all have to go into the budget; some can be published in supplements available to legislators who are interested in them. Arizona's budget includes a maximum of one page of key performance measures for each budget unit; a more comprehensive list of performance measures for every agency, program, and subprogram is published separately.

8. Build your performance budgeting system in manageable pieces, rather than all at once.

This is such a huge undertaking that it is virtually impossible to build a quality system all at once. Texas bit off a huge piece when it constructed its basic system in 18 months, after the 1991 legislative session. But it later began piloting additional pieces, such as customer surveys, activity-based costing, and investment budgeting. Sunnyvale is shifting to outcome budgeting in one policy area at a time.

pp. II/54-55

9. Build down from jurisdiction-wide outcome goals, rather than up from agency or program goals.

When steering organizations articulate broad policy outcome goals like the Oregon Benchmarks, then look at what their agencies are actually doing, they inevitably discover a mismatch. Many agencies are hard at work on yesterday's priorities, not today's. It is not easy to cross this chasm—to align goals throughout the system. But when you start with broad policy outcomes, it is easier than when you start with program or strategy goals. If you can articulate your policy outcome goals first, you can then ask agencies to create program goals

pp. II/22-27

that—if achieved—will contribute directly to those policy goals. This usually requires some real change in priorities at the agency level, but that is exactly what strategic management is designed to produce. If agencies develop their goals first, you will have to ask them to completely redraft them after you have finally developed policy outcome goals—a difficult request to make, given the struggle most agencies go through to do this in the first place.

10. Don't try to do performance budgeting without automating your system.
"There is no way to do an adequate job of tracking measures if it is done manually," says Texas House Appropriations Committee chair Robert Junell. In the past, many attempts collapsed under the paperwork burden. Today, computers make possible what was impossible a few decades ago.

RESOURCES ON PERFORMANCE BUDGETING

The Florida Monitor (www.oppaga.state.fl.us) and *The Florida Government Accountability Report* (www.oppaga.state.fl.us/government), two Web pages posted by Florida's Office of Program Policy Analysis and Government Accountability. The former includes all policy analyses and performance reviews done by OPPAGA, plus information about Florida's performance-based program budgeting system; the latter has performance information on 400 state agencies and programs.

Instructions for Preparing and Submitting Agency Strategic Plans, Fiscal Years 1999–2003. Austin, Tex.: Governor's Office of Budget and Planning and Legislative Budget Board, January 1998. A useful "how-to" guide for agencies based on the Texas system. Available at www.lbb.state.tx.us.

Performance-Based Program Budgeting in Context: History and Comparison. Tallahassee, Fla.: Office of Program Policy Analysis and Government Accountability, April, 1997. A superb report on the history and practice of performance budgeting. Mail: P.O. Box 1735, Tallahassee, FL 32302. Phone: (800) 531–2477 or (850) 488 0021. Fax: (850) 487–3804. Web:www.oppaga.state.fl.us/ (click on "Performance-Based Program Budgeting," then scroll down to the report title).

Performance Budgeting. St. Paul, Minn.: Office of the Legislative Auditor, February 1994. Another excellent report on the history and practice of performance budgeting. Phone: (612) 296 4708.

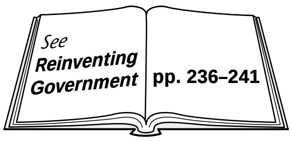
Allen Schick. *Modern Budgeting.* Paris: Organization for Economic Cooperation and Development (www.oecd.org/puma/pubs/), 1997. A useful summary of budget reforms in New Zealand, Australia, Sweden, and the U.K.

LONG-TERM BUDGET FORECASTING

***Long-Term Budget Forecasting* projects current fiscal trends (spending, revenue, debt, and net worth) into the future, to indicate the long-term implications of today's decisions. It gives that information power by tying it directly to actual budget decisions and making it available to the press, the public, and decision makers.**

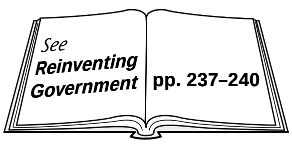
To steer effectively, those at the helm need to be able to see what's coming. If the speed at which future events are approaching exceeds their ability to perceive change and react, they risk suffering the same fate as the *Titanic.*

One important tool to give public leaders future vision is long-term budget forecasting, which projects the future impact of all current budget decisions. In effect, forecasting acts an as early warning system, flagging potential problems beyond the one- or two-year horizon of most budgets. Some governments project out three years, some four or five, and a few 10 or more.



The key here is not simply to make projections, however; it is to integrate them into the decision-making process, by including them in the budget and making them visible to the press and the public. As *Reinventing Government* explained at length, when policymakers see the 10–year implications of spending decisions they are making in next year's budget, it changes their behavior. If they see that a program they want to create today for $5 million a year will cost $50 million in the fifth year, they will approach that decision with far greater care—particularly if the press has the same information.

Some U.S. states that use biennial budgeting project each spending decision into the second biennium, so they are in effect trying to balance budgets four years into the future. A number of countries have converted to three-year rolling budgets, which the OECD calls "medium-term budget frameworks." These are not multiyear appropriations, as biennial budgets are. They are, in the OECD's words, "rolling plans or forecasts of revenues and expenditures for future years that are updated periodically." Some do this only at the aggregate level; others do it at the agency or program level.



Twenty years ago, Sunnyvale, California, became one of the first governments to stretch this kind of system to 10 years, as *Reinventing Government* describes. Every time the city council is considering a new initiative or a change in service levels—or simply continuing a program at current levels—it sees the projected impact not for one year but for 10. These projections are not always accurate, of course, but they do flag potential problems and opportunities in plenty of time for the council to make corrections.

In 1994 New Zealand adopted a similar system, which requires the government to produce an annual budget policy statement three months before the budget deadline, to frame the budget debate; a fiscal strategy report, which compares the proposed budget and the actual economic and fiscal situation—

including 10–year projections of spending, revenue, debt, and net worth—with the intentions laid out in budget policy statement; and three-year fiscal and economic forecasts twice a year and roughly a month before any national election. "Too often in the past a short-term focus has been to our long-term cost," explained Ruth Richardson, the finance minister who pushed the Fiscal Responsibility Act through Parliament. "Experience shows that the future needs a voice. In this Bill, we are giving the future that voice."

The act has had a very real impact. After years of struggling with deficit spending, the government ran an operating surplus between 1994 and 1998, reducing its net debt from almost 50 percent of GDP in 1993 to less than 25 percent in 1998.

Long-Term Budget Forecasting: Do's and Don'ts

This is one of the easier tools in the reinventor's toolkit. Almost any government can do it, if it has the fiscal expertise or the financial wherewithal to hire a private forecasting firm.

Make long-term forecasts central to the budget process. Some governments produce long-term forecasts, only to watch legislators ignore them as they appropriate funds and pass budgets. To get value from this tool, you must find a way to force both executives and legislators to deal with the information, *as they make today's budget decisions.*

There are two ways to do this. Sunnyvale puts the actual forecasts in its budget documents. New Zealand requires the government to submit a fiscal strategy report, with forecasts, when it submits its budget to Parliament. Hence the government is exposing itself to ridicule if its projections show that it is submitting a budget with problems.

Publish the long-term frameworks, in user-friendly form, to encourage public scrutiny. The other way to make sure legislators pay attention to the information is to give it to the media and interest groups—who will in turn make sure the legislators know about it if there are any glaring problems.

Make sure your forecasters have credibility. If there is significant skepticism about the accuracy of forecasts, they are much easier to ignore. In a political situation, there will always be skepticism if the party in power controls the forecasting process. In Florida, budget staff from both legislative houses and the governor's office must agree on forecasts; otherwise, none can be made. In New Zealand, the Treasury Department uses an independent panel to review its forecasts. Some governments hire respected economic forecasting firms to prepare their forecasts.

Make the assumptions behind all forecasts clear. "Multi-year budget frameworks will always involve uncertainty and the appropriate assumptions

to be used will be open to debate," the OECD explains. "It is therefore important to state clearly all underlying assumptions [about future economic growth, tax collection rates, demographic changes, interest rates, and the like], so that their appropriateness can be reviewed."

Don't use inflation-adjusted financial figures in projecting future spending. When the U.K. pioneered multiyear budget frameworks in the 1960s and 1970s, it used inflation-adjusted figures. When inflation accelerated, the system automatically adjusted spending forecasts upward, and agencies came to feel entitled to these increases. This made it much harder to cut spending and thus drove budget deficits upward. The U.K. and other countries have since solved this problem by using non-inflation-adjusted figures.

RESOURCES ON LONG-TERM BUDGET FORECASTING

Budgeting for the Future. Paris: Organization for Economic Cooperation and Development, 1997. Available at www.oecd.org/puma/online.htm. An excellent description of the multiyear budget frameworks in use in many countries.

Allen Schick. *Modern Budgeting.* Paris: Organization for Economic Cooperation and Development (www.oecd.org/puma/pubs/), 1997. A useful summary of budget reforms in New Zealand, Australia, Sweden, and the U.K., including long-term budget forecasting.

STRATEGIC EVALUATION

***Strategic Evaluation* is the systematic analysis of the results produced by government strategies and programs. It goes beyond traditional program evaluation to include analysis of the cause-and-effect relationships between outputs and outcomes and between program outcomes and broader societal outcomes, extraction of lessons learned for future efforts, and recommendations for changes to produce improved outcomes.**

Most practitioners who are at the cutting edge of strategic management have come to an interesting conclusion about performance measurement: it is necessary but not sufficient. Output and outcome data tell you whether your strategies are producing the results you want—*but not why.* When your organization is hitting its output goals but the outcomes you expect do not follow, what do you do? Sometimes you have a good sense of the reason, but often you have no idea.

At that point, you need a new tool: strategic evaluation. You need to analyze the performance data. Program evaluation, when done well, can tell you how effective and cost-effective your programs are, how they might be changed to improve the outcomes, and what alternative strategies might work better. But practitioners of strategic management need even more than this. They need to analyze why particular societal outcomes are occurring. Why are teen pregnancy rates falling? Why are teen smoking rates rising? What influences—from government, from the media, from social trends such as family dissolution—are contributing to produce those outcomes? And how could public and private leaders most effectively intervene, in multiple ways, to change those trends? This kind of evaluation does not examine the *program*; it examines the *policy outcome* desired.

A second challenge is to institutionalize evaluation as a normal part of strategic management. In most governments, evaluation is treated as an add-on: something to do occasionally for important programs but not a regular management practice. The trick is to institutionalize it without creating mandatory schedules (evaluation of every program every five years, for example), which—as Australia has learned—work no better for evaluation than they do for strategic planning. Obviously, this is not easy. It requires that evaluation work be given real status, by being funded at a serious level and taken seriously by top leadership. It also requires that managers face consequences for failing to commission evaluations and consider their recommendations.

We believe the key is to create accountability for outcomes. If steering organizations and agency managers face real consequences for their performance in achieving outcome goals, they will have to get serious about evaluation—because they will need to figure out which strategies work best to produce the desired outcomes.

We have found a number of other promising practices in Australia, Multnomah County, and elsewhere:

- Require that new programs always include the preconditions for successful evaluation: articulation of the intended strategy behind the program (its "theory of change"), outcome and output goals and indicators, a measurement system, an evaluation plan, and funding for evaluation.
- Gradually require the same of existing programs.
- Fund evaluation offices with enough staff, so the legislature does not have to appropriate money for each evaluation.
- Include action on evaluation recommendations as a responsibility of managers, in their performance agreements.
- Require periodic reports on implementation from program managers to senior management, to help them assess the managers' success in implementing evaluation recommendations.
- Create a prestigious awards program, and only allow programs that have been formally evaluated to apply.

Do's and Don'ts in Creating Evaluation Systems

This section is not a comprehensive how-to guide to program evaluation. (For that, we suggest you see our recommended resources.) Instead, it offers a few lessons about *evaluation systems*—how you can create an evaluation system that will be an effective, useful part of your steering system.

Design programs with evaluation in mind. When you create a new initiative, build evaluation in. The information you need for performance management will probably include some *but not all* of the information you will need to evaluate the impact of the program. Unless you collect both, it will be hard to do evaluations later. Hence, you should bring in an experienced evaluator at the beginning to help you decide what data to collect.

Involve evaluators throughout the program's life cycle. They can be useful not only in defining the data you will need but also in articulating the theory of change behind your program. As the program matures, evaluators can test that theory, help you refine the program to make it more effective, and—if it is working—help you defend it against attack. Evaluators, in other words, can be an integral part of your learning process.

Focus your evaluations on the high-leverage questions decision makers care about. "It's always difficult to put money into evaluation when there are pressing service needs, because we don't have enough money," says Multnomah County executive Beverly Stein. "So we have to be strategic and pick out areas we want to evaluate, and recognize that we can't do it all."

If you don't prioritize, adds her chief evaluator, Jim Carlson, "Evaluators will suck up your last dollar, and tell you the programs need more evaluation." The solution is to "be opportunistic"—focus your evaluation resources on key issues the decision makers care most about. If you spread those resources too thin, much of your evaluation work will wind up on the shelf.

Create separate evaluation tracks for separate purposes. Perhaps the biggest debate within the evaluation profession is whether evaluations should be controlled by "insiders" (managers) or "outsiders" (such as auditors or evaluators from a central finance department). The Australians, who have embraced "participatory evaluation," argue that if outsiders do the evaluations, program managers will rarely cooperate and even more rarely implement the recommendations. In contrast, legislators and others argue that internal evaluators will never ask the hard questions, such as whether the program should even exist. Both are correct. We suggest three different evaluation tracks: one for program learning and improvement, a second for program accountability, and a third for feedback to executives and legislators who make steering decisions. If the same staff does all three, its work will be suspect from all sides.

Don't get bogged down in a search for scientific exactitude. Don't let the desire for conclusive evaluation be the enemy of good evaluation. In the past, the evaluation profession has been too grandiose for the politicians—too focused on long, expensive studies. Today there is a shift underway toward more pragmatic evaluation. Don't expect scientific proof; it is rarely possible in public sector work—and when it is, it can be extremely expensive.

Don't separate evaluation from the rest of your steering system. Too often, evaluation is treated as a stand-alone function that has little interaction with the rest of an organization. Hence its only influence is through its evaluation reports. Most of the evaluators' intelligence and knowledge is wasted, because they do not interact regularly with managers to help them learn or with leaders to help them steer. This is a monumental waste of talent and work. Evaluators should rub elbows constantly with the other elements of the steering system; they should be intimately involved in the learning process that makes strategic management possible.

RESOURCES ON STRATEGIC EVALUATION

Improving Evaluation Practices and *Best Practice Guidelines for Evaluation.* Paris: Organization for Economic Cooperation and Development, 1999. Available at www.oecd.org/puma/online.htm. An excellent set of guidelines and best-practice lessons on program evaluation, with examples from Australia, Canada, Sweden, France, Finland, and the Netherlands.

Michael Quinn Patton. *Utilization-Focused Evaluation: The New Century Text.* 3rd ed. Thousand Oaks, Calif.: Sage, 1996. An update of the author's 1986 classic, this is a thorough (640 page) but readable how-to guide for evaluators bent on making their work useful to policymakers.

Michael Quinn Patton. *Qualitative Evaluation and Research Methods.* 2nd ed. Thousand Oaks, Calif.: Sage, 1990. A readable introduction and guide to qualitative evaluation methods, such as focus group interviews.

Joseph S. Wholey, Harry P. Hatry, and Kathryn E. Newcomer, eds. *Handbook of Practical Program Evaluation.* San Francisco: Jossey-Bass, 1994. A 600–page compendium of 25 essays from different authors on various aspects of program evaluation.

Notes

All quotations that are not attributed in the text or in these endnotes are from interviews with the authors or their associates. Only in cases where there might be some confusion about the source of a quotation have we indicated in a note that it came from an interview.

Chapter Five

P. II/22: "As Governor Barbara Roberts . . . with $130 million": Interviews with Michael Marsh, former budget director for Governor Roberts, and presentation by Governor Roberts at advisory board meeting of Alliance for Redesigning Government, Denver, May 27, 1994.

P. II/22: "Employment in the state's lumber . . . 55,000 in 1982": Governor Neil Goldschmidt, *Oregon Shines: An Economic Strategy for the Pacific Century—Summary* (Salem: Oregon Economic Development Department, May 1989), p. 4.

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P. II/24: "Governor Goldschmidt's successor . . . consistent with the Benchmarks": Interviews with Governor Roberts and Michael Marsh, former budget director; presentation by Governor Roberts at advisory board meeting of Alliance for Redesigning Government, Denver, May 27, 1994; and Governor Barbara Roberts, *Urgent Benchmarks and the 1993 Legislature: Opportunities for Progress* (Salem: Office of the Governor, February 1993).

P. II/24: "So the Department of Economic Development . . . a brief action plan": Interviews with Director Bill Scott and Duncan Wyse, former executive director of the Oregon Progress Board.

P. II/24: "When the State Police . . . their basic assumptions": Interviews with Major Lee Erickson, Duncan Wyse, Michael Marsh.

P. II/25: "Outside state government . . . funding decisions": Oregon Progress Board, *Oregon Shines II: Updating Oregon's Strategic Plan, A Report to the People of Oregon* (Salem: Oregon Progress Board, January 21, 1997), p. 24.

P. II/25: "Six counties . . . steering organizations": Interviews with Jeffrey Tryens, Oregon Progress Board executive director, and Beverly Stein, Multnomah County executive.

P. II/25: "With a combination . . . 81 percent by 1997": *Oregon Baby Shots Survey, 1997 Preliminary Results: Descriptive Analysis* (Salem: Oregon Health Division Immunization Program, 1999). Based on a random survey of 18-to 36–month-olds in 1997, eighty-one percent had all required immunizations and 87 percent had almost all; 77 percent of two-year-olds had all immunizations. Lorraine Duncan of the state immunization program explained to the authors, through e-mail, that Oregon and the federal Centers for Disease Control both define two-year-olds as up to 36 months, for this purpose.

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P. II/28: "He and others argue . . . real strategic thinking": See, for example,

Henry Mintzberg, *The Rise and Fall of Strategic Planning* (New York: Free Press, 1994).

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P. II/29: Graham Scott quotation: Graham Scott, *Public Management in New Zealand: Lessons and Challenges* (Wellington, New Zealand: Daphne Brasell Associates, forthcoming).

P. II/30: Linda Loomis Shelly quotation: Katherine Barrett and Richard Greene, "Why Good Programs Die," *Governing* (July 1998), p. 68.

P. II/31: Michael Marsh quotation: Duncan Wyse and Michael Marsh, "The State of Oregon: Setting Measurable Standards for Progress" (presentation at conference at LBJ School, Austin, Texas, 1993), p. 55.

P. II/33: Tryens quotations: Jeffrey Tryens, "Aligning Government Priorities with Societal Hopes and Expectations: Oregon's Strategic Planning Model" (testimony before U.S. House of Representatives Committee on Government Reform and Oversight, Subcommittee on Government Management, Information and Technology, October 31, 1997), pp. 9–10; provided by Oregon Progress Board.

P. II/35: *Oregon Shines* quotations: Ibid., pp. 18–19.

P. II/36: Harrison Owen quotation: Harrison Owen, *Leadership Is* (Potomac, Md.: Abbott Publishing, 1990), p. 61.

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P. II/37: *The Path to Prosperity* quotations: *The Path to Prosperity* (Lansing: Task Force for a Long-Term Economic Strategy for Michigan, 1984), pp. 44–56.

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P. II/40: Beverly Stein quotation: Ed Finkel, "Feds Join Oregon's Reinventing Pioneers," *The Public Innovator* 18 (December 15, 1994), p. 2 (published by the National Academy of Public Administration's Alliance for Redesigning Government, in Washington, D.C.; available at www.Alliance.napawash.org).

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P. II/40: "Typical examples": From *Strategic Result Areas for the Public Sector, 1997–2000* (Wellington, New Zealand: Department of the Prime Minister and Cabinet, June 1997), available at www.ssc.govt.nz/Documents/SRA_complete.htm.

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P. II/46: "The Oregon legislature created the Commission on Children and Families . . . system": Interviews with Beverly Stein, former state legislative sponsor of the commission; Lynn Fallin, executive director of the commission; and Jim Clay, director of the Multnomah County Commission on Children and Families.

P. II/46: "The Massachusetts legislature created the Mass Jobs Council . . . spending": Personal experience; David Osborne was a member of the council from 1991 to 1998.

P. II/46: "Many counties in Oregon . . . effective": Interview with Suzanne Riles, staff professional with Public Safety Coordinating Council in Multnomah County.

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