

**REPORT OF THE
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION**

**THE CONCEPT OF
BENCHMARKING FOR FUTURE
GOVERNMENT ACTIONS**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



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Preface

House Joint Resolution 107 of the 1994 General Assembly directed the Joint Legislative Audit and Review Commission (JLARC) to study the concept of benchmarking for future government actions. Interest in a number of factors cited in the study mandate — measuring results rather than inputs, making more efficient use of existing resources, and setting program and budget priorities — provided the catalyst for this study. In addition, a number of states have recently initiated large-scale, statewide benchmark or performance measure processes. This report presents the staff findings and recommendations regarding both the concept of benchmarks and the process of benchmarking.

A process that develops benchmarks for application on a statewide basis may not at this time be feasible for Virginia. However, a framework for benchmark or performance measurement activity on a less extensive scale does currently exist in the Commonwealth. For example, the Department of Planning and Budget, as directed by the General Assembly, recently conducted a performance measure pilot project. Moreover, in 1994 the Department recommended implementation of an agency-based strategic planning and performance measurement process. This type of process would enable the State to begin a meaningful benchmark process on a smaller, less resource-intensive scale while achieving many of the same benefits attributable to the processes found in other states.

In addition to performance measures or benchmarks, the report recommends that best practice benchmarking be utilized by State agencies. Many functions in State agencies appear appropriate for this kind of benchmarking, which could reveal new and innovative methods in use by both private and public organizations.

All of the recommendations in this report have received the support of the Department of Planning and Budget. Further, in June 1995 the Governor issued Executive Memorandum 3-95, which established an initiative for agency goal setting and performance budgeting to be used in developing the 1996-1998 budget.

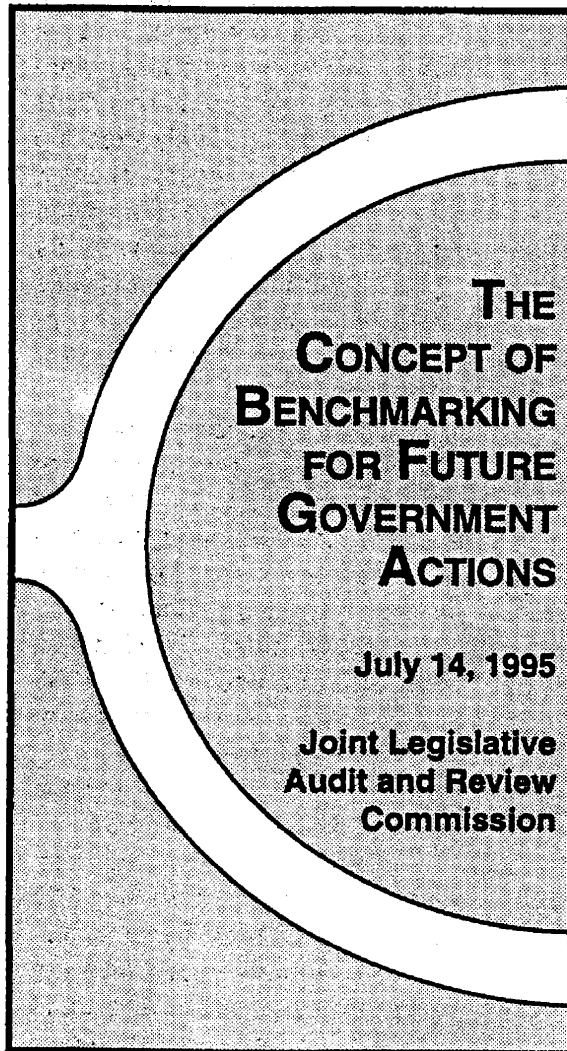
On behalf of JLARC staff, I would like to thank the staff of the Department of Planning and Budget and the other State agencies that assisted in our review.



Philip A. Leone
Director

July 14, 1995

JLARC Report Summary



There has recently been a renewed emphasis and effort at all levels of government to improve the efficiency, effectiveness, and accountability of both government programs and funding. This emphasis has resulted in a number of different initiatives at the local, state, and federal government levels. Moreover, many private sector organizations have taken management actions designed to achieve similar results. These initiatives have ranged from focusing on and improving program and process out-

comes to improving the manner in which governments and private organizations serve their citizens and customers. A mechanism that has come to the forefront in meeting these objectives is benchmarking.

House Joint Resolution 107 (HJR 107) of the 1994 General Assembly Session directed the Joint Legislative Audit and Review Commission (JLARC) to study the concept of Virginia benchmarks for future government actions. A number of factors cited in HJR 107 appear to have provided the impetus for the present study: measuring results rather than inputs, making better use of existing resources, and setting program and budget priorities.

Benchmarking may have the potential to address many of the concerns cited in the study mandate. One type of benchmarking, performance measurement, tends to focus on the outcomes of programs or processes, and attempts have been made by both state and federal governments to link these results to budget decisions. A second type of benchmarking, best practice benchmarking, which is more commonly associated with the private sector, is a management practice that focuses on emulating best practices in outstanding organizations. This type of benchmarking could also help State agencies make better use of existing resources.

Although the distinction between the two processes may not always be clear, the goals and objectives of the processes are typically clearer — organizational improvement with a greater focus on outcomes. Nonetheless, the extent to which the benefits of these management practices exceed potential drawbacks should be carefully evaluated before implementing them on a statewide basis in Virginia. Significant findings of this report include:

- While the benchmarking initiatives implemented in many states are ambitious, the extent to which the established goals can be met within existing resource levels is not clear at this time. The sustained commitment of decisionmakers is also essential to the success of these initiatives.
- A framework for benchmark activity currently exists in Virginia. As a result of the 1991 JLARC report on the State's executive budget process, the 1992 General Assembly directed the Department of Planning and Budget (DPB) to implement a performance measure pilot project. Moreover, DPB has also concluded that a number of agencies utilize both performance measures and strategic planning.
- Best practice benchmarking holds potential for State agencies in Virginia. There are likely many functions that State agencies could benchmark, thereby learning new and innovative methods used by both private and public organizations that could be adapted for use by the State. Therefore, State agencies, with guidance from DPB, should implement best practice benchmarking.
- Finally, based on findings from the DPB performance measure pilot project, additional services in the form of a clearinghouse-type database, ongoing technical assistance, and an interagency task force could be utilized to improve both the results and sustainability of any benchmarking or performance measure processes.

Benchmarks on a Statewide Basis May Not Be Feasible at This Time

States with a statewide benchmarking or performance measure process have typi-

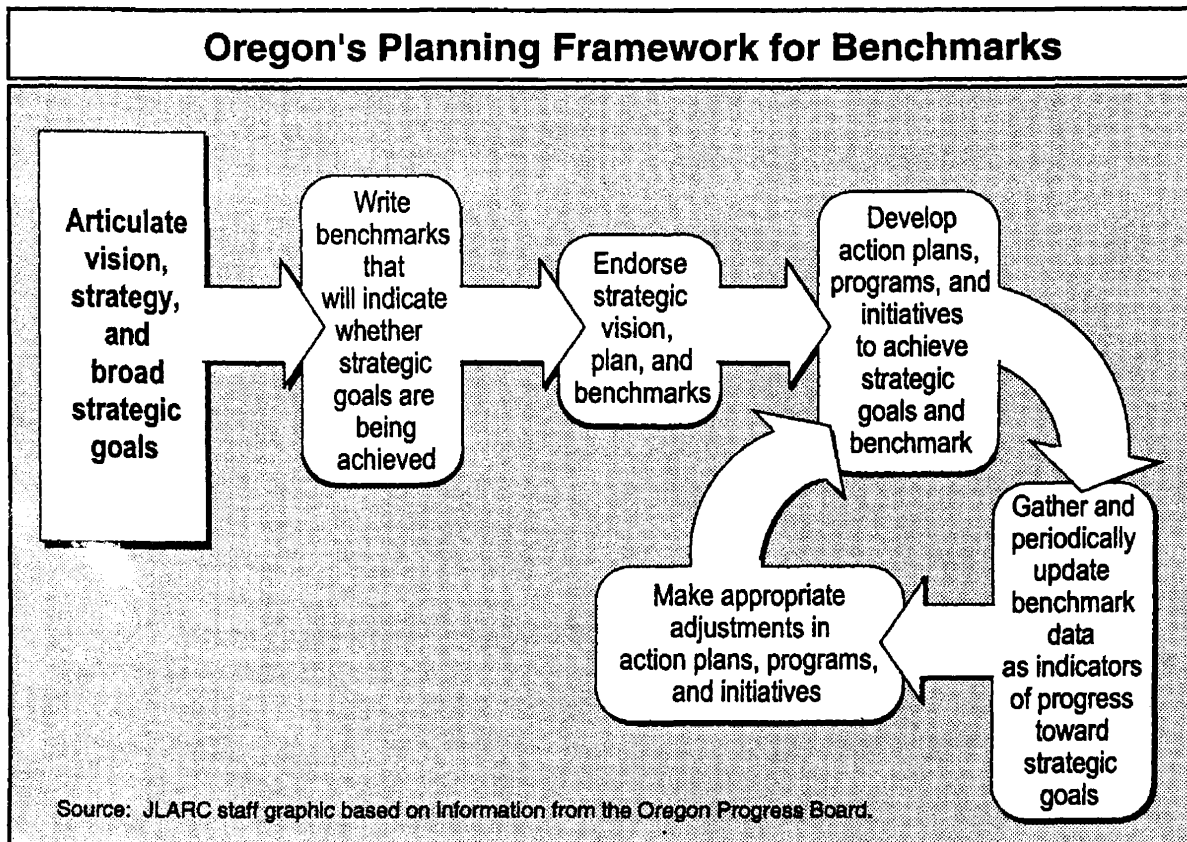
cally linked them with the goals and objectives developed through a comprehensive strategic plan. For example, Oregon's benchmark process is based on and develops from its statewide strategic plan's vision and subsequent goals. At this time, Virginia does not have a statewide strategic planning process in place, and recent reductions in DPB's budget and staff will likely affect the State's future centralized planning capacity. Moreover, a number of the statewide benchmarking processes reviewed by JLARC staff have been required by statute and have apparently received strong support from both the Governor and the Legislature.

While there are a number of benefits attributable to statewide benchmarking or performance measures such as increased citizen awareness, greater agency focus on outcomes, and improved intergovernmental cooperation, there are also costs associated with the processes. In Oregon, \$800,000 was appropriated for FY 1993 through FY 1994 to the agency that administers its benchmark process.

Further, the ability of a state to achieve a large number of challenging benchmarks at one time is debatable. For example, Oregon's attempt to achieve more than 250 benchmarks at one time may be too ambitious. If a number of benchmarks are not achieved, the credibility of the process could be diminished. Finally, because these processes are relatively new, their practical utility and the extent to which they will be sustainable in the future are not clear.

A Framework Currently Exists for Benchmarks at the Agency Level

While the feasibility of a statewide, centralized benchmarks or performance measure effort in Virginia at this time is questionable, a framework currently exists for adopting these processes on a reduced scale. For example, strategic planning and performance measurement are not entirely new



processes to the Commonwealth. Moreover, limiting the scale or scope of any effort could enable Virginia to realize some of the benefits of benchmarking at a substantially lower investment in terms of funding and staff resources.

DPB Performance Measure Pilot Project. In 1993, the General Assembly directed DPB to conduct a performance measure pilot project. The purpose of this project was in part to assess the feasibility of using performance measures on a more formal basis. Twenty-four programs across 21 different agencies participated in the pilot project. Based on the results of the pilot program, DPB concluded that the use of performance measures has potential in Virginia. Moreover, many of the agencies that participated in the pilot project reported that they have continued using the performance measures they developed. Finally, the pilot project identified potential obstacles that should be addressed in order to better sus-

tain a performance measurement or benchmarking process.

Strategic Planning Is Also Being Conducted. Factors important to the success of establishing a benchmarking process include setting a vision, mission, goals, objectives, and strategies. Strategic planning usually incorporates these factors and therefore is an important component of a benchmarking effort. Although centralized statewide planning is not currently in effect in Virginia, DPB recently reported that more than 60 State agencies and higher education institutions conduct some form of strategic planning.

Benchmarks or Performance Measures Have a Role in Virginia

The implementation of benchmarks or performance measures could be a valuable management resource for both agency staff and policy makers. Because benchmarking focuses on improvement through an em-

phasis on outcomes, managers may be able to utilize benchmarks to ensure programs meet or exceed objectives in a more efficient and cost effective manner.

In addition, benchmarks could also increase citizen awareness of government programs, which could lead to increased accountability. Performance measures that are applicable to more than one agency or program could improve interagency cooperation, resulting in more effective programs and efficient use of resources. Finally, long-term application of benchmarks or performance measures could be used to track agency and program effectiveness over time. Use of such measures could help to assess the long-term impacts of policy choices and resource allocations.

Because a number of agencies have strategic planning and performance measures processes in place, any benchmarking efforts should be conducted at that level. This would better enable the State to begin a meaningful benchmark process on a smaller, less resource-intensive scale than those processes found in other states. To effect this, DPB should implement the performance measurement and strategic planning process it recommended in 1994.

Best Practice Benchmarking Should Also Be Used by State Agencies

In addition to performance measures, the use of best practice benchmarking could also be utilized by State agencies and programs. Best practice benchmarking is another tool available to agency managers for emulating the best practices of outstanding public and private sector organizations. This process could also enable agency staff to focus on raising the performance and subsequently the efficiency and effectiveness of their agency's operations.

To make the most effective use of initial benchmarking studies, managers should focus on selected programs and functions that many public and private sector organi-

zations have already benchmarked. For example, customer service is one area that both public and private sector organizations have benchmarked extensively. Such an approach should make better use of available resources and enable a core group of staff to gain the knowledge and familiarity necessary to enable best practice benchmarking to be successful statewide.

Additional Measures to Encourage Utilization of Performance Measures and Benchmarking

There are a number of potential benefits attributable to the use of best practice benchmarking and performance measures. Nonetheless, the benefits of these processes may never be fully realized unless agencies and staff are able to consistently develop and administer them. To encourage and support efforts to develop and use these processes, a number of potential resources have been identified.

These resources include development of an on-line network for information related to best practice benchmarking or performance measurement, enhanced and on-going technical assistance, and creation of an interagency advisory group. An on-line network which could be accessed through the Internet could be developed. This on-line network could enable individuals and organizations to easily communicate and share information related to benchmarks and performance measures.

The need for on-going technical assistance was also identified by some participants in DPB's performance measure pilot project. The Department of Personnel and Training, with input from DPB, appears to be an appropriate facilitator for this assistance. Finally, development and use of an interagency advisory council could reduce the reliance on DPB for guidance and support while providing the continuity that is critical for these types of processes.

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I. Introduction

House Joint Resolution 107 (HJR 107) of the 1994 General Assembly Session directed the Joint Legislative Audit and Review Commission (JLARC) to study the concept of Virginia benchmarks for future government actions (Appendix A). A number of objectives cited in HJR 107 appear to have provided the impetus for the present study: measuring results rather than inputs, making better use of existing resources, and setting program and budget priorities.

Benchmarks and the accompanying processes may have the potential to address many of the issues cited in the study mandate. One type of benchmarking, performance measurement or benchmarks, tends to focus on the outcomes of programs or processes. Attempts have been made by both state and federal governments to link these results to budget decisions.

Another type of benchmarking, comparing performance to best practices of other organizations, could also focus on improving outcomes and help State agencies make better use of existing resources. Best practice benchmarking can be a formal, well-developed process which identifies best practices and establishes goals or targets for the organization to meet or exceed based on the results of these practices.

Results or outcomes identified through benchmarking assist an organization in establishing future performance levels. In fact, if governments continue to attempt to shift from the more traditional focus on inputs to an emphasis on outcomes or results, benchmarking can be a valuable tool in improving the delivery of government services. Further, some policy makers view linking benchmarks to resource allocation or budget decisions as one method of achieving efficiencies in service provision and quality of outcomes. Long-term application of benchmarks could be used to determine the effects of efforts to achieve these efficiencies.

This report presents the results from JLARC's examination of benchmarks for future government actions. As a part of this review, JLARC staff examined benchmarking processes in other states and in the private sector. This chapter briefly provides an overview of benchmarking and describes elements of typical public and private sector benchmarking. Further, an overview of the JLARC study process is provided.

OVERVIEW OF BENCHMARKING

The concept of benchmarking varies from state to state and organization to organization. In the public sector, the origins of benchmarking appeared in the first half of the century, when the federal government attempted to use performance measures in order to concentrate on the accomplishments of federal agencies rather than simply focusing on the funding allocated to these agencies. However, in the private sector, the impetus for benchmarking can be traced to the efforts of the Xerox Corporation when it

identified, analyzed, and to some extent replicated the best practices of its chief competitors. In this case, Xerox's effort assisted the organization in developing products and processes that have become "world class." Many private companies have since used best practice benchmarking.

Since the early 1990s, a growing number of government and public sector organizations have been exploring and implementing benchmarking in some form. Through these private and public sector efforts, benchmarking has gained significant recognition as (1) a tool for measuring an organization's practices against the best practices of other organizations, (2) an instrument for assigning accountability to organizational actions, or (3) a method of setting goals and measuring progress toward those goals.

Benchmarking Defined

Benchmarking in the public sector involves the use of a variety of processes and procedures for the purpose of establishing and attaining goals, measuring performance, and determining best practices. In the private sector, benchmarking is traditionally linked with the on-going search for best practices that lead to superior performance when adapted and implemented in one's organization. The International Benchmark Clearinghouse defines benchmarking as "the process of continuously comparing and measuring an organization with businesses anywhere in the world to gain information which will help the organization take action to improve its performance."

When defining benchmarking, it may be useful to understand the basis of the term. The term benchmarking evolved from the surveyor's benchmark, a reference point in determining position in topographical surveys and tidal observations. In a more general sense, a benchmark is a sighting point from which measurements can be made or a standard against which others could be measured. As used in its many applications, the benchmarking concept has evolved well beyond a simple reference point.

As many private organizations have tried to become more competitive, "best practice" benchmarking has evolved as another available tool for leaders and managers. Best practice benchmarking refers to the process of evaluating one organization's processes in comparison to the best practices of other organizations. These best practices can be translated into targets or benchmarks that the organization works toward in both the short- and long-term. The goal of the process is to increase performance, efficiency, or the quality of the product or service.

Benchmarks have also been used by a number of public sector organizations as a means of setting goals and measuring progress toward those goals. Many times this has taken the form of performance measurement. Performance measurement is intended to focus attention and activities on the outcomes of a program or agency. Further, it can help quantify the results of governmental programs. This form of public sector benchmarking can enable all participants to more readily gauge the status of a program and determine the impact of the program or agency.

Although the distinction between best practice benchmarking and performance measurement may not always be clear, the goals and objectives of the processes are typically clearer — organizational improvement with a greater focus on outcomes. Rather than focusing on inputs such as funding allocated or number of staff, the organization will concentrate on results, outcomes, or accomplishments.

For example, a state highway department could report that it had classified an additional 1,000 miles of secondary road as being in excellent condition (an outcome), rather than reporting that it had spent \$50 million on resurfacing secondary roads (an input). Whether titled best practices or performance measurement, the focus is typically directed at achieving or even exceeding goals and objectives in an effective and efficient manner.

History of Benchmarking

Benchmarking, in various forms, has been attempted by both government and business organizations to some degree for more than 40 years. This includes efforts by the federal government, state governments, and private business organizations. The goal of all of these efforts appears to have been increased efficiency, effectiveness, or improved products and services. Where benchmarking in the public sector has primarily attempted to achieve goals and objectives and impact the budget allocation process, benchmarking in the private sector is typically a process of identifying and implementing best practices.

Benchmarks at the Federal Government Level. For more than 40 years, the federal government has made attempts to link performance measures to budget allocations in order to increase both the accountability and efficiency of government programs. During the 1940s, the Hoover Commission, which was charged with reviewing the organization of the executive branch, recommended that the federal government adopt a performance budget. The concept of a performance budget was designed to include quantitative data for measuring the accomplishments of programs — otherwise known as performance measurement. This was an effort to switch from a budget process that traditionally focused on inputs (such as funding appropriated to an anti-crime program) to a process that focused on outcomes (such as crimes solved). Since this initial effort, additional initiatives at the federal government level have been offered in an attempt to place more emphasis on outcomes.

The program planning and budgeting system (PPBS) of the 1960s and zero-based budgeting (ZBB) of the late 1970s were also intended to highlight outcomes. PPBS analyzed program results in terms of their objectives, and ZBB focused much attention on finding efficiencies. Overall, these attempts to reform the federal budget process did not result in clear links between performance information and budget allocations. Moreover, it is questionable whether the increased accountability which these programs were intended to provide was actually realized.

The federal government is once again involved in efforts to focus government programs on outcomes, not simply inputs. Public Law 103-62, the Government Performance and Results Act of 1993, requires federal agencies to develop annual performance plans starting in federal fiscal year 1999 and annual performance reports starting in federal fiscal year 2000. In addition, Executive Order 12862 requires "continual reform of executive branch management practices and operations to provide service to the public that matches or exceeds the best service available in the private sector." Subsequently, the initiative directs federal agencies to benchmark customer service performance against the "best in the business." It is this type of benchmarking that is typically associated with the private sector.

Benchmarks at the State Government Level. Benchmarking on the state level is more comparable to performance measures rather than identifying and comparing best practices. JLARC staff interviewed officials from a number of states that were identified as practicing benchmarking in some form. However, the majority of the states were not using best practice benchmarking. Rather, it appears that the majority of states were benchmarking as it related to establishing performance measures for government programs and agencies (Table 1).

Oregon's nationally recognized benchmarking effort preceded the efforts of most other states. However, Oregon's benchmarking effort appears to be more closely tied to the use of strategic planning and performance measures, rather than the application of best practices. In fact, officials involved in Oregon's effort stated that Oregon typically did not attempt to identify its process as searches for best practices; rather, Oregon used the term benchmarks to mean goals or targets identified for the state to attain in the future.

Table 1

Focus of Selected States' Benchmark Efforts 1995

State	Best Practices	Performance Measures
Arkansas		✓
Connecticut		✓
Florida		✓
Louisiana	✓	✓
Minnesota		✓
Oregon		✓
Tennessee	✓	✓
Texas		✓
Utah		✓
Virginia		✓

Source: JLARC staff analysis of data from interviews with staff from selected states, the Southern Growth Policy Board, and the Department of Planning and Budget.

Virginia's Performance Measure Pilot Project. Virginia's efforts to date have focused on performance measurement at the agency level. The 1992 Appropriation Act directed DPB to develop guidelines and processes for performance measurement of new programs funded in the Act, as well as to develop performance measures for selected base budget programs on a pilot basis.

The performance measures pilot project involved 24 programs, mainly new initiatives, across 21 agencies. DPB's overall assessment of the pilot project indicated that performance measurement had "great potential for Virginia." The report also noted that with similar training and guidance, agencies could develop meaningful performance measures.

Benchmarking in the Private Sector. Businesses have engaged in best practice benchmarking for approximately the past two decades. Although some might argue that businesses have always compared their practices against the practices of other businesses, what has been identified as private sector benchmarking appears to have gained its origins with the Xerox Corporation during the early 1980s. At that time, Xerox apparently determined that Japanese companies were producing and selling high quality copiers for less than it was costing Xerox to manufacture a comparable copier. Xerox executives reportedly examined how the Japanese were accomplishing this task and incorporated these processes into their own procedures.

Xerox's process of "searching for industry best practices that lead to superior performance" was the impetus for the process that is commonly identified today as benchmarking in the private sector or best practice benchmarking. A former Xerox chief executive officer identified benchmarking as "the continuous process of measuring products, services, and practices against the toughest competitors or those companies recognized as industry leaders."

COMMON ELEMENTS OF A BENCHMARKING PROCESS

Although benchmarking may be executed through different methods depending on the needs and resources of an organization, the benchmarking process includes stages that are typically implemented in order to ensure benchmarking is carried out effectively. Moreover, even though differences occur in the methods of administering benchmarking efforts — a focus on outcomes — is likely to be similar. This focus on outcomes can assist organizations in concentrating on accomplishments rather than inputs.

As noted earlier, the benchmarking process in the public sector typically involves strategic planning and performance measures. These processes require organizations to set goals and measure progress toward those goals. In the private sector, benchmarking is directly associated with identifying and implementing best practices according to organizational needs and resources. In all cases, the focus is on organizational improvement through a focus on outcomes.

Basis of Public Sector Benchmarking

In the public sector, it is important for an organization that plans to engage in the benchmarking process to first establish what it intends to accomplish. This is true whether an organization is developing a goal or target to be reached with measures to assess progress towards the goal or target, or continuously comparing and measuring its programs or processes with the best practices of other organizations. This process appears to be fairly well established in the private sector.

However, in the public sector, developing a strategic plan appears to be important as well. In the public sector, benchmarking has been typically aligned with reaching targets or performance measures rather than identifying best practices. Moreover, in some instances benchmarks have been identified as both the targets and the indicators used to measure progress toward those targets.

Benchmarks and Strategic Planning. Strategic planning focuses on developing shared goals and objectives and a framework for managing resources to meet goals. The framework of a strategic plan usually grows out of these goals. When establishing benchmarks, organizations normally identify what they intend to benchmark and develop action plans for implementing the process. With a plan firmly established, organizations can more readily establish targets or goals and measure progress toward the targets or goals.

Benchmarks and Performance Measures. Performance measures are generally regarded as tools to determine the work performed and the results achieved by an agency or a program. Performance measures use valid objectives to measure progress toward organizational targets or benchmarks. In the public sector, however, benchmarks have often come to mean both the targets established in planning and the indicators which measure progress toward those targets.

Performance measures are extremely important in forming benchmarks because these measures indicate progress toward targets or goals. Ultimately, performance measures are used to report on outcomes or results. When resources are limited, program outcomes can become important when decisions are made surrounding allocation of scarce resources. However, outcomes are not the only level of reporting available through performance measures. Other types of performance measures are depicted in Table 2.

Comparing Best Practices in the Private Sector

Benchmarking practiced in the private sector is typically more than a simple review of best practices. While identifying best practices, organizations do not simply emulate the processes of others. In fact, the American Productivity and Quality Center recommends a broad, four-step framework to best practice benchmarking. These steps include:

Table 2

Traditional Types of Performance Measures

<u>Type of Measure</u>	<u>Definition</u>	<u>Example</u>
Input	Indicates the resources that are invested in the system such as dollars appropriated.	Cost of salaries or the number of staff.
Output	The amount of work accomplished or the volume of goods or services produced.	Lane-miles of road repaired or number of crimes investigated.
Efficiency	The resources used or cost per unit of output or unit of outcome.	Cost per lane-mile of road repair or cost per transit passenger arriving at destination within specific time schedule.
Outcome	The accomplishments or results that occur because of the services provided.	Percentage of lane miles in excellent or good condition, or the clearance rate of crimes.

Source: The Governmental Accounting Standards Board report *General Accounting Standards Series Concepts Statement No. 2, 1994*.

- planning the study,
- collecting the data,
- analyzing the data to determine where deficiencies exist, and
- adapting to improve the product or process.

While there may be only four broad components to this particular framework, a number of activities are usually related to each component. Organizations that limit themselves to touring and viewing the programs or processes of other organizations may be engaging in simple fact-finding expeditions rather than performing benchmarking.

Organizations that plan to implement best practice benchmarking have at least four types of benchmarking techniques available (Table 3). Each of the techniques has some potential benefits and drawbacks. For example, internal benchmarking may provide for relatively easy implementation and data collection. However, it may not reveal as many innovative practices as competitive, functional, or generic benchmarking techniques.

Organizations conducting a best practice benchmarking study typically follow a series of steps, which include identifying what is to be benchmarked and establishing goals in order to apply best practices to their programs or procedures. However, when taking into account the needs and resources of the various benchmarking agencies, the applicability of the benchmarking process may vary from organization to organization.

Table 3

“Best Practice” Benchmarking Techniques

<u>Process</u>	<u>Description</u>
Internal	A comparison of internal operations. Ensures different elements of an organization share skills and knowledge. This first step in benchmarking may serve as a first step to define the scope of an external study.
Competitive	Specific competitor-to-competitor comparisons for the product or function of interest. In this case, direct product competitors appear to be the most obvious to benchmark against. However, consideration should be given in understanding where competitors' operations are not truly comparable.
Functional	Comparisons to similar functions within the same broad industry or to industry leaders. For example, an automobile manufacturer that wishes to improve distribution of its new automobiles might benchmark a furniture manufacturer with a highly recognized distribution process.
Generic	Comparisons of business functions or processes that are the same regardless of industry. This is the purest form of benchmarking and requires wide conceptualization on the part of the investigator.

Source: *Benchmarking: The Search for Industry Best Practices that Lead to Superior Performance*, by Robert C. Camp, ASQC Quality Press, Milwaukee, 1989, p. 17.

JLARC STUDY OVERVIEW

House Joint Resolution 107 passed during the 1994 General Assembly Session directed JLARC to study the concept of Virginia benchmarks for future government actions. The study mandate required that the study be completed and submitted prior to the 1996 Session of the General Assembly. This section of Chapter I provides an overview of the study issues used to guide the study activities, the research activities conducted to address the study issues, and a brief overview of the report's organization.

Study Issues

JLARC staff developed four major issues for this study. These issues are:

- What is benchmarking and how is it used?
- What are the results of the benchmarking efforts undertaken in other states?
- What factors are important for a successful benchmarking program?
- What are potential roles for benchmarking in Virginia?

Research Activities

Several research activities were undertaken to address the study issues. These activities included document reviews, structured interviews, interviews with personnel from other states, and a site visit to a local manufacturing facility that utilizes best practice benchmarking.

Document Reviews. JLARC staff reviewed reports and documents related to benchmarking, strategic planning, and performance measures. These reports were from other states, the U.S. General Accounting Office, the Congressional Budget Office, and the National Performance Review. In addition, JLARC staff reviewed benchmarking processes of various organizations in the private sector. Further, JLARC staff reviewed benchmarking literature from practitioners in the field.

Structured Interviews. Structured interviews were conducted with staff from the Department of Planning and Budget (DPB). In addition, personnel in a number of State agencies that participated in DPB's performance measure pilot project were interviewed. JLARC staff also interviewed employees of private sector companies or organizations which engaged in benchmarking.

JLARC staff also conducted telephone interviews with personnel in other states to gain an understanding of their states' benchmarking processes. The states with the longest history of benchmarking as well as states cited by the Southern Growth Policies Board for their benchmarking processes were contacted. Staff in both the executive and legislative branches were interviewed in each of the selected states.

Site Visit. In order to gain a better understanding of best practice benchmarking, JLARC staff conducted a site visit to ICI Films in Hopewell, Virginia. The Hopewell facility is a large manufacturing plant for plastic packaging, foils, and lamination products. This facility has engaged in best practice benchmarking for approximately three years. Staff provided an overview of the facility's benchmarking process and utilization.

Report Organization

The two remaining chapters in this report provide an assessment of benchmarking initiatives in the private and public sector as well as recent initiatives in Virginia, and display options for benchmarking initiatives for Virginia. Chapter II describes other states' processes and discusses issues Virginia should consider if it pursues these types of programs. Finally, Chapter III discusses some potential options for Virginia regarding performance measures and best practice benchmarking that may be more appropriate given the resources available at the agency level.

II. Review of Recent Benchmark-Related Initiatives in Other States

There has recently been renewed emphasis and effort at all levels of government to improve the efficiency, effectiveness, and accountability of government programs and funding. This effort has ranged from focusing on and improving government program outcomes to improving the manner in which government serves its citizens. An often recommended tool that is available to assist governments in meeting these objectives are benchmarks and performance measures.

Benchmarks or performance measures are intended to gauge an agency's or program's progress towards predefined goals. As a result, they are intended to focus on outcomes and results rather than more traditional input measures such as funding allocated or staff employed. Therefore, agency staff, policy makers, and citizens can have a more quantifiable measure of the program's or agency's effectiveness and progress towards a goal or objective. If the process is fully implemented and successful, budget and funding allocation decisions, or performance budgeting, could be based in part on the benchmarks or performance measures.

States like Oregon, and more recently Minnesota and Utah, have implemented statewide strategic planning processes that have been clearly linked to benchmark or performance measure processes. Oregon's benchmark process is unique in that it was one of the first statewide processes. Further distinguishing the process is its scope and areas of governmental activity that it encompasses.

A number of potential benefits have been linked to these processes including increased accountability, clearer focus of agency activities, and improved intergovernmental relations. At the same time, a number of potential concerns have also been identified. These include the need for a comprehensive strategic plan, additional resources to administer the process, and the extent to which these processes will prove sustainable into the future. Therefore, it appears that any discussion of implementing similar processes in Virginia should clearly evaluate the benefits against any potential costs.

OREGON'S BENCHMARK INITIATIVE

Consistent with the increasing popularity of the concepts of benchmarks and benchmarking in the private sector, a number of states have implemented processes to develop both broad goals and objectives and accompanying benchmarks for most major governmental areas. Oregon's process, possibly due to the fact that it was one of the initial statewide benchmark efforts, is one of the most frequently cited programs.

Oregon has based its benchmark efforts on the results of a statewide strategic planning process that led to the development of a 20-year strategic plan and the resulting

statewide goals and objectives. Benchmarks or performance measure are then linked to various goals and objectives. In Oregon's case, more than 250 benchmarks have been developed to guide its progress towards the goals. They are also to be used as a resource for agency managers in administering programs to meet the agreed upon goals and objectives. A separate agency has also been established to administer the benchmark initiative.

Oregon has developed three broad categories of benchmarks: (1) benchmarks for people, (2) benchmarks for the economy, and (3) benchmarks for the quality of life. These three categories of benchmarks were specifically cited in the study mandate directing JLARC to complete this study. (Appendix B provides examples of Oregon's benchmarks for each of these three categories.)

In addition, in order to assist in prioritizing efforts directed towards meeting the goals, objectives, and benchmarks, Oregon has designated, within these three categories, a number of its benchmarks as "core" and "urgent" benchmarks. These two designations have been assigned to specific benchmarks because officials believe that these benchmarks must first be met in order for the state to meet any of the goals and objectives established in the strategic plan.

Several benefits of Oregon's efforts have been cited or identified. The potential benefits of the benchmark process include providing administrators and policy makers a mechanism for managing programs and agencies towards the goals. Yet, the extent to which the effort has met its entire potential is unclear, probably due to the rather short history of the project.

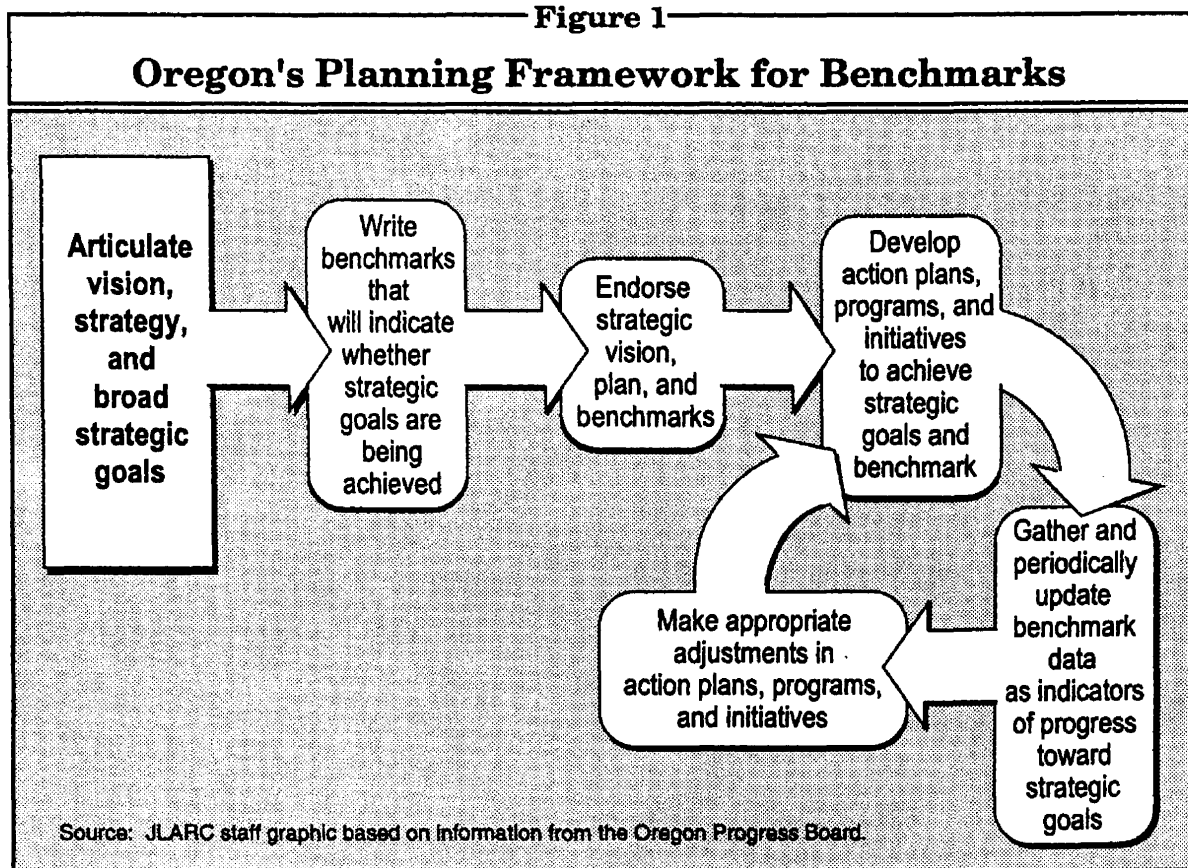
Oregon's Benchmark Process Based on Long-Term Strategic Plan

In 1988, Oregon initiated an extensive strategic planning effort aimed at developing recommendations for guiding and shaping its economic future. The strategic planning effort was composed of approximately 180 individuals representing business, labor, and government leaders who were divided into 16 work groups. These work groups were subsequently charged with planning a 20-year strategy for Oregon.

The strategic planning process was conducted within the framework of the following four questions:

- Where are we?
- What do we have to work with?
- Where do we want to be?
- How do we get there?

The planing process concluded that Oregon could meet its objectives if certain strategies were pursued. As illustrated in Figure 1, strategic planning clearly provides the framework for the entire Oregon benchmark process and all other activities emerge from



this plan. Subsequently, Oregon's benchmarks were established within the context of the goals and visions articulated in the strategic plan.

Oregon's Benchmarks Are Linked to Strategic Plan

To ensure that the state remained focused on the strategic plan's goals, more than 250 individual benchmarks (or as described by Oregon officials, "indicators of progress") have been developed. These benchmarks are intended to:

bring public accountability out of mere politics and into day-to-day governance by calculating progress toward actual defined development results, rather than simply counting the number of program inputs — like dollars spent or "services" provided.

In other words, the benchmarks should enable all involved to clearly identify the extent to which Oregon is meeting the goals and objectives delineated in the strategic plan. In addition, selected benchmarks within these categories have been classified as core and urgent benchmarks. In all cases, the benchmarks are to measure progress towards a stated target for the years 1995, 2000, and finally the year 2010.

Core Benchmarks. Core benchmarks are those benchmarks which Oregon officials have determined have a clear and direct impact on the goals and visions articulated in Oregon's strategic plan. Individual benchmarks for people, quality of life, and the economy have been designated core benchmarks. At this time, a total of 24 benchmarks have been designated as core benchmarks. These benchmarks address issues like:

- reducing the percentage of children living in poverty,
- reducing crime rates, and
- improving air and groundwater quality.

The report to the 1995 Oregon state legislature concluded that "if we measure up to the [core] indicators, then we will probably be doing a great many things right...."

Urgent Benchmarks. According to Oregon officials, urgent benchmarks are issues "which present pressing problems or needs that must be attended to now and in the next few years." As with core benchmarks, individual benchmarks related to people, quality of life, and the economy have also been designated urgent benchmarks. In the Progress Board's report to the 1995 Oregon state legislature, 20 benchmarks were classified as urgent. Examples of these urgent benchmarks include:

- reducing teen pregnancy rates,
- reducing juvenile crime, and
- stabilizing and reducing the number of HIV cases.

The report further noted that failing to achieve urgent benchmarks could imperil the state's ability to "achieve other, more fundamental benchmarks years down the road."

Benchmarks for the Economy. More than 70 benchmarks are included in the category of benchmarks for the economy. Three benchmarks in this area are considered urgent benchmarks and three are classified as core benchmarks. All of the benchmarks for the economy are linked to a number of themes. The themes or categories include:

- per-capita personal income growth,
- growth in the number of industries, and
- containing the cost of doing business.

Examples of benchmarks for the economy are provided in Table 4. It is interesting to note that one of Oregon's benchmarks or goals in this area is to be rated as the best fiscally managed state, as determined by *Financial World* magazine, in the United States by 1995. This is a ranking that Virginia achieved in both 1992 and 1993.

Benchmarks for People. Benchmarks for people appear to focus on the goals in the strategic plan related to the skills necessary to excel in a worldwide socio-economic environment. Like the benchmarks for quality of life, the benchmarks for people are grouped under a number of themes which include:

Table 4

Selected Oregon Benchmarks for the Economy 1994

<u>Benchmarks for the Economy</u>	<u>Targets</u>			
	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2010</u>
Real per-capita personal income as a percentage of U.S. real per-capita income (<i>Core Benchmark</i>)	92%	95%	100%	110%
Percentage of Oregonians with incomes above 100% of the federal poverty level (<i>Urgent Benchmark</i>)	88%	90%	95%	100%
<i>Financial World</i> magazine rating (Compared to all 50 States)	**	1st	1st	1st

**Data not available

Source: Oregon Progress Board report, *Oregon Benchmarks: Standards for Measuring Statewide Progress and Institutional Performance*, December 1994.

- a stable home life,
- academic achievement, and
- social harmony in the community.

In the Oregon Progress Board's report to the 1995 state legislature, there were 107 benchmarks classified as benchmarks for people. Eleven benchmarks for people are also classified as core and nine as urgent. Table 5 provides examples of selected Oregon benchmarks for people.

Benchmarks for Quality of Life. Benchmarks for quality of life are intended to measure the extent to which the environmental and quality of life goals in the strategic plan are being met. In the report to the 1995 state legislature, there were more than 75 individual benchmarks for the quality of life area. Of the more than 75 individual benchmarks in this area, eight benchmarks have been classified as urgent and 10 as core benchmarks. Examples of selected benchmarks are provided in Table 6.

These benchmarks are then linked to a number of themes or categories which broadly relate to the natural environment and communities. These categories include maintaining Oregon's natural resources and improving and maintaining healthy communities.

Table 5

Selected Oregon Benchmarks for People 1994

<u>Benchmarks for People</u>	<u>Targets</u>			
	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2010</u>
Pregnancy rate per 1,000 females ages 10 - 17 (<i>Core & Urgent Benchmark</i>)	19.7%	9.8%	8%	8%
Percentage of children at age two who are adequately immunized	**	80%	100%	100%
Percentage of individuals at age 25 with a baccalaureate degree	**	30%	35%	40%

**Data not available

Source: Oregon Progress Board report, *Oregon Benchmarks: Standards for Measuring Statewide Progress and Institutional Performance*, December 1994.

Table 6

Selected Oregon Benchmarks for Quality of Life 1994

<u>Benchmarks for Quality of Life</u>	<u>Targets</u>			
	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2010</u>
Miles of Rivers and Streams not Meeting State and Federal Government Standards (<i>Urgent Benchmark</i>)	1,100	723	75	0
Percentage of Agriculture Land in 1970 Preserved for Agriculture Use (<i>Core Benchmark</i>)	98%	95%	94%	94%
Rate of Home Ownership	63%	**	65%	65%

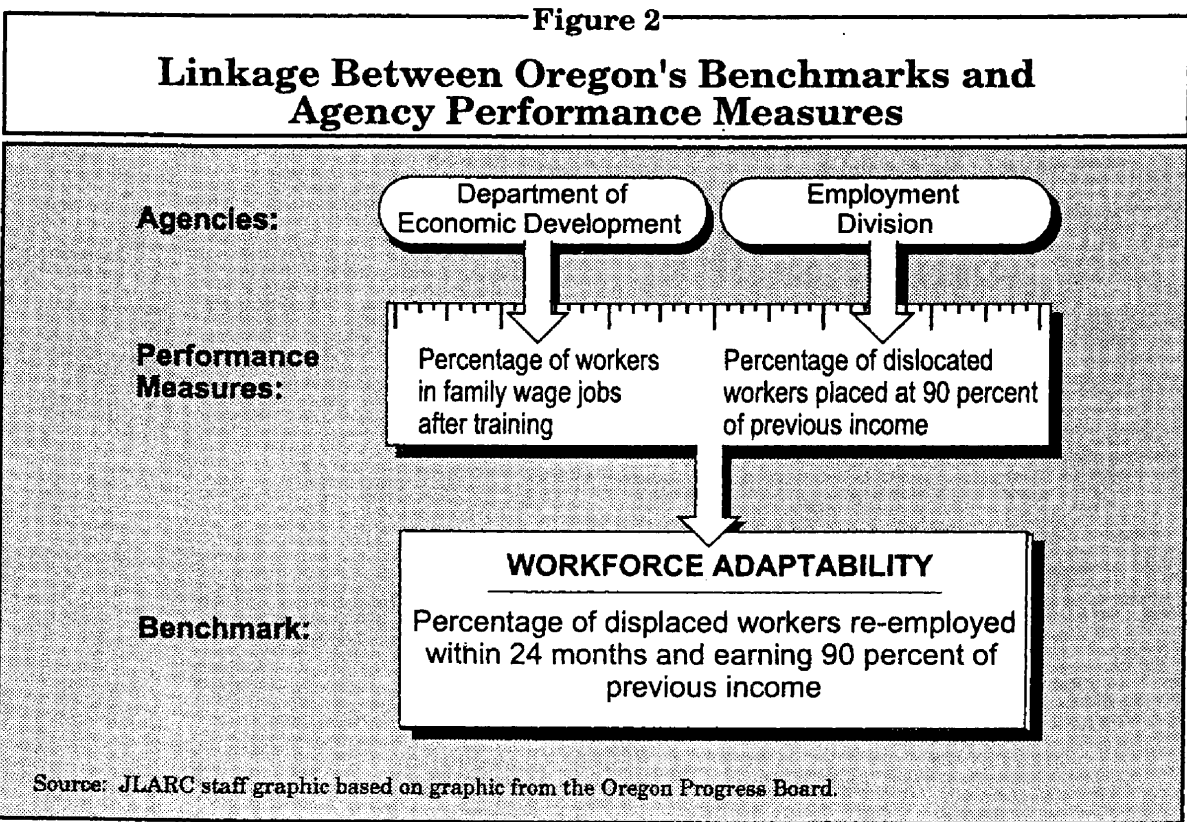
**Benchmark not established

Source: Oregon Progress Board report, *Oregon Benchmarks: Standards for Measuring Statewide Progress and Institutional Performance*, December 1994.

Role of Performance Measures in Oregon Benchmarks

Performance measures are intended to measure progress towards a goal or goals. In general, there appears to be a consensus that performance measures can be a valuable management resource in directing an organization’s activities towards meeting a goal or target. In Oregon, performance measures are intended to determine the state’s progress in achieving the stated benchmarks. The results of the performance measures are intended to be used in the budgeting process to ensure funding is allocated in a manner designed to enable agencies or programs to meet or exceed the benchmark.

According to Progress Board staff, each state agency is supposed to develop performance measures that can be linked to benchmarks under their purview. As highlighted in Figure 2, individual benchmarks may be applicable to more than one agency. However, the performance measures are to be specific to each individual agency or program. Agency staff are responsible for ensuring that they are making progress, as indicated by the performance measures, towards meeting the benchmark target.



Agency Established to Administer Benchmark Process

Staff responsible for Oregon’s benchmark process noted that one concern with a vision and subsequent goals developed through a strategic planning process is that they can quickly be overlooked as other issues are dealt with by programs and agencies. To

counter this trend, the Oregon Progress Board, composed of ten members including the governor, was established and charged with ensuring that progress was made over time in meeting the stated goals of the strategic plan. The scale of the process, the fact that it is statewide in nature, and the priority placed on it also appear to be reasons for establishing an individual agency to oversee and administer it.

Oregon Progress Board officials noted that public input, review, and comment on the benchmark process is very important. They report soliciting review and comments through a number of sources. Further, 29 meetings were held across the state to solicit input for Oregon's most recent benchmark revisions. In addition, they requested comments by mail from an additional 12,000 residents. According to their report to the 1995 Oregon legislature, some of the urgent benchmarks were modified based on the responses solicited from the public.

Potential Benefits Attributable to Oregon's Benchmarks

Despite being one of the longest running benchmark efforts conducted on a statewide basis, Oregon's effort began with the 1988 strategic plan and is still relatively new. As a result, the full benefits attributable to such an extensive undertaking are probably not entirely evident. Nonetheless, several potential benefits have been cited by a number of sources.

Specifically, the benchmark process has the potential to increase the awareness, understanding, and possibly the involvement of citizens in their government. Oregon has made significant efforts to involve and inform Oregonians about their benchmark process. As a result, accountability of governmental programs may improve. Benchmarks may also have the potential to better focus agency staff and program efforts on results. Further, the impact on intergovernmental cooperation may be positive as well.

Increase Citizen Awareness/Involvement in Government. Implementing a benchmark process on the scale that Oregon has is clearly one mechanism for increasing citizens' awareness of government's current goals and functions. Further, it may encourage them to think more critically about Oregon's future. As a result, the Oregon Progress Board notes that:

efforts are geared to stimulate public discussion, develop public consensus on where Oregon needs to go, and engage public and private decisionmakers in planning how to get there and how to measure success. Citizen involvement is essential.

As noted earlier, citizen involvement is encouraged through surveys, public meetings, and reports that focus extensively on Oregon benchmarks. The establishment of benchmarks, combined with efforts to involve citizens, could lead to increased accountability of governmental programs.

Benchmarks May Better Focus Agency/Program Efforts. Oregon's benchmarks are reportedly important factors in keeping state agencies' priorities on meeting the specific goals. This focus has also reportedly enabled state agency employees to more readily identify with the goal and the mission of the organization.

In addition, Oregon officials have reported that the benchmarks have required agencies and divisions to work with each other to attempt to meet goals that each agency or division on its own could not accomplish. For example, increasing the number of children properly immunized by the age of two could unlikely be accomplished without cooperation from the Medicaid, social services, and public health departments. This cooperation may even extend to the local government level as well if local governments have any responsibilities for any of these functions.

Benchmarks May Increase Local Government/Private Sector Involvement. Another benefit of the benchmark process is the potential for increased involvement of local governments and private businesses in the state's planning and goal attainment efforts. The U.S. General Accounting Office (GAO) noted that Oregon's benchmark process has also resulted in state agencies and private organizations, such as business and industry, working together to achieve benchmarks that impact both state and non-state entities. For example, the GAO reported that:

the state established benchmarks to increase the share of employment in businesses that added value to the state's natural resources, such as wood products and agriculture, before they were exported. However . . . state government had only a marginal ability to achieve these benchmarks on its own. Therefore, the [state] encouraged the industries Oregon had targeted for growth to develop and track their own performance measures . . . that would demonstrate growth in those industries.

A review of Oregon's benchmark process by the Urban Institute also noted that "the business community is supportive of the benchmark effort." As a result, Oregon's commitment to maintaining progress toward a set of benchmarks that has achieved a consensus could make it more attractive to both businesses and skilled labor.

Finally, Oregon officials have reported working with local governments to develop benchmarks that support their own programs as well as the state's benchmark initiative. For example:

Every county has used benchmarks for children and families, health, and work force initiatives. Seven of the state's 36 counties are voluntarily developing comprehensive, locally oriented benchmark systems. The City of Portland, Oregon's largest city, and Multnomah County, Oregon's largest county, have jointly produced city-county benchmarks.

Officials have also reported that a private foundation and an Oregon United Way campaign have incorporated the concept of benchmarks in the administration of their programs.

Benchmarks May Also Improve Federal/State Government Cooperation.

Recently, additional benefits linked to Oregon's benchmark process have been identified. The federal government recently announced that it was joining with Oregon to "redesign and test an outcomes oriented approach to intergovernmental service delivery." The agreement between the federal government and Oregon is designed to:

refocus intergovernmental relationships on results instead of rules and regulations. Oregon is uniquely suited to push such an experiment . . . because of its efforts at outcomes-based budgeting, known as "Oregon Benchmarks."

Involving the federal government in the process could ensure that all levels of government, local, state, and federal, are focused on activities that will better enable Oregon to meet established benchmarks.

Federal and state officials have signed a memorandum of understanding which is directed at efforts to redesign the service delivery structure to focus on results, be service oriented, be focused on preventing problems and removing barriers to results-oriented service delivery, and delegate responsibility to the service providers. This redesigned service delivery model is known as the "Oregon Option." The goals of this new approach as contrasted with the traditional intergovernmental service delivery structure are highlighted in Table 7.

Services and activities under three broad governmental service areas will initially be emphasized. These three areas are:

- healthy children,
- a stable family, and
- a developed workforce.

Oregon officials noted that they have established work groups to work with the federal government to implement this unique service delivery program. Moreover, the group addressing the area of the developed workforce has reported reaching agreement with the federal government on selected benchmarks and steps that should be taken to achieve the statutory and administrative relief required to meet the benchmarks.

Potential Areas of Concern Regarding Oregon's Benchmark Process

Oregon's extensive undertaking to incorporate benchmarks as a standard method of conducting the state's business is impressive. And, as noted earlier, there are a number of potential benefits to the process. Yet, potential concerns with this process have also been identified.

Table 7

Comparison of "Traditional" Intergovernmental Service Delivery Model and the New "Oregon Option" Intergovernmental Model

"Traditional" Intergovernmental Service Delivery Model	"Oregon Option" Service Delivery Model
Fragmented federal programs with limited flexibility to move among them.	Federal, state, and local governments agree on measurable outcomes to be achieved.
Regulations and financial audits stifle innovation and results in tremendous overhead.	Oregon and its communities ease regulations by developing plans to achieve outcomes.
Dollars focused on remedial and maintenance of current programs instead of prevention.	Federal and state government grant funds to execute strategy at levels similar to current funding, but removes most strings associated with current programs.
	Oregon is held accountable for performance.

Source: The Oregon Option, April 1995.

The cited concerns include the potential costs associated with such a project, the clarity of the link between benchmark and agency performance measures, and the future sustainability of the process. In addition, there are concerns about the achievability of some of the benchmarks. These concerns, however, are not in themselves indicative of the potential for the success or failure of any similar project that might be implemented. Nonetheless, given the scope of the project and the resources involved, a discussion of concerns or potential problems is warranted.

Benefits from Process Should Be Balanced Against Potential Costs. At the present time, the Oregon Progress Board has three full-time staff. The agency has also reported relying on more than 60 technical staff from over 40 other agencies to assist in collecting and reporting data related to the benchmarks. According to Progress Board staff, the direct costs associated with the Progress Board's administration of the process have averaged about \$400,000 in general funds each fiscal year (Table 8).

It is important to note that these figures do not include the cost of staff in other agencies who are involved in the benchmarking process. Clearly, there are costs associated with administering this type of process on such a large scale. The value of any benefits from the process should be evaluated in the context of the associated costs.

In addition, there may be substantial costs associated with meeting some of the established benchmarks. Various benchmarks, among others, call for dramatic improve-

Table 8

Cost of Administering Oregon Benchmarks FY 1989 - FY 1994

<u>Fiscal Years</u>	<u>Funding</u>
1989 - 1990	\$900,000
1991 - 1992	850,000
1993 - 1994	800,000

Note: Figures reflect state general funds. Oregon Progress Board staff reported that it has also received some non-general funds.

Source: JLARC staff interviews with Oregon Progress Board staff, spring 1995.

ments in reading skills, work force training, health care access, and environmental quality. As noted earlier, more than 250 benchmarks require improvements in many different functions or areas impacted by state government. While general improvements in efficiency and effectiveness of government programs or agencies may result in the achievement of some of these objectives, achieving others will likely require additional state expenditures.

For example, one benchmark is to have 95 percent of the adult population by the year 2010 classified as nonsmokers. While the goal of having the vast majority of citizens classified as non-smokers may be desirable from a public health and possibly even an economic perspective, the marginal cost of achieving even a small increase from the 81 percent of non-smokers reported in 1992 may be extremely high. This may be especially true for a behavior-related activity like smoking. Finally, a comprehensive effort to achieve this goal could channel public funding away from relatively productive, more cost effective health care activities like prenatal care or preventative care for infants.

Links Between Benchmarks and Performance Measures Appear Relatively Undeveloped. A review of the benchmark process by staff from the Urban Institute noted that the benchmark effort had resulted in "real changes in the way many Oregon public agencies plan." Nonetheless, the report also raised a number of important issues for consideration.

First, the review noted that despite the wide acceptance of the various benchmarks, there is still a weak link between the benchmarks for the state and individual performance measures that agencies should use to direct efforts towards meeting the benchmarks. The review noted that this may be due to the overly broad nature of many of the benchmarks. Further, the report identified that by 1994 only about 30 percent of Oregon's agencies had made "important" progress in performance measurement.

As a possible result of this lack of consistency between the statewide benchmarks and agency performance measures, the report noted that:

the ability of state agencies and their programs to use outcome and benchmark-related data for budget preparation and justification appears quite limited. This is caused by the current state of outcome measurement in operating agencies and lack of clear linkages to benchmarks.

Oregon officials also noted that the effects of their benchmarks on budget or funding allocations were not yet as formalized as they anticipated they would be. Yet, channeling the allocation of resources to meet stated goals is usually one of the primary objectives of benchmarks and performance measures.

Progress Board staff noted that benchmarks have been a factor in some budget allocation decisions as a result of reduced revenues at the state level. Recent reductions in state budgets have occurred, but funding was restored to some degree to better enable agencies and programs to meet their benchmarks. Progress Board staff noted that additional funding was returned primarily to agencies with roles in meeting urgent benchmarks.

Some Benchmarks May Be Unattainable. Another concern is the extent to which some of the benchmarks might have unrealistic targets or even be unattainable, either as a group or on an individual basis. Some of the established benchmarks, addressed individually, appear to be achievable, given sustained effort and the application of sufficient resources. However, the extent to which all benchmarks can realistically be achieved is debatable. For example:

Specific benchmarks call for the elimination of the use of illegal drugs, alcohol, and tobacco during pregnancy. However, according to the most recently available data, 21 percent of pregnant women smoked, five percent used alcohol, and 11 percent used illegal drugs.

* * *

The goal of another benchmark is for 99 percent of all eleventh graders to achieve established skill levels in reading and mathematics. In 1993, however, these skill levels were actually achieved by 33 percent of African American students, 47 percent of American Indian students, 61 percent of Asian students, 39 percent of Hispanic students, and 62 percent of white students. In summary, 40 percent of eleventh grade students did not attain the skill levels required by the benchmark.

* * *

Other selected benchmark targets for the year 2010 include increasing voter registration from 78 percent to 100 percent, having zero miles of unclean rivers and streams (compared to 1,100 miles in 1992), and having 40 percent of 25-year old Oregonians with a baccalaureate degree (compared to 24 percent in 1992). In addition, other benchmarks

call for 50 percent of all Oregonian adults to have lived, worked, or studied in another country, other than as a short-term tourist, by the year 2010 (compared to 24 percent in 1994).

Oregon's establishment of more than 250 benchmarks that appear to have received broad support from all sectors of government, the private sector, and citizens is noteworthy. Clearly, the elimination of alcohol, tobacco, and illegal drug use by pregnant women and skill attainment by school children is highly desirable. The establishment of benchmarks that may be unattainable is, however, somewhat inconsistent with one of the basic premises of benchmarking — comparing performance to best practices of other organizations.

It must be noted that Oregon officials have stated that their process is not generally based on the concept of best practices. However, no states have likely achieved 99 percent attainment in educational skills, have no unclean rivers and streams, or have 100 percent voter registration while, at the same time, attempting to meet about 250 other benchmarks. While setting high goals is a basic tenant of benchmarking, setting unattainable goals could diminish the credibility of such a process. In fact, the process and accompanying goals could eventually be viewed less like a plan for future government action and more like a random list of goals that, if possible, would be nice to achieve.

Future Sustainability of Process Is Unclear. Finally, the extent to which this extensive effort will be sustainable in the future is not clear. It must be noted that the process has, however, continued across the administration of three different governors. Further, the benchmark process has been enacted into law. Nonetheless, the Urban Institute's report on Oregon's benchmark process noted that:

It is still too early to be sure that this whole strategic planning, performance measurement, and managing-for-results effort will be institutionalized so that it becomes an ongoing way of doing business by state government. It is yet to be seen how well the process will survive a major change in state elected officials that is likely to occur in 1995.

Oregon officials expressed similar concerns to JLARC staff. They noted that the effects of upcoming state legislative elections could have an impact on the future sustainability of Oregon benchmarks. For example, the process currently has substantial support from the Oregon legislature. However, the loss of key legislators could moderate the important legislative support this process has achieved. As a result, required changes in funding and program priorities necessary to achieve benchmarks may be more difficult to accomplish. Finally, if the process cannot be sustained, significant resources would have been expended for a relatively short-term program.

OTHER STATES' BENCHMARK-RELATED INITIATIVES

Like Oregon, a number of states have recently implemented some form of benchmarking or performance measure systems on a statewide basis. These states include Minnesota, Florida, Utah and Texas. While the process and framework may vary from state-to-state, the underlying objectives linking all of the processes appears to be to allocate funding to match goals and objectives and to provide policy makers and managers tools to better manage for results. However, the preliminary results from these efforts appear to be mixed.

Overview of Other Selected States' Processes

A number of states have recently undertaken efforts to establish benchmark or performance measure processes on a statewide basis. These states include, among others, Minnesota, Utah, Florida, and Texas. Some are very similar to the process established in Oregon. Moreover, Texas has a process that appears to be focused on achieving a clear link between performance measures and funding allocation decisions.

Minnesota Milestones. In 1991, the Minnesota planning agency was directed by the Governor to plan and implement a project to bring greater accountability to Minnesota's state government. With a concentrated effort to gain a great deal of citizen input, the Minnesota planning agency set forth a vision of the state in the year 2020 as well as specific goals and milestones by which to measure progress. This process is known as Minnesota Milestones.

The process, which began with an examination of Oregon's benchmarking process, focused on five major themes: (1) a caring and secure community; (2) prosperous people; (3) learning; (4) surroundings; and (5) the ability of people to work together and with their government. Table 9 provides an example of a goal and accompanying performance indicators developed through Minnesota's statewide planning process.

Utah Tomorrow. Unlike Minnesota, Utah's experience with benchmarks or performance measures did not begin in the executive branch. Utah's strategic planning and performance measures process was initiated by the legislature, but the initiative soon gained support from the Governor. Legislation enacted in 1990 authorized the formation of a strategic planning committee, which was charged with recommending a strategic planning process for the state.

The resulting strategic planning process, known as Utah Tomorrow, established a set of related vision statements, long-range goals, specific objectives, and performance measures. Selected examples are provided in Table 10. The process appears to be very similar to the ones implemented by Oregon and Minnesota. The actual strategies to achieve the goals are to be developed by the applicable state agencies.

Table 9

**Selected Minnesota Performance Indicators
for the Benchmark: Minnesotans Will be Healthy
1990, 1995, 2000, and 2010**

<u>Performance Indicators</u>	<u>Targets</u>			
	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2010</u>
Infant mortality rates (per 1,000 births)	7.3	6.5	5.0	4.5
Percentage of low birthweight babies	5.1%	4.5%	3.5%	3.0%
Percentage of children adequately immunized	57%	70%	90%	95%

Source: *Minnesota Milestones*, 1993.

Table 10

**Selected Utah Performance Measures for the Goal:
Increase the Proportion of Utah's Children
Who Are Adequately Immunized
1990, 1995, 2000, and 2010**

<u>Performance Measures</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2010</u>
Percentage of two-year old children who are adequately immunized	38.2%	46.5% (1993)	90%	**
Percentage of children entering kindergarten with adequate immunizations	93.1%	93.9% (1993)	95%	**

**Target not yet established

Source: Utah Tomorrow Strategic Planning Committee report, *Utah Tomorrow Strategic Plan*, 1994.

Florida Benchmarks. A 1992 amendment to the state's constitution required Florida to incorporate accountability measures into the state's strategic planning process and establish a system for benchmarks. In addition, the Florida Commission on Government Accountability to the People (GAP) was established. The GAP Commission would be responsible for leading the effort on establishing a benchmarking system. Moreover, the GAP Commission was charged with implementing three primary tasks:

- developing a set of statewide benchmarks,
- reviewing state agency strategic plans based on the newly established benchmarks, and
- proposing structural reforms in state government.

In Florida's process, benchmarks are identified by state agencies and evaluated by the GAP Commission. Proposed benchmarks address issues like:

- families at risk of break-up,
- children born to unwed mothers,
- violence in schools, and
- endangered beaches.

In addition, Florida statute requires state agencies to develop their own strategic planning processes. These plans are then reviewed for consistency with the state comprehensive plan.

Texas' Performance Measure Process. Texas' process is focused on state-level performance-based budgeting. In 1991, the Office of the Governor and the Legislative Budget Board collaborated in developing a strategic plan for Texas. The resulting plan, *Texas Tomorrow*, defined the functional mission of state government and set forth five-year goals in the areas of education, health, the environment, social and economic prosperity, and safety. In building upon *Texas Tomorrow*, each state agency was asked to define its mission, set five-year goals, propose strategies to reach those goals, and develop measures of performance.

Although Texas had been using performance measures in its budget system since the early 1970's, in 1992, legislative leaders apparently desired greater accountability in the budgeting system. This resulted in a streamlining of the budget process and the implementation of performance-based budgeting. With these initiatives in place, Texas has integrated initiatives in budget reform, strategic planning, and performance measurement to form a system which Texas refers to as "strategic budgeting."

Other States' Processes Often Required by Statute and Linked to Statewide Strategic Plan

It appears that many states that have implemented statewide benchmark or performance measurement processes are required by statute or the state constitution to do so. In Minnesota, Utah, Florida, and Texas, these efforts are clearly linked with a statewide strategic planning process (Table 11). One state official reported that having the process codified enabled the process to be credible and taken seriously from the start.

Minnesota Milestones is not, at this time, required by statute. In discussions with JLARC staff, Minnesota officials noted that the process was both requested and

Table 11

**Selected States' Statewide Benchmark
or Performance Measure Requirements
and Strategic Planning Status
1995**

<u>State</u>	<u>Statewide Benchmarks or Performance Measures Required by Statute</u>	<u>Statewide Strategic Planning Process</u>
Minnesota	✓	
Texas	✓	✓
Utah	✓	✓
Florida	✓	✓

Source: JLARC staff interviews with state agency staff, spring 1995, and the U.S. General Accounting Office report *Managing For Results: State Experiences Provide Insights for Federal Management Reform*, December 1994.

strongly supported by the governor. This support appears to have resulted in the widespread acceptance of the process. Further, the entire process is conducted in the framework established by a statewide strategic plan. Agencies in Minnesota are, however, required to submit performance measures with their annual budget requests.

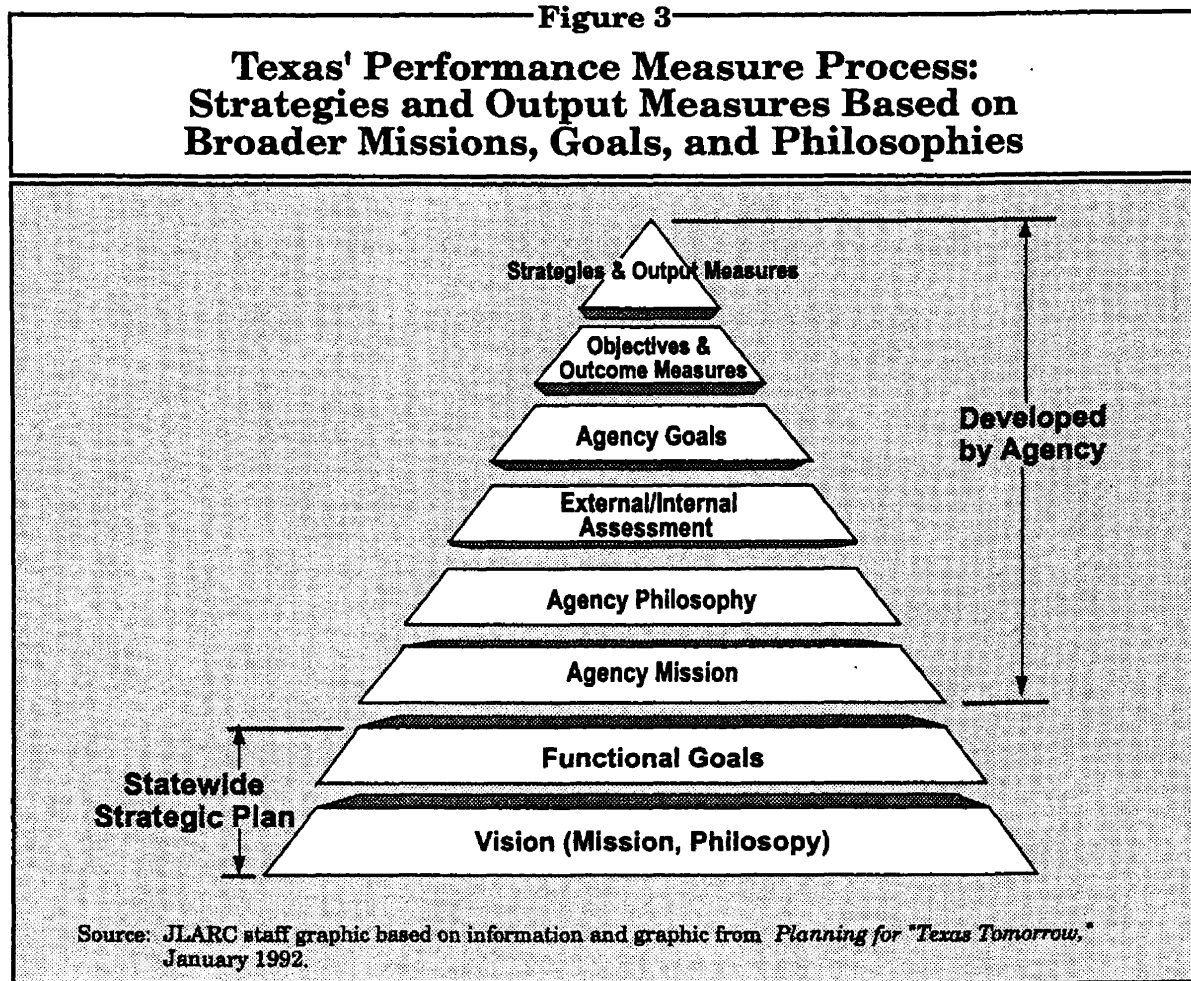
In Texas, the statewide strategic plan is used to develop goals that individual agencies must meet when developing their own plans. Building on the statewide strategic plan, agency strategic plans serve as the basis for the state's strategic budget system, with agency budget requests based on the cost of implementing a strategic plan. As depicted in Figure 3, the entire process proceeds from the statewide strategic plan and evolves to the agency level and individual agency strategic plans and performance measures.

Results from Other States' Efforts Appear Mixed

As with Oregon's experience with benchmarks and performance measures, results from the other states' benchmark and performance measurement processes appear to be mixed. Moreover, like Oregon, the majority of these states' programs have been in place for a relatively short period of time, most since the early 1990s.

As a result, all of the results or benefits may not yet have had time to fully develop. Nonetheless, results from interviews with various state officials and reports on the various programs indicate that there are both benefits and potential concerns related to the programs that should be noted by states interested in developing similar processes or programs.

Benefits of States' Benchmark/Performance Measure Processes. As in Oregon, benchmarks or performance measure efforts in these states do not appear to



have yet impacted budget or funding allocation decisions to the extent anticipated. Nonetheless, other benefits have reportedly accrued through these processes. First, states reported that even if the benchmarks or performance measures have not been used as a direct factor in budget allocation decisions, they have provided agency and program administrators and policy makers an important tool in attempting to manage agencies and programs. For example, a review of state performance measure programs by the Congressional Budget Office (CBO) noted that:

Despite long-standing efforts in states regarded as leaders in performance budgeting, performance measures have not attained sufficient credibility to influence resource allocation decisions. Instead . . . state officials say that performance measures have aided managers in (1) establishing program priorities, (2) strengthening management improvement measures, (3) dealing with the results of budgetary reductions, and (4) gaining more flexibility in allocating appropriated funds. In short, if performance measures make a difference in these states, it is in agency use of resources rather than in the allocation of resources by governors or state legislatures.

The overall conclusion regarding these processes appears to be that one of the primary benefits of these programs is internal to the agency and not external to the executive and legislative budget allocation process.

Other benefits may accrue as well. Officials reported that performance measures can lead to greater interagency involvement in attempting to meet goals, objectives, or targets that apply to a number of agencies. Florida officials note that similar programs may be initiated at the local government level. With a process in place at the statewide level, state and local governments may be able to jointly work together to meet common benchmark or performance measure targets.

Federal officials informed JLARC staff that Minnesota has recently approached the federal government about developing an intergovernmental relationship similar to the one that has been formalized with Oregon. Because Minnesota has established Minnesota Milestones which is based on goals and performance measures like Oregon's benchmarks, federal officials noted that they are willing to discuss entering into an Oregon-type arrangement.

Finally, such measures can provide citizens a more quantifiable-based report regarding their governments accomplishments. In other words, accountability of government programs may be improved. As noted by the Governmental Accounting Standards Board (GASB), accountability is important because it:

requires governments to answer to the citizenry to justify the raising of public resources and the purposes for which they are used. Governmental accountability is based on the belief that the citizenry has a "right to know," a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives.

The GASB also notes that the use of performance measures increases the information available to citizens and policy makers which is a factor in improved accountability.

Potential Disadvantages of Benchmark/Performance Measure Processes. First, as noted in the previous section, benchmarks and performance measures have generally not had the intended impact on the budget and funding allocation process. However, in some cases, significant amounts of resources and funding have been dedicated to this objective.

For example, Florida officials reported that for the fiscal years 1994 through 1995, almost \$500,000 was appropriated for their process. Minnesota officials reported that about \$500,000 was initially allocated for the implementation of the Minnesota Milestones program. While the benefits stated above and probably others have been realized through these programs, the extent to which they constitute a significant "return on investment" is arguable.

Finally, the quality and appropriateness of the performance measures used by some of the states which have significant benchmark/performance measure programs

have been identified as questionable. States with these processes that have had program reviews or evaluations have questioned the performance measures that are used. For example, a 1992 audit by the state auditor to certify the accuracy of performance targets used in Texas' budget process determined that:

- deficiencies existed in the performance measures used,
- some data collection systems were inadequate, and
- performance-related data is not consistently reported across offices.

The CBO identified some of the same issues in their review of Florida's process. The potential impact of these deficiencies is highlighted in the Texas audit report which notes that "the success of an effective performance- and achievement-based budgeting process will rely heavily on the identification of appropriate performance measures for each agency." If budget or funding allocation decisions had been based solely on these agencies performance measures, the subsequent results may not have been as intended due to poor quality measures or data. Finally, findings such as these could impact citizens' and policy makers' confidence in the entire process.

ISSUES FOR CONSIDERATION REGARDING IMPLEMENTATION OF SIMILAR PROCESSES IN VIRGINIA

As identified in the previous sections, benchmarking and performance measurement systems can provide important benefits. Factors that may restrict some of the benefits need to be considered as well. In addition, other factors that appear to be critical to the success of a statewide benchmark effort need to be identified and discussed. These include the importance of a statewide strategic planning process, the role of the legislature, and other administrative-type factors that may have an impact on the extent to which a statewide process is successful.

Statewide Strategic Planning Process Appears Necessary

As discussed throughout various sections of this chapter, a statewide strategic plan appears to be the basis and framework in which the applicable benchmark and performance measure systems operate. As stated by an Oregon official:

Whether at the state or community level, benchmarks make sense only in the context of a larger vision for the future. Usually this vision is the heart of a strategic plan.

This appears to be the role of strategic planning in the other states with significant benchmark or performance measure processes.

In Virginia, the Department of Planning and Budget (DPB) has also noted that strategic planning is an important role in performance measurement or benchmarks. For example, DPB noted that:

A performance measurement system should be consistent with, and integrated into, each organization's strategic plan. Development of a performance measurement system is best served by a strategic planning approach with top management support, active management participation in goal setting, a small manageable number of goals....

The importance of planning is not limited to only the public sector. For example, the first component in the Xerox Corporation's best practice benchmarking process is planning.

The value of a benchmarking or performance measure process is its ability to highlight or indicate the extent to which goals in a strategic plan are being achieved. It is based on these results that resources can be directed or changes made at the appropriate program level to ensure the benchmarks or desired outcomes are achieved. Without a vision or goals, benchmarks or performance measures would have less value. Further, the strategic planning process can help all parties and groups involved identify and reach agreement on goals and objectives.

The importance of a statewide strategic planning process on which to base large-scale initiatives like the ones conducted in these states should not be understated. During interviews with staff in other states involved in statewide benchmarks, the role of strategic planning was discussed. Examples of responses to a question about the likelihood of successfully implementing a statewide benchmarking process without a formal strategic planning process are as follows:

"It would be difficult" to implement a successful statewide benchmark process without a formal strategic planning process.

* * *

You need to decide "what are the issues that are most important to the people." Otherwise, there might be a lack of focus or direction.

Further, Virginia is not currently in a position to implement a statewide strategic planning process. Amendments to the 1995 Appropriation Act reduced both DPB's funding and staff. As a result, it would likely be difficult for the State to initiate and produce a comprehensive statewide strategic plan necessary to implement a credible benchmark or performance measure process in the near future.

Involvement of Legislature in Statewide Process Is Important

Review of other states' benchmark and performance measure processes indicates that the reported success of these efforts may be in part due to the involvement of the states' legislatures. As noted by Oregon officials regarding their process:

Legislative involvement in the process of developing and implementing benchmarks is crucial. In developing benchmarks, states should

establish work groups that include legislators and work closely with the legislative branch to institutionalize the process....

Perhaps some of the reported success of Oregon's benchmarks can be linked to the involvement of the legislature, both in the strategic plan and benchmarks. Oregon officials noted that the strategic plan "must be owned and used by key decision makers — including executive and legislative officials — as they make policy and program decisions." Finally, the Oregon legislature reviews and offers input regarding the benchmarks biennially.

Legislative involvement does appear necessary and desirable for an active and realistic process implemented on such a large, statewide scale. This involvement would be especially critical in a state like Virginia where the Governor is limited to one term and long-term support of a statewide benchmark process is necessary to sustain the process' continuity. Moreover, legislative involvement and consensus is important if changes in funding are necessary for agencies or programs in order to achieve applicable benchmarks or performance measures.

Additional Issues That Should Also Be Considered

There are also some general, but rather important issues that should be considered if a statewide benchmark or performance measure process were seriously considered. For example, the resources that could be required to implement and administer this type of process could be significant. Second, training would likely be required to enhance the potential for success. Finally, systems to collect, report, and verify the data used in a benchmark or performance measurement system would also be necessary.

Additional Resources May Be Necessary. As discussed in the previous sections, there are likely to be some additional costs associated with these types of statewide processes. In addition to funding-related expenses, the additional duties and responsibilities that would be required of agencies should also be considered. For example, Oregon reported relying extensively on staff in agencies to collect and report data used in the benchmark process.

Agency staff would likely be needed for such a process in Virginia. However, some agencies in Virginia have undergone significant reductions in funding since 1990. Further, a recent separation offer by the State resulted in almost 5,500 employees leaving State government employment. The effect on some agencies' staff levels, including DPB's, may be substantial. Therefore, any consideration of implementing a large scale benchmark or performance measure process should be evaluated against the resource capabilities in the various State agencies.

Additional Training May Be Necessary. A process like the one implemented in Oregon or Minnesota would likely be a significant change in the administration and reporting requirements for many State programs and agencies. As a result, an extensive

training and education program might be required to ensure the process is more readily accepted and understood by staff who would be key actors in the process.

The GAO reported that agencies in Oregon and Minnesota did not have staff with the skills necessary to develop performance measures nor use the subsequent data and information. Further, agency managers and staff were initially concerned that they would be held accountable for outcomes that they may not have any direct control over.

To overcome these and other impediments, training was provided. According to the GAO, Oregon's transportation department provided nine days of training, which was composed of an orientation, team-building, and performance measure development. Further, the continued commitment of agency officials and management to the concept of performance measurement was consistently reinforced through seminars and development sessions.

Data Collection, Reporting, and Verification System Changes May Be Necessary. The GAO noted that states which had implemented strategic planning and performance measures also had to restructure their information and financial systems to support the processes. These changes were necessary to support managers' needs for additional flexibility in managing resources to meet performance goals and objectives.

Prior to implementing strategic planning and performance measure processes, these states had traditionally reported input data and the associated costs. While these data were and are important, agencies also required the ability to use their information systems to collect and report data in a manner that would indicate the extent to which performance measures were being achieved.

Finally, a process to audit and verify the accuracy of the data-related to performance measures should be considered. Other states' experiences indicate that there may be problems in classifying performance measures as well as the validity of the data reported. As noted earlier, the Texas legislative auditor's office reported problems with the performance measures used, adequacy of some data collection systems and consistency of performance-related data. A review of Minnesota's process by the legislative auditor's office noted that "the quality of the performance measures in the 1994-1995 budget was uneven." As a result, if a benchmark or performance measures process were to be established in Virginia, some method for independently auditing and verifying the data and performance measures reported should be considered.

CONCLUSION

This chapter has presented an overview and analysis of the selected statewide benchmark and performance measure processes that are in place in other states. It is evident that these states have made a substantial commitment and significant progress in developing and implementing these processes. Further, the majority of the officials contacted by JLARC staff reported that they believe the processes were generally

beneficial and that they anticipate these processes will continue to have a significant role in their states' future.

However, the benefits must be evaluated in the context of potential problems or obstacles that could negate the effectiveness of a comprehensive benchmark or performance measurement process. Further, the current lack of a statewide strategic planning process should be taken into account, especially as it appears to provide the necessary foundation for the process. Finally, the ability of Virginia State agencies to effectively participate in this type of process given the recent reductions in agency staff and resources must be considered.

III. Benchmarking Options For Virginia

The extent to which a statewide benchmark effort similar to the ones conducted in other states could be implemented in Virginia in an effective and timely manner is open to question. Options do exist, however, for adapting portions of these processes on a somewhat smaller scale. Reducing the scale or scope of the efforts could enable Virginia to realize some of the benefits of benchmarking at a substantially lower investment in terms of required resources.

For example, although a statewide strategic planning process is not in place at the current time, many agencies have reported that they do conduct some form of strategic planning. Moreover, the General Assembly recently required the Department of Planning and Budget (DPB) to conduct a performance measure pilot project for a number of selected agencies and programs. Evidence also suggests that some form of performance measurement is also being conducted by many other State agencies.

The processes established in these agencies can provide the framework for adaptations of the benchmarking that is occurring elsewhere, both in the public and private sectors. This can include the development of benchmarks or performance measures at the agency level which could be included in the annual executive budget. In addition, given its apparent benefits, best practice benchmarking should be used by State agencies and programs to improve their efficiency and effectiveness. Finally, there are additional options available that could maximize the benefits from these concepts at a more acceptable workload level for State agency staff.

THE FRAMEWORK EXISTS FOR SOME BENCHMARK ACTIVITY

As noted in Chapter II, strategic planning and performance measures are important factors in the success of any benchmarking process. While strategic planning provides both the necessary vision and direction, performance measures assess work performed and results achieved. With these processes in place prior to undertaking a benchmarking effort, an organization should be better equipped to establish goals and measure progress toward those goals.

Assessing accountability for agency actions has gained the attention of numerous sectors in Virginia. Performance measures can better assist agencies in assessing the outcomes of programs and initiatives. As a result, performance measures have the potential to increase program accountability and better assist policy makers in determining the efficiency and effectiveness of government programs.

Strategic planning and performance measurement are not new processes to the Commonwealth. In fact, a number of State agencies have incorporated these processes into their operations. Recent efforts by the State agencies involved in the DPB

performance measure pilot project have further reinforced the potential of strategic planning and performance measures in Virginia. With these processes established, benchmarking appears to have a foundation to build upon in Virginia.

Virginia's Performance Measure Pilot Project

In response to the 1991 JLARC report addressing the executive budget process, the General Assembly directed DPB to conduct a performance measure pilot project for selected government programs. More than 20 agencies and programs participated in this pilot. Results indicate that the measures developed can be a valuable resource to agency staff in focusing on program accomplishments. Moreover, the pilot project identified potential benefits, obstacles, and concerns that would be applicable to any process that might be attempted on a larger scale.

Overview of the Performance Measure Pilot Project. The impetus for DPB's performance measures pilot project came from the General Assembly. A 1991 JLARC report, *Review of Virginia's Executive Budget Process*, recommended that DPB develop performance measures for some programs on a pilot basis. To effect this recommendation, the General Assembly in 1992 directed DPB to:

- develop guidelines and processes for performance measurement of new programs funded in the act, and
- develop performance measures for selected base budget programs on a pilot basis.

In carrying out the mandate, DPB adopted a bottom-up, agency-focused approach. During this process, DPB decided agency "ownership and investment" would strengthen both the process and results. In the pilot, agencies were allowed to develop their own performance measures. As agencies developed their own measures, a number of principles were intended to be incorporated into the process. These principles were to:

- encourage agency ownership and investment in the process;
- provide agencies the flexibility to develop measures that were meaningful to them;
- be inclusive and work from the bottom up, focusing on training and peer review rather than strict control from a central agency; and
- develop a performance measurement system that builds on existing strengths and meets the needs of Virginia agencies and decision-makers.

Performance Measure Pilot Project Results. Twenty-four programs across 21 different agencies participated in the pilot. Moreover, all eight secretarial areas were represented, and six of the programs involved inter-agency efforts. While 18 of the

programs were new initiatives, six were existing base budget programs. DPB reported that eight of the programs made "very good progress," and that 16 needed further development and refinement. In general, DPB concluded that performance measurement has potential for Virginia as indicated by the following statement:

[Performance measurement] can be important and useful for program managers as well as higher-level decision makers. Performance measurement serves as a practical tool for monitoring programs, and the information it produces can help ensure mutual understanding of program objectives And, because resources can more clearly be linked to outcomes, it can also help decision makers in their quest to allocate limited resources in appropriate ways.

Agencies reported developing a variety of performance measures for each particular program included in the pilot. Measures developed included the more traditional input and output measures. However, one of the primary objectives of performance measurement is to focus on program outcomes. Therefore, DPB encouraged agencies to focus on outcome measures that reflected the objectives of the program. Examples of selected outcome measures for three separate programs are provided in Table 12.

DPB determined that the programs that made very good progress had some commonalities. In general, program objectives were clearly stated and measures were clearly and appropriately defined and addressed. Agency staff involved in some of the projects also cited potential reasons for their program's success. For example:

Staff at the Department of Motor Vehicles noted that one reason their performance measure project went well was that data gathering techniques were developed prior to the implementation of the project. Staff added that having a pre-established database to draw from was also useful.

* * *

Staff from the Governor's Employment and Training Department, which DPB noted had a successful performance measure process in place for the Opportunity Knocks program, reported that the goals and objectives of their program were in place prior to being selected to participate in the DPB pilot project. Although this particular program was a new initiative, agency staff had a great deal of experience identifying performance-like measures to report to the federal government and therefore already had the ability to understand the concept of performance measurement. Without the goals and the expertise of the staff in place, agency staff noted that participation in the pilot project would likely have been more difficult.

Table 12

Selected Performance Measures from DPB's Performance Measures Pilot Project

<u>Agency</u>	<u>Program</u>	<u>Outcome Measures</u>	<u>Results</u>
Department of Employee Relations Counselors	Grievance Resolution Service	Number of grievances concluded in management steps	81% of grievances were concluded in management steps
Department of the State Internal Auditor	Fraud, Waste, and Abuse Hotline	Amount of savings identified through elimination of fraud, waste, and abuse	Savings of \$266,350 reported as of June 30, 1993
		Non-monetary improvements made by agency management	Improved systems of internal control and other non-monetary improvements were reported
Governor's Employment and Training Department	Opportunity Knocks	Reduction in number of participants unemployed	Out of a total of 147 individuals leaving the program, 62 participants were placed in employment
		Change in participants' attitudes about community spirit and their involvement in community activities	Analysis found that participation in project strengthened the positive views on community service and community involvement

Source: JLARC staff analysis of data from agencies participating in the Department of Planning and Budget's 1993 performance measures pilot project.

Therefore, agencies that implemented successful performance measure processes appear to have had an understanding of the concept of performance measures before participating in the pilot project. As a result, some agencies had apparently already formed goals and objectives for their program as well as methods for measuring progress toward those goals and objectives.

Although DPB stated that the process in the remaining 16 agencies needed additional refinement, staff in some of these agencies stressed the importance of the project and performance measures in general to the State. They also noted that performance measures are valuable when the process is performed correctly and appropriate assistance is provided. Some of the agencies that participated in the pilot project reported that they have continued using the performance measures they devel-

oped for the project. (A complete listing of the agencies and programs participating in the DPB performance measure pilot project as well as each agencies' reported project status is provided in Appendix C).

Potential Obstacles Were Also Identified. DPB found that one common obstacle that may have limited project success was difficulty in establishing data collection systems. It appears that this obstacle will need to be fully addressed before a benchmark or performance measure process can be successful in Virginia. Clearly, organizations that have been successful in the use of benchmarks or performance measures attribute much of their success to the ability to collect and analyze data.

DPB cited additional "lessons learned" in the performance measures pilot. These lessons included:

- placing greater emphasis on benchmarking or measurable standards,
- providing clearer program objectives, and
- allowing more time for the development of performance measures.

DPB's concerns are similar to the concerns of individuals from other states and organizations regarding benchmarks and performance measure processes. Furthermore, many of these concerns could be addressed through an expanded time frame for the project, proper data collection systems for agencies, and additional assistance for staff involved in the process. In general, JLARC staff's review of selected states' processes identified a lack of training as a potential barrier to implementing a successful process. In addition, staff in some states viewed benchmarking and performance measurement as long-term ongoing processes, not short, quick projects.

Conclusion. DPB staff noted that they have had no routine involvement with the project since at least late 1994. However, some agencies report continued use of the performance measures they developed for the pilot. The pilot project also identified some obstacles that can be anticipated and addressed if the State chooses to conduct a performance measure project on a larger scale. Finally, the effects of the recent reductions in agency staff due to the voluntary separation of about 5,500 State employees on an expanded performance measure project should be considered.

Additional Performance Measure Activity in Virginia

Agencies that did not participate in the 1993 DPB pilot project have also reported engaging in performance measurement. In fact, JLARC's 1991 report, *Review of Virginia's Executive Budget Process*, reported that nearly half of the agencies surveyed were identified as using some performance measures in development of agency budget proposals.

Moreover, DPB's 1994 strategic planning and performance measurement report indicated that 63 agencies and institutions responding to a study survey reported they have formal performance measurement processes for some or all of the units within

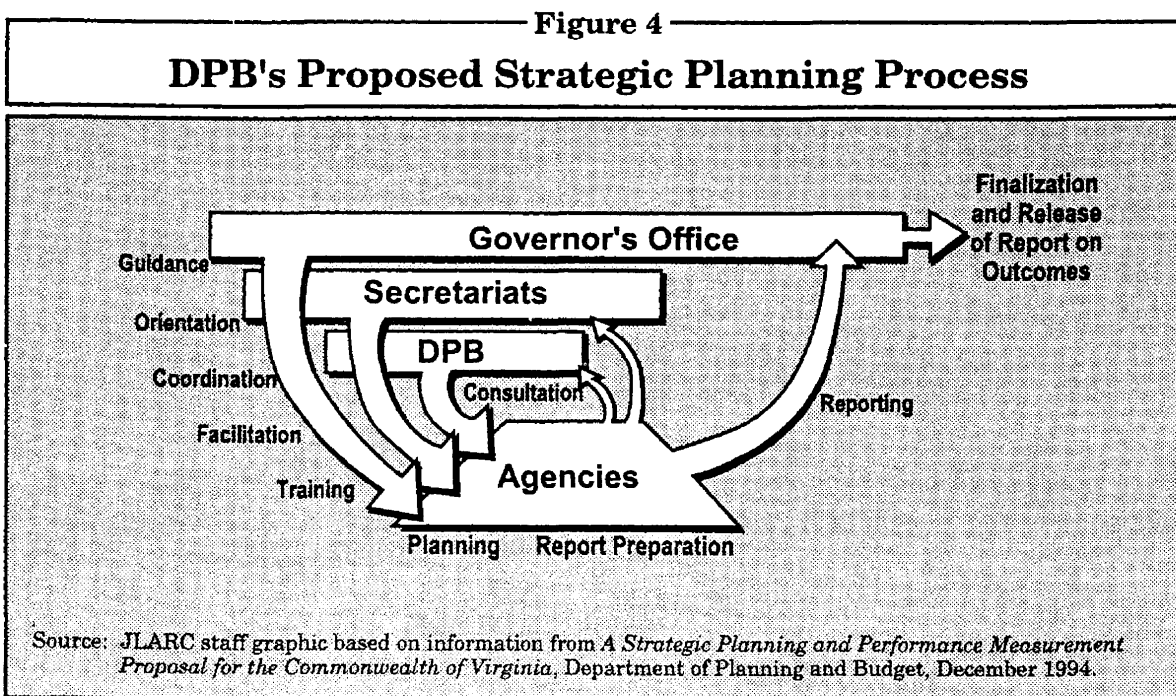
the agency. Of these 63 agencies, 62 reported that performance measures were used as an internal management tool. In addition, the majority of these agencies reported that performance measures were also used to justify budgetary requests.

Strategic Planning Is Being Conducted at the Agency Level

The issue of strategic planning has been addressed by a number of organizations in State government. For example, DPB has recently addressed the issue of strategic planning in Virginia. In 1994, the General Assembly directed DPB to continue to develop a performance measurement system for selected new program initiatives and to develop a plan for both strategic planning in all areas of State government and performance measurement on a statewide basis.

The study resulted in a proposed strategic planning and performance measurement process for Virginia. Within this process, DPB would serve as a "central facilitator and general coordinator of the process." In any case, strategic planning has been noted as an important tool in establishing agency, secretariat, or statewide visions and goals.

DPB's Strategic Planning Project. Item 332 of the 1994 Appropriation Act directed DPB to develop plans for both statewide strategic planning and performance measurement. In this study, DPB recommended that the executive branch conduct performance measurement and strategic planning as an integrated process. The proposed process developed by DPB, which incorporates the Governor, the Governor's Secretaries, and State agencies, is depicted in Figure 4.



DPB also proposed that a statewide strategic planning process be built upon existing efforts. As a part of DPB's study, 102 agencies and institutions responded to a survey regarding strategic planning. The result of this survey indicates that 65 agencies and institutions reported conducting some form of planning. Moreover, at least two secretariats reported being involved in comprehensive planning processes for the agencies under their purview. Clearly, a foundation currently exists across many agencies of the Commonwealth.

As a part of the planning process, DPB proposed that State agencies each develop six to eight performance measures. These measures were to be based on the purpose or priorities of the agencies, and data were to be collected on a regular basis. Moreover, DPB stated that the proposed plan could be implemented "with current resources and with minimal costs." In addition, efforts would be taken to implement the strategic planning process in 1995 with the Governor completing the first strategic planning report by July 1, 1996.

DPB's proposed strategic planning process appears to provide a reasonable framework for strategic planning in the State. Although planning is not consistent throughout State government, a number of agencies have strategic planning processes in place, and it appears that benchmarks could be incorporated into these processes.

Agency-Based Strategic Planning Is Ongoing. In 1994, the Governor and the Secretary of Commerce and Trade initiated *Opportunity Virginia: A Strategic Plan for Jobs and Prosperity*. The plan identified areas where Virginia appeared best situated to develop a competitive advantage. *Opportunity Virginia* contains a vision statement, five overall goals, and the strategies the developers believe are needed to accomplish those goals. In fact, one recommendation in the report stated:

In conjunction with the state strategic planning process being developed by the Department of Planning and Budget, [Cabinet Secretaries] should define and recommend performance measures to track economic development investments.

Additional efforts are also being undertaken in other areas. For example, the Governor and Secretary of Transportation initiated *Virginia Connections* in May 1994 in order to develop a vision for the future direction of transportation in the Commonwealth. Strategic planning has reportedly been incorporated into the operations of the Virginia Department of Agriculture and Consumer Services, the State Supreme Court, and at many higher education institutions.

When establishing a benchmarking process, setting a vision, mission, goals, objectives, and strategies have been identified as functions important to the success of the process. It is likely that many of the agencies' strategic planning processes contain a number of these important elements. In addition, it is likely that a number of the strategic planning processes identified in the Commonwealth are capable of serving as a foundation for benchmarking in Virginia.

Both performance measures and strategic planning provide a foundation for the implementation of benchmarks in Virginia. However, this does not necessarily guarantee success. Nevertheless, it would appear that if properly utilized by agency managers, benchmarks could assist agencies in reaching program goals and delivering services more effectively and efficiently.

BENCHMARKS/PERFORMANCE MEASURES HAVE A ROLE IN VIRGINIA

As noted in the previous section, the efforts of a number of State agencies to develop strategic plans and performance measures suggest that a framework exists for benchmarking in Virginia. However, many factors do not support the process on a statewide basis. Although the State may lack the resources to implement a process statewide, the processes that are already established within agencies suggest that benchmarking may be more appropriately conducted at the agency level. Moreover, an agency-based process may increase the utilization and ownership of the process by key agency staff, thereby enhancing the benefits that have been identified with the process.

Use of Agency Benchmarks Could Provide Significant Benefits

The implementation of benchmarks could be a useful management resource for agency staff and policy makers. Because benchmarking focuses on improvement through an emphasis on outcomes, information related to program outcomes could be provided to policy makers on a more consistent and timely basis. As a result, accountability of government programs may be increased. In addition, program managers may be able to utilize benchmarks to ensure programs meet desired objectives in a more efficient and cost effective manner. Finally, benchmarks that are applicable to more than one agency or program could improve inter-agency cooperation resulting in more effective programs and efficient use of resources.

Benchmarks Could Provide Policy Makers Timely Data on Program Outcomes. The use of benchmarks or performance measures can provide elected officials information on the performance of major public programs. More importantly, benchmarks can also provide information on the quality of service delivery and on program outcomes. Finally, policy makers could also use the benchmarks as a broad framework for directing resources or changing the agency's activities in order to meet targets or goals.

For example, in fiscal year 1994, the Department of Taxation was appropriated \$3.5 million by the General Assembly to implement the enhanced collection system (ECS). This system is intended to "maximize [the Department's] ability to collect delinquent taxes at the lowest possible cost." The use of benchmarks or performance measures for this particular program would provide members of the General Assembly timely information on the ability of ECS to collect delinquent taxes in a timely and cost

effective manner and allow policy makers to decrease, increase, or maintain the current level of financial and staff resources.

Benchmarks or performance measures can also increase the accountability of both programs and agencies. First, the general public is better informed about the targets for specific programs and agencies and is aware of the status of the program or agency in meeting the target. Second, policy makers, agency managers, and staff have a clearer focus on what is to be accomplished and can direct efforts and resources accordingly. For example, according to the 1994 DPB survey, almost all of the agencies that reported using performance measures used them as a management tool for administering agency and program resources.

Despite the positive impact of increased accountability, it is important to ensure that agency managers do not perceive the process as simply a basis for reducing resources as a penalty for not meeting targeted benchmarks. For example, provisions should be made to ensure that agency staff and managers have the ability to report in a qualitative fashion why certain targets or benchmarks have not been met. It is possible that many factors beyond the control of agency or program managers will impact the extent to which a target or benchmark is attained.

Benchmarks Could Improve Inter-Agency Cooperation. Another readily apparent benefit of benchmarks is their potential to require agencies and programs that overlap to work together to meet the established goals. For example, the State could establish a goal of having 90 percent of all children receive the recommended immunizations by the age of two. The State and local health departments have a significant role in providing routine immunizations to children in Virginia and would likely be impacted by such a goal. Nonetheless, other State agencies would likely have an impact on the ability of the State Health Department to meet this goal.

For example, the Department of Medical Assistance Services (DMAS) reimburses physicians for well-baby exams and routine immunizations administered to children enrolled in the Medicaid program. A large number of children in Virginia are enrolled in Medicaid. As a result, these children may receive their well-baby screening exams and scheduled immunizations from private physicians who are then reimbursed by DMAS.

Despite the availability of reimbursement from Medicaid, some physicians may still refer children to the local health department for their routine immunizations. Some children, however, may not be taken to the local health department in a timely manner, leaving them improperly protected against what are otherwise easily preventable diseases. DMAS' efforts at removing any barriers that prevent the routine immunization of Medicaid children in the physician's office could subsequently improve the overall immunization rate of children.

Therefore, some level of coordination and cooperation between DMAS and the State Health Department would appear necessary for achievement of this hypothetical goal. Finally, performance measures linked to the goal of having a 90 percent childhood

immunization rate could provide policy makers with an updated status on programs focused on improving State's childhood immunization rate.

Increased cooperation may extend further than simply across State and local agencies. For example, federal government officials noted that the Cooperative Extension Service of the U.S. Department of Agriculture could also have an impact on the immunization rate of children. Officials noted that emphasis could be placed on the importance of childhood immunizations in the parenting classes provided through the Cooperative Extension Service. Finally, the private sector could become involved through promotions designed to encourage timely immunizations of children.

Process Should Build on Existing Efforts at the Agency Level

Agencies that have strategic planning and performance measurement processes in place appear to be logical areas to initiate implementation of any benchmarking efforts. Clearly, a foundation exists in many agencies to implement this process. As a result, the State may be able to begin a meaningful benchmark process on a less resource intensive scale than those processes found in other states.

The need for such a process has been previously noted. DPB staff stated that based on the performance measure pilot project, a determination needed to be made regarding how the individual measures developed for specific programs or agencies should be linked to the functional areas of State government. In other words, the performance measures need to have a guiding framework. To this end, benchmarks or performance measures could be established by and for each State agency in Virginia.

These benchmarks or performance measures could be established through the strategic planning process currently in place in many agencies. The implementation of the planning process is critical. As one performance measure advocate noted:

Developing performance measures — the heart of benchmarking — begins with a clear statement of the program's mission. Benchmarks flow out of objectives and mission statements, once the latter have been accepted by all parties. [Richard J. Fischer, "An Overview of Performance Measurement," *Public Management*, September 1994, p. 56]

Cabinet Secretaries and the Governor would have input into the process and approve the measures proposed by agencies. Through this process, each Governor could, in the first year of his or her administration, develop new measures or benchmarks or revise existing ones.

This is somewhat similar to the process that DPB recommended be established by 1995. In its 1994 report on strategic planning and performance measures, DPB also recommended that:

During the strategic planning process, performance measures will be developed by agencies. Each agency will develop six to eight perfor-

mance measures which should be specifically linked to programs and efforts of the agency.

Some potential benchmarks may currently exist, although on an informal basis at this time. For example, as noted in the budget document released in December 1994, the Governor's "goal is to create 125,000 new jobs for Virginians by 1998 by directly involving his office along with the Department of Economic Development." This could be one benchmark for the Department of Economic Development and any other agencies or programs that might have a role in achieving the goal.

The benchmarks and progress towards those benchmarks could also be reported in the executive budget document released each year. While DPB recommended that six to eight performance measures be developed for each agency, the appropriate number to include in the executive budget document may vary. In addition to the benchmark's goal or target (for example, creating 125,000 new jobs by 1998), some historical or time series data should be provided for each benchmark as well.

Legislative involvement in the process should continue. It could occur through a number of mechanisms. Involvement in the development and review of performance measures by the legislature is important because it:

- encourages use of performance measures in budgetary decisionmaking,
- helps to focus the directions of programs and public policy, and
- ensures that program activities that are being conducted are fulfilling legislative intent.

Legislative review of the benchmarks could occur during the presentation and analysis of agency budget requests. Moreover, the General Assembly could require DPB to submit proposed benchmarks with the agency budget requests, amendment briefs, or amendment requests that are currently provided to both the House Appropriations and Senate Finance Committees. These reports are currently required by language in Part Four of the Appropriation Act.

This proposed process would provide a clear status report to the citizens of Virginia about their government's accomplishments and what areas or functions are being emphasized. Moreover, it would enable State agencies and staff to direct their efforts in a concerted manner towards ensuring the targets or benchmarks are achieved. Finally, it would better enable the General Assembly to receive and review information related to program performance through the entire period of a program's operation.

In early June 1995, the Governor signed executive memorandum 3-95 which established "an initiative for goal setting and performance budgeting..." and utilizes strategic planning and performance measures (Appendix D). In the proposed process, the Governor provides the framework with guidance on policy and budget issues. Agencies will conduct strategic planning to develop goals, objectives, strategies, and

three to five performance measures for each agency. This is somewhat similar to the process proposed in the DPB's 1994 report on strategic planning and performance measurement.

Recommendation (1). The Department of Planning and Budget should implement a planning and performance measurement system similar to the process the Department recommended in its 1994 report *A Strategic Planning and Performance Measurement Proposal for the Commonwealth of Virginia*. In addition, the Department of Planning and Budget should report to the General Assembly on the status of this effort prior to the 1996 Session.

Recommendation (2). The General Assembly may wish to direct the Department of Planning and Budget to include a limited number of performance measures or benchmarks for each agency in the executive budget document. In addition, the General Assembly may wish to amend Section 4-8.02 of the Appropriation Act to require that the Department of Planning and Budget submit proposed agency benchmarks or performance measures with other agency budget-related submissions.

BEST PRACTICE BENCHMARKING COULD ALSO BE UTILIZED

In addition to performance measures, the use of best practice benchmarking could also be utilized by State agencies and programs. As discussed earlier, best practice benchmarking is another tool available to agency managers for emulating the best practices of outstanding public and private sector organizations or processes with a focus on raising the performance and subsequently the efficiency and effectiveness of government operations.

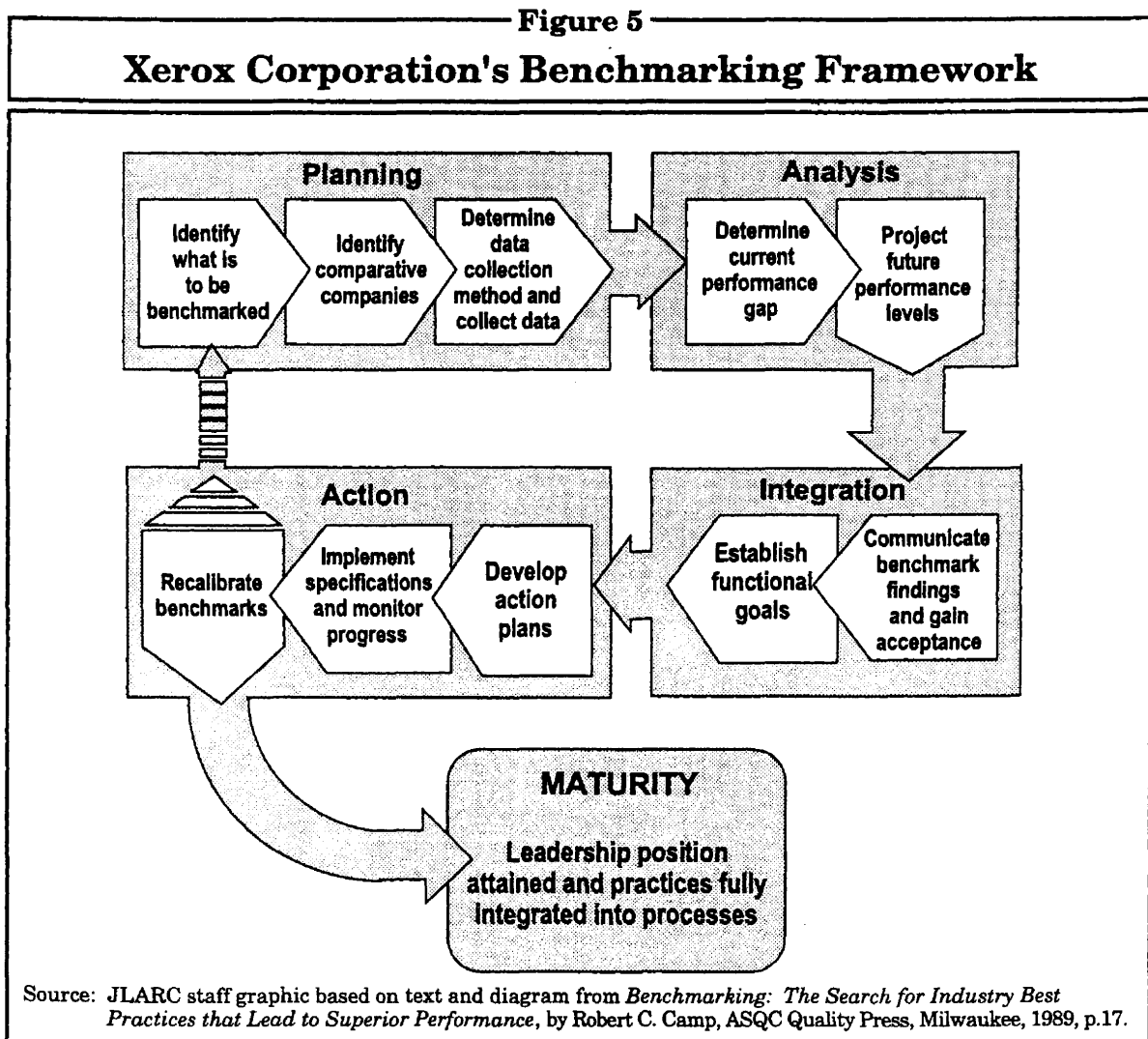
As noted in Chapter I, best practice benchmarking has gained significant support from many private sector businesses. Best practice benchmarking is typically conducted within a broad framework that allows for some organization-specific adaptation. For example, organizations do not always have to go beyond their organizations to find best practices to emulate. Large organizations may find best practices that can be benchmarked within different divisions or facilities of their organizations.

State agencies should, to the extent possible, utilize best practice benchmarking to increase the efficiency and effectiveness of the governmental programs and operations they administer. This type of effort could be especially beneficial to agency and program managers as State government embarks on a streamlining process that many large, reportedly well-managed companies have also completed. In addition, there are a number of agencies and programs that might be more easily benchmarked, enabling a core group of staff to gain the knowledge and familiarity necessary to enable best practice benchmarking to be successful on a statewide basis.

Best Practice Benchmarking Should Be Conducted in a Framework

As previously indicated, the Xerox Corporation has been identified as both a leader and advocate of best practice benchmarking. As a result, staff developed a formalized structure to guide their benchmarking efforts. As indicated in Figure 5, their process is more than simply reviewing best practices and emulating the processes of others.

Xerox's process incorporates identifying what is to be benchmarked, identifying the processes or programs that are industry leading, determining how the agency conducting the benchmarking process will gather information, determining what goals will be established based on the benchmarking efforts, and determining how progress will be monitored. These basic principles have been incorporated into the benchmarking process of many organizations.



In fact, organizations that limit themselves to simply reviewing the programs or processes of other organizations will likely receive little benefit from their efforts. And, as the Arthur Anderson management consulting firm notes, best practice benchmarking is not intended to simply be “stealing ideas, copying, cost cutting, or a quick fix.” Therefore, using an agreed upon framework to guide the process is important in the extent to which the process will be successful.

This concept is further reinforced by a best practice benchmarking advocate who is also an examiner for the Malcolm Baldrige national quality award. This individual noted that:

For benchmarking to succeed in a multi-agency organization like that found in a state government, there must be one dedicated benchmark framework that can be replicated across a number of different agencies. Once the process is finalized, “it is critical that everyone follow it.”

However, when taking into account the needs and resources of the various benchmarking agencies, the framework guiding the benchmarking process may differ across companies and organizations.

Components of Best Practice Benchmarking

Although ten individual steps were identified in Xerox’s benchmarking process, the characteristics of best practice benchmarking processes can vary by organization. For instance, benchmarking processes reviewed for this study have had as few as four broad steps and as many as 12 steps. For example, staff in the City of Scottsdale, Arizona, determined that they could have a successful best practice benchmarking process with nine steps. They proposed streamlining and combining some of the preliminary — or what they considered to be “up-front” — tasks. In contrast, Arthur Anderson’s process is composed of six broad steps. Regardless of the process used, what appears to remain consistent are the phases in which these steps can be grouped: planning, implementation, analysis, action, and maturity.

Planning Phase. First, organizations that have established benchmarking all begin with a planning phase. This phase addresses issues such as:

- What will be benchmarked?
- What companies will be benchmarked?
- What data will be gathered?

This phase also guides the organization in establishing what it needs to accomplish in the benchmarking process. Without this determination, time and money devoted to the process may be wasted. As one staff responsible for benchmarking in a private business noted:

A goal or mission for the benchmarking process is essential "or your efforts may be futile." Without a goal or mission, benchmarking efforts may turn into field trips "with no real purpose." As a result, there will likely be little or no impact on performance or quality of product.

Moreover, planning enables the organization conducting the benchmarking to identify which companies or organizations with the best practices should be benchmarked.

Proper planning is important when considered in light of the potential costs associated with benchmarking. The International Benchmark Clearinghouse noted that some organizations' benchmarking studies have costs "between \$40,000 and \$50,000." While an organization can likely lessen the cost for a particular study, a well planned benchmarking study is nonetheless important.

Implementation and Analysis Phase. Next, during the implementation and analysis stages, data are collected and gaps in performance are calculated. Data collection is an important process in this phase. When the organization conducting the benchmarking assesses data collection procedures, a number of issues should be addressed.

For example, the organization should identify which data collection techniques, such as site visits, surveys, or interviews, will be used. Also, the organization should identify the benchmarking resources that are available within the organization. These resources could include available training, available staff time, or available specific expertise within the agency.

Action Phase. Finally, in the action phase, goals, plans, and measures are established. At this point, findings are communicated and the organization establishes a course of action to close the gap between its process and that of the industry or best practice leader. Furthermore, the organization determines which measures should be used in gauging the organization against the recognized best practices.

Normally, accountability is assigned to a group or individual to ensure efforts are made at reducing the identified performance gap. As noted by one practitioner:

People who actually perform the work tasks are most capable of determining how the findings [best practices] can be incorporated into the work process. Their creative talents should be used to perform this essential step. [Robert C. Camp, *Benchmarking: The Search for Industry Best Practices That Lead to Superior Performance*, ASQC Quality Press, Milwaukee, 1989, p. 19.]

Further, ongoing efforts should be made to track the organization's progress in reducing the gap. Since the practices the organization originally benchmarked may change, the benchmarks should be updated or "recalibrated," which will return the study back to the planning phase.

Maturity Phase. Finally, the maturity phase designates the organization's successful incorporation of the best practices being benchmarked. In essence, the organization which conducted the benchmarking may now have the superior process. In other words, the organization should now be identified as having the best practice, and other organizations may want to benchmark this practice. In addition, during this phase benchmarking should have become an ongoing and essential component of the management process.

Various Best Practice Benchmarking Procedures Are Available

Although planning, implementation, analysis, and action broadly form the framework of a best practice benchmarking process, a number of benchmarking techniques are available to organizations. As discussed in Chapter I, organizations that plan to implement benchmarking have at least four types of benchmarking techniques available. These benchmarking techniques are internal, competitive, functional, and generic.

The utility of having various options available is further highlighted when reflecting on the potential cost of a full-scale benchmarking effort mentioned in the previous section. Therefore, a less extensive procedure like internal benchmarking may be appropriate for an organization without the resources to devote initially to functional benchmarking.

Yet, benchmarking internal to the State may yield significant opportunities for improvement at minimal costs. Further, it can provide an opportunity for staff to keep up-to-date with activities in other agencies or facilities. For example:

Staff from a manufacturer that had implemented best practice benchmarking noted that this company had manufacturing facilities in other states as well as countries overseas. Staff involved in the benchmarking effort stated that they will first conduct internal benchmarking against processes in their other manufacturing facilities before engaging in competitive, functional, or generic benchmarking against other companies' processes. Staff also noted that in addition to identifying better procedures or processes to emulate, they also keep abreast with activities in their own company's manufacturing facilities.

* * *

In addition, the International Benchmarking Clearinghouse has indicated that "an organization could achieve some improvement (i.e., [a] 10 to 15% increase in quality [or] productivity) by simply doing an internal process evaluation."

Further, as one practitioner noted, internal benchmarking also enables an organization to try its benchmarking system internally and find out what works and does not work before conducting benchmarking outside of the organization.

Best Practice Benchmarking Can Be Used Across a Variety of Processes and Organizations

Businesses and organizations have benchmarked a wide variety of processes and products. However, many individuals have stated that they believe best practice benchmarking was intended for use by organizations that produce a product, such as an automobile or computer manufacturer. But as one practitioner stated: "there is not a product or process in the public or private sector that cannot be benchmarked." He noted that he is currently assisting the City of Memphis health department with a best practice benchmarking project. For example:

Tennessee has implemented a health insurance program that is apparently designed to cover all uninsured individuals and include Medicaid recipients as well. As a result of this new program, public health facilities are being forced to compete with private health care facilities for patients. He noted that the public health facilities can compete for patients on the basis of price and service quality, but the waiting times at public facilities seem to be longer.

As a result, Memphis' public health facilities are losing patients and revenue to private facilities with lower waiting times and quicker turnarounds. To help the health department reduce this competitive gap, he is benchmarking the Memphis health department against a number of private hospitals and large private clinics or practices to identify steps that the health department can take to reduce or eliminate this disadvantage.

He further noted that benchmarking "customer satisfaction" is a big issue at the present time in both the public and private sectors. Organizations that address this issue have the potential to make big gains through benchmarking.

The potential impact of benchmarking on customer satisfaction has also been recognized by a number of federal government agencies. Particularly, agencies that conduct a large amount of business over the telephone with citizens have benchmarked private sector corporations that have notable customer service orientations. For example:

In early 1995, employees from ten federal agencies including the Internal Revenue Service, the Social Security Administration, and the Census Bureau joined together to determine how their agencies could identify customer service practices that could be "applied to government to raise the level of service equal to the best in the business." To do this they benchmarked Malcolm Baldrige national quality award winners AT&T Universal Card Services and Xerox and "companies with the best telephone service in the country," including the GE Answer Center, Saturn Corporation, Duke Power Company, and American Express Travel Related Services.

Site visits were conducted at these companies during the data gathering phase. Analysis of the results have identified best practices that these agencies need to incorporate into their operations in areas such as leadership, information management, planning, human resources, management of processes, and customer focus and satisfaction.

Staff from these agencies also reported that other agencies, such as the U.S. Mint, have engaged in customer service benchmarking. The U.S. Mint sells many of the coins it produces to collectors. To improve customer service in this area, the mint benchmarked against private companies such as Lenox China, which also has a focus on producing products for collectors.

Benchmarking has also been employed by the Internal Revenue Service (IRS) to improve the recruitment of individuals for professional positions. This was implemented due to initiatives "in the IRS organization which will gradually restructure the work of many professional positions."

For this project, the IRS benchmarked two federal agencies and two private businesses. Results of the benchmarking effort indicated that a centralized recruitment and hiring process was needed for professional positions. In addition, the best practice organizations had a consistent, planned recruitment cycle, did not recommend using interview panels, and had marketing efforts aimed at highlighting the positive image of their organization or company which tend to attract the interest of highly qualified applicants. Further, the IRS benchmarking team determined that the private companies they benchmarked conducted formal interviewer training every year for individuals involved in the interview/hiring process. The team concluded that the recommendations were consistent with the vision of the IRS, would result in no additional direct costs, and should result in higher quality candidates seeking employment with the IRS.

Best Practice Benchmarking Should Be Implemented by State Agencies

There appears to be significant consensus that best practice benchmarking, if conducted strategically and methodically, holds significant potential for all types of organizations and processes. As staff from the City of Scottsdale noted, "the City can learn from the private sector, especially in processes associated with customer service and reducing cycle time." In addition, many practitioners agree that organizations should be willing to go to different types of organizations or industries to benchmark best practices as many private companies have done. For example:

In order to improve its logistics, warehousing, and material-handling functions, Xerox reportedly benchmarked these same functions at the mail order firm of L.L. Bean. First Chicago Bank reportedly

benchmarked major airlines to identify potential methods for reducing the time customers spent waiting in line.

* * *

Staff in a manufacturing facility noted that the company has completed a best practice benchmarking process of their machine operator training program. Staff noted that "our [machine] operator plays an important role in the success of our business." During the planning phase of the process, industries they identified as potential benchmarking partners included the pharmaceutical industry and nuclear power plants because the training operators in these facilities receive must be excellent. Otherwise, equipment operator mistakes could obviously be disastrous.

In the end, the facility conducted benchmarking of their training function across a number of partners. First, they benchmarked internally against company facilities in other states and overseas. They also benchmarked training in a local fire department, which highlighted how to operate effectively as a team when staff are unexpectedly absent, and benchmarked equipment operator training in an aircraft tire manufacturer and a newspaper company.

Clearly, there are many processes that State agencies can benchmark against private companies and businesses in order to learn new approaches that could improve performance.

There are programs where the application of best practice benchmarking may be more straightforward and produce clear results. These include programs like claims processing at the Department of General Services' Division of Risk Management (DRM), customer service functions or processing at agencies like the Department of Taxation and Department of Motor Vehicles, and potentially the warehousing and customer service function at the Department of General Services' central warehouse. Moreover, since many private companies and even some federal government agencies have conducted benchmarking studies in some of these areas, a replicable framework may have been developed that could be used by the State. This could reduce some of the resources required during the initial phase of the study.

DPB also noted the potential for benchmarking the DRM's claim processing function during its review of the State's performance measure pilot project. The report noted that "DRM states it will maintain as low a cost per claim as possible. If industry standards or benchmarks are available for the program, they should be used...." Further, given the importance of customer service, which will likely be tested in this period of State government downsizing, the customer service practices of major corporations that have themselves been subject to downsizing could identify practices that State agencies could implement.

Other potential participants in an early best practice benchmarking study could be those agencies that have implemented activity-based accounting. The State Internal Auditor is currently involved in a pilot project in activity-based cost accounting. Participating agencies include the Department of Veteran's Affairs, Department of Correctional Education, Virginia Employment Commission, the Woodrow Wilson Rehabilitation Center, and the Department of Medical Assistance Services (DMAS).

Activity-based cost accounting is an accounting technique which provides the "fully-loaded" cost of conducting an activity or delivering a service. In this process, all of the activities that an agency performs are identified, a cost factor is applied, and the total cost is calculated for all services. If the process is done correctly, agencies should be able to match their performance against the performance of similar processes in other agencies. In other words, DMAS should be able to evaluate the cost of processing a voucher against the same function at the Virginia Employment Commission.

Results of any benchmarking efforts could be reported in the budget document prepared annually for the general public. Further, DPB could be the facilitator of the project and ensure that one benchmarking framework is developed and used by all assigned agencies. However, the assigned agencies should be responsible for developing the process to encourage the use of the process and subsequent results by agency management. Moreover, DPB could ensure that the process becomes standardized and that a core group of agency personnel gain the expertise necessary to assist each other and staff from other agencies.

Recommendation (3). The General Assembly may wish to direct the Department of Planning and Budget to implement and coordinate best practice benchmarking for State agencies and programs. Among the agencies and programs that the Department may wish to consider including in initial studies are the workers compensation claim processing function at the Department of General Services' Division of Risk Management, customer service functions at the Department of Taxation and Department of Motor Vehicles, and the warehousing function at the Department of General Services' central warehouse. The Department of Planning and Budget should also include agencies utilizing activity-based accounting in initial best practice benchmarking studies.

ADDITIONAL ACTIONS TO ENCOURAGE UTILIZATION OF PERFORMANCE MEASURES AND BEST PRACTICE BENCHMARKS

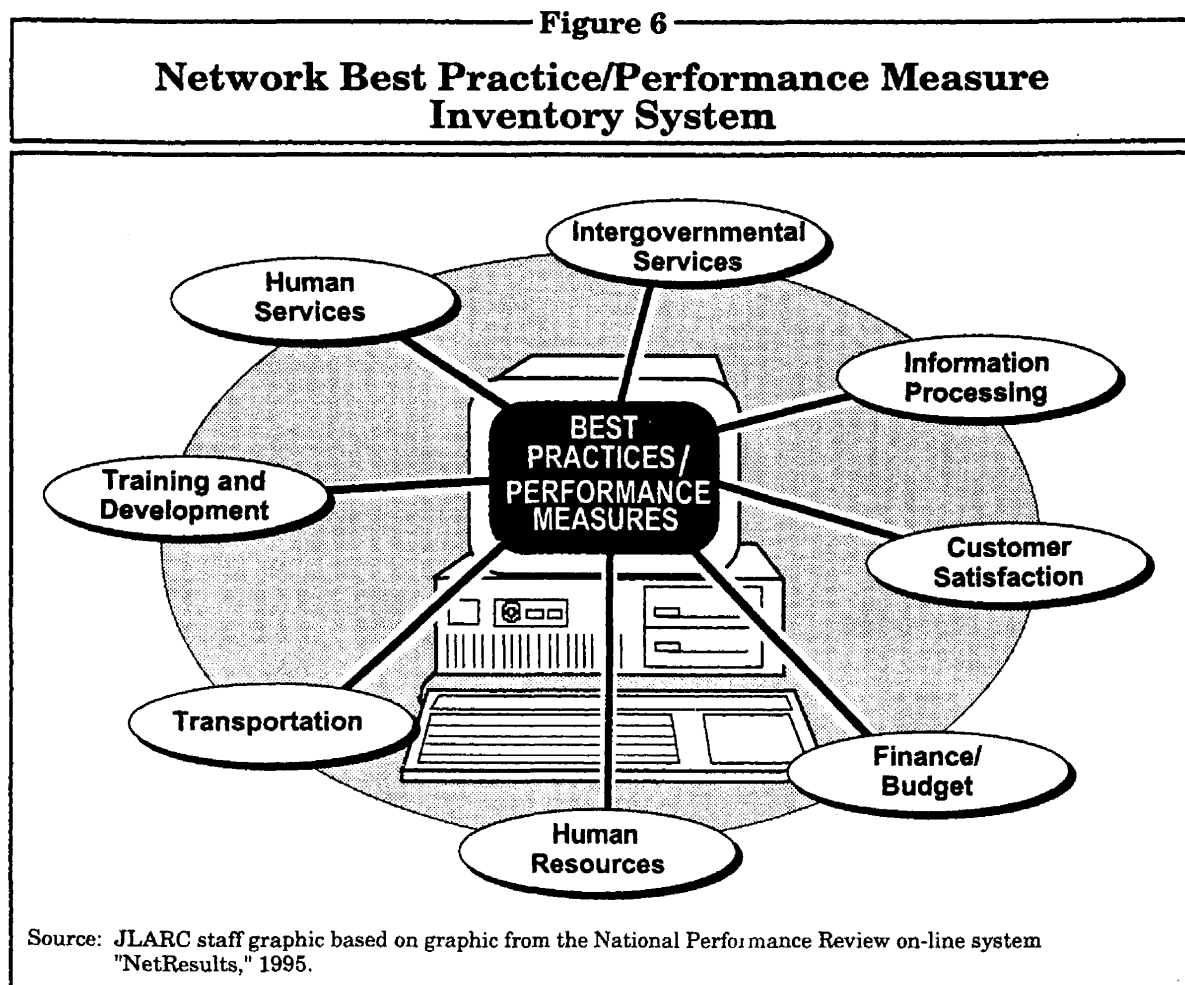
Despite the benefits of best practice benchmarking and performance measures, the utility of these processes may never be realized unless agencies consistently implement and administer them. To encourage and support this goal, a number of crosscutting actions are available. These include developing an on-line State administered network or clearinghouse for sharing information related to best practice benchmarking and performance measurement, providing formal training or similar

resources to agencies involved in best practice benchmarking, and creating an inter-agency advisory group to provide support and assistance to agency staff.

Develop an On-Line Network Clearinghouse for Performance Measures and Benchmarks

In conducting best practice benchmarking, identifying where to look for best practices or organizations that may be helpful could consume significant resources, especially for an agency conducting the process for the first time. The same could be true for an agency attempting to establish performance measures. A possible tool to assist in minimizing resources expended at this stage is an on-line clearinghouse for both performance measures and best practice benchmarks (Figure 6).

A potential location for this type of network could be on a network like the Commonwealth NetServer (CNS). The purpose of the CNS is in part to make "State information available electronically through the Internet, not only to the employees of the various [S]tate agencies and localities, but also to private industry and the citizenry



at large.” This type of network would enable individuals and organizations to more easily communicate and share information related to benchmarks and performance measures.

Individual best practice or performance measures related to specific functions or service areas like customer satisfaction, information systems, or training could be maintained on the network. Moreover, placing this system on a platform like CNS could enable companies and organizations throughout Virginia to provide best practice techniques that could be used by State agencies and programs.

DPB staff have also recognized the need for a central repository or some type of inventory of performance measures. They noted that some agencies have developed performance measures for specific programs and that an effort should be made to share this information. Other best practice benchmarking practitioners have noted:

effectively sharing best practices [is] a herculean challenge [and] much more difficult than researching and collecting the benchmark information. Once a company finds best practice information, it must still successfully share and deploy that knowledge. [Christopher E. Bogan and Michael J. English, *Benchmarking for Best Practices*, McGraw-Hill, Inc., New York, 1994, p. 241.]

An on-line network like the one proposed in this section could reduce the time staff have to spend researching best practices and performance measures and facilitate the sharing of information in a more effective and efficient manner.

Other organizations have recognized the benefits that can be obtained from such a system. For example, the AT&T Corporation has developed the “AT&T Information Services Network” which can be accessed through the Internet. On this network is a library that contains information and articles related to quality awareness. This library is designed to:

provide a centralized source of current information on quality issues in areas such as the Baldrige Award, human resource management and training, service, manufacturing and tools and techniques.

The federal government is also in the process of establishing an on-line network available through the worldwide web function of the Internet as a method to “enhance government’s capacity to: understand customer needs, benchmark processes, communicate results, and improve performance.”

Recommendation (4). The General Assembly may wish to direct the Department of Planning and Budget, the Department of Information Technology, and the Council on Information Management to develop an on-line network dedicated to best practice benchmarking, performance measures, and other notable management or leadership issues.

Additional Ongoing Assistance Could Be Provided to Participating Agencies

During interviews with selected agency staff who participated in the performance measure pilot project, one concern was that there was a lack of ongoing assistance during the project. Those who cited the need for more assistance stated that consultative, ongoing type assistance would have been ideal.

If performance measures and best practice benchmarking are to become institutionalized and readily accepted processes, then effort during the initial projects to provide adequate and continual assistance is necessary. This is especially critical since most agency staff have probably had very little experience in developing and implementing these processes.

For example, some participants in the DPB performance measure pilot project noted that the initial training provided was good, but that additional technical assistance from someone whose priority was performance measurement during the study's implementation phase would have been helpful. If initial efforts at processes like performance measurement and best practice benchmarking are not successful and do not provide agency managers with usable options for improvement, then the processes could simply lose support or even be disregarded.

Consideration should also be given to having select staff from participating agencies, DPB, and legislative staff attend some of the training programs that would be offered. Further, having a qualified practitioner lead an agency or staff through the first benchmarking effort may also be worthwhile. As a staff member responsible for benchmarking in a large corporation noted, help is often needed in "getting this practice out of the box." This company made use of a benchmarking consultant who came on-site and helped establish a best practice benchmarking methodology and process.

The Department of Personnel and Training (DPT), given its focus on coordinating and providing training to State employees, appears to be the appropriate agency to take the lead in developing the skills of a number of staff involved in best practice benchmarking. This could include contracting with the many organizations that offer training on best practice benchmarking techniques and including the subject in future management training courses for State agency managers.

Recommendation (5). For any new initiatives regarding performance measures and best practice benchmarking, the Department of Personnel and Training, with input from the Department of Planning and Budget, should develop a training program for staff directly involved in the projects. The goal of this process should be to develop staff who can provide ongoing and timely technical assistance to staff in agencies that participate in future applications of best practice benchmarking.

Establish an Inter-Agency Advisory Group or Council

As these processes are implemented on a more routine basis in Virginia, establishment of an inter-agency advisory group or council should also be considered. Through the assistance and training offered participants in initial efforts, a cadre of staff from select executive and legislative agencies would likely acquire the expertise to act in an advisory role for other agencies that are implementing these processes.

Having this inter-agency advisory group or council available should reduce the reliance on DPB to both monitor and advise on specific projects underway in various agencies. The inter-agency advisory group could review proposals for performance measures and benchmarking and offer suggestions for improvement or consideration. As noted earlier in this chapter, one best practice benchmarking practitioner recommended that there should be one specific benchmarking framework for a multi-agency organization like a state government. Having an inter-agency advisory group would better ensure a more consistent implementation of one specific framework across agencies and programs.

This advisory group would likely remain relatively intact over a long period, which would further enhance the sustainability of the benchmarking process. Moreover, consideration could also be given to including individuals from private organizations or businesses that have experience with benchmarking. This would facilitate sharing of ideas and better enable State government to adapt practices that have been proven in the private sector.

***Recommendation (6).* The Secretary of Finance should consider establishing an inter-agency advisory group that can assist and provide guidance for agencies involved in benchmarking. At a minimum, membership on this inter-agency advisory group should include staff from the Department of Planning and Budget, other State agency staff involved in benchmarking, and legislative staff. Consideration should also be given to including officials from private organizations or businesses that practice some form of benchmarking and from State universities that are conducting research in this area.**

CONCLUSION

This chapter has presented an overview of both past and current efforts regarding strategic planning and performance measures as well as a potential role for best practice benchmarking in State government operations. Virginia has made considerable progress in developing performance measures for use on a consistent basis. Moreover, many agencies have also reported that they utilize some form of strategic planning. Building on that structure, DPB has developed a proposed framework for implementing strategic planning and performance measures across all agencies.

If implemented, continued support from policy makers and agency staff will be important in order to sustain these processes, especially since benefits may not be quickly and readily apparent. The results of many previous management and budgeting techniques are, at best, mixed. Many, like zero-based budgeting, have had relatively brief and unproductive applications. Nonetheless, benefits from processes like benchmarks, performance measures, and best practice benchmarking could be significant if administered in a manner that minimizes both the cost and administrative burden on State agencies.

To minimize this burden on State agencies, the processes, as recommended by DPB, should be developed from the framework in place at many agencies. Moreover, best practice benchmarking should be implemented across State agencies. To establish a framework that will better ensure the processes' future sustainability, an inter-agency advisory group should be created and appropriate training provided. This advisory group, composed of both legislative and executive staff, should provide the continuity that these types of processes require in order to produce significant and lasting benefits.

Appendixes

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Appendix A
House Joint Resolution No. 107
1994 Session

Requesting the Joint Legislative Audit and Review Commission to study the concept of benchmarks for future government actions.

WHEREAS, benchmarking is defined as the practice of comparing an organization's performance in various areas with that of other organizations, thereby measuring results rather than efforts; and

WHEREAS, examining the structure and practice of other state governments would enable the Commonwealth of Virginia to benchmark its current practices against other relevant practices, obtaining in the final analysis the best methods of operation; and

WHEREAS, benchmarks may be used as a tool for establishing concrete objectives, setting program and budget priorities, and measuring performance; and

WHEREAS, benchmarking will help state agencies of the Commonwealth of Virginia to sharpen their focus, work more closely together, and make better use of existing resources; and

WHEREAS, setting benchmarks for Virginia will help the state share its vision with the people, so that its citizens can learn more about government processes; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Legislative Audit and Review Commission be requested to study the concept of Virginia benchmarks for future government actions.

The Joint Legislative Audit and Review Commission shall examine benchmark practices in the following areas: (i) urgent and core benchmarks to define long-term and short-term goals for the Commonwealth; (ii) benchmarks for people; (iii) benchmarks for quality of life; and (iv) benchmarks for the economy.

The Joint Legislative Audit and Review Commission shall complete the study and submit its findings to the Governor and the 1996 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

Appendix B

Selected Examples of Oregon Benchmarks for People, Quality of Life, and the Economy

As part of the study, JLARC staff collected information from the Oregon Progress Board related to identified benchmarks. This appendix contains excerpts directly from the Progress Board's *Report to the 1995 Legislature*. Identified in the following pages are selected benchmarks for people, benchmarks for quality of life, and benchmarks for the economy. Definitions of these benchmarks are as follows:

Page:

- B-2 - B-3 • Benchmarks for People: these benchmarks reflect high expectation of Oregonians to become exceptionally competent, self-reliant, skilled, and globally knowledgeable.
- B-4 - B-5 • Benchmarks for Quality of Life: these benchmarks measure how well Oregonians are retaining and bettering a quality of life characterized by Oregon's special natural environment, vital communities, accessible services, and responsive political and social institutions.
- B-6 - B-7 • Benchmarks for the Economy: these benchmarks measure Oregon's progress toward a more diversified economy and improvements in the business climate that fosters such an economy.

Current Transitions from Secondary Education	HISTORICAL							TARGETS		
	1980	1989	1990	1991	1992	1993	1994	1995	2000	2010
38. Percentage of high school students with significant involvement in professional-technical education and entrepreneurial programs	7%	9%	9%	8%	8%	9%		18%	35%	55%
39. Percentage of high school students enrolled in structured work experience programs						11%		18%	35%	55%
40. Percentage of students who attain a Certificate of Advanced Mastery (CAM)										
◆ Core 41. High school graduation rate		71%	72%	72%	74%	77%		83%	93%	95%
42. Percentage of disabled high school students moving directly from high school to:										
a. Post-secondary education										
b. Competitive employment										
c. Supported employment										
! Urgent 43. Percentage of Oregon high school graduates who enroll in college in the fall following graduation						63%		65%	70%	75%
a. Oregon two- and four-year institutions						49%				
b. Out of state two- and four-year institutions						14%				

Profile of 25-Year-Olds	HISTORICAL							TARGETS		
	1980	1989	1990	1991	1992	1993	1994	1995	2000	2010
44. Percentage of 25-year-olds with a high school or equivalent degree					89%		89%	90%	95%	99%
45. Percentage of 25-year-olds with an associate degree or journeyman card					10%		12%	15%	25%	40%
46. Percentage of 25-year-olds with a baccalaureate degree					25%		24%	30%	35%	40%

Source: Oregon Progress Board report, *Oregon Benchmarks: Standards for Measuring Statewide Progress and Institutional Performance*, December 1994.

Academic Achievement	HISTORICAL							TARGETS		
	1980	1989	1990	1991	1992	1993	1994	1995	2000	2010
20. Eighth Grade. Percentage of students who achieve established skill levels										
a. Reading and math (composite scores)						78%				99%
b. Writing (composite scores)						60%				99%
Urgent ♦ Core 21. Eleventh Grade. Percentage of students who achieve established skill levels										
a. Reading and math (composite scores)				66%	60%	60%				99%
1. African-Americans (non-Hispanic)				41%	38%	33%				99%
2. American Indians				50%	40%	47%				99%
3. Asians				60%	61%	61%				99%
4. Hispanics				48%	44%	39%				99%
5. Whites (non-Hispanic)				69%	63%	62%				99%
b. Writing (composite scores)					59%					99%
1. African-Americans (non-Hispanic)					47%					99%
2. American Indians					45%					99%
3. Asians					60%					99%
4. Hispanics					49%					99%
5. Whites (non-Hispanic)					63%					99%
22. Percentage of students who attain a Certificate of Initial Mastery (CIM)									98%	98%
23. Percentage of high school graduates proficient in at least one language other than English (overall and learned in school)										

Source: Oregon Progress Board report, *Oregon Benchmarks: Standards for Measuring Statewide Progress and Institutional Performance*, December 1994.

Housing	HISTORICAL							TARGETS		
	1980	1989	1990	1991	1992	1993	1994	1995	2000	2010
Urgent ♦ Core 143. Home Renters: Percentage of Oregon households below median income spending less than 30 percent of their household income on housing (including utilities)			41%		37%		45%	60%	68%	75%
a. African-Americans					45%					
b. American Indians					58%					
c. Asians					42%					
d. Hispanics (all races)					36%					
e. Whites (non-Hispanic)					37%					
Urgent ♦ Core 144. Home Owners: Percentage of Oregon households below median income spending less than 30 percent of their household income on housing (including utilities)			62%				68%	73%	84%	92%
a. African-Americans										
b. American Indians										
c. Asians										
d. Hispanics (all races)										
e. Whites (non-Hispanic)										
145. Number of Oregonians who were homeless at some time in the last year				52,000	65,000	62,000		50,000	45,000	35,000
146. Household energy use per dollar of personal income (BTU per dollar)		5,636	5,213	5,083	4,586			4,500	4,000	3,500

Access for Persons with Disabilities	HISTORICAL							TARGETS		
	1980	1989	1990	1991	1992	1993	1994	1995	2000	2010
147. Percentage of the following accessible to Oregonians with disabilities										
a. Public use buildings										
b. Public transportation										
c. Recreational facilities										
148. Percentage of streets in urban and suburban areas with adequate sidewalk access for persons with mobility disabilities										

Source: Oregon Progress Board report, *Oregon Benchmarks: Standards for Measuring Statewide Progress and Institutional Performance*, December 1994.

Air	HISTORICAL							TARGETS		
	1980	1989	1990	1991	1992	1993	1994	1995	2000	2010
1 Urgent ♦ Core 108. Percentage of Oregonians living where the air meets government ambient air quality standards	30%	90%	54%	51%	58%	100%		100%*	100%	100%
109. Carbon dioxide emissions as a percentage of 1990 emissions			100%	106%	108%			100%	100%	100%

Water	HISTORICAL							TARGETS		
	1980	1989	1990	1991	1992	1993	1994	1995	2000	2010
1 Urgent 110. Miles of assessed Oregon rivers and streams not meeting state and federal government in-stream water quality standards			1,100		1,100			723	75	0
111. Groundwater quantity:										
♦ Core 112. Groundwater quality:										
a. Percentage of area where groundwater is used that has been assessed over the past 10 years	6.2%		6.9%				18.6%		21%	25%
b. Percentage of area assessed that does not meet drinking water standards	0.1%		2.5%				4.2%		6%	8%
113. Percentage of Oregon key rivers and rivers with in-stream water rights meeting in-stream flow needs										
a. Less than 9 months out of the year							47%	35%	35%	25%
b. 9 to 11 months out of the year							24%	30%	30%	30%
c. 12 months out of the year							30%	35%	35%	45%

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Source: Oregon Progress Board report, *Oregon Benchmarks: Standards for Measuring Statewide Progress and Institutional Performance*, December 1994.

Streamlined Permitting	HISTORICAL							TARGETS		
	1980	1989	1990	1991	1992	1993	1994	1995	2000	2010
237. Percentage of permits issued within the target time period or less:										
a. Air contaminant discharge		66%		57%	57%	68%		100%	100%	100%
b. Wastewater discharge		50%		77%		58%		100%	100%	100%
c. Building										

Access to Markets and Information

Air Transportation	HISTORICAL							TARGETS		
	1980	1989	1990	1991	1992	1993	1994	1995	2000	2010
238. Number of U.S., Canadian, and Mexican metropolitan areas over 1 million population served by non-stop flights to and from any Oregon commercial airport			18		18	19		20	23	26
239. Number of international cities of over 1 million population (outside Canada and Mexico) served by direct or non-stop flights to and from any Oregon commercial airport	1		4		5	5		6	8	11

Ground Transportation	HISTORICAL							TARGETS		
	1980	1989	1990	1991	1992	1993	1994	1995	2000	2010
240. Backlog of city, county, and state roads and bridges in need of repair and preservation		20% (1986)			23%			15%	10%	5%

Source: Oregon Progress Board report, *Oregon Benchmarks: Standards for Measuring Statewide Progress and Institutional Performance*, December 1994.

Balanced Distribution of Jobs and Income	HISTORICAL							TARGETS		
	1980	1989	1990	1991	1992	1993	1994	1995	2000	2010
I Urgent 191. Percentage of Oregonians with incomes above 100% of the Federal poverty level	89%		88%		87%		88%	90%	95%	100%
a. African-Americans	72%		70%		72%					100%
b. American Indians	78%		74%		76%					100%
c. Asians	78%		80%		81%					100%
d. Hispanics (all races)	79%		71%		70%					100%
e. Whites (non-Hispanic)	90%		n/a		n/a					
192. Percentage of Oregonians with incomes above 125% of the Federal poverty level	85%	83%	82%	83%	82%	84%		85%	90%	95%
193. Percentage of Oregonians in the middle income range	43%	42%	42%	42%	42%			47%	50%	55%
194. Percentage of Oregon workers employed in a job that pays wages of 150% or more of poverty (for a family of 4)				28%	25%	27%		30%	37%	43%
◆ Core 195. Percentage of Oregonians employed outside the Portland tri-county area	52%	51%	51%	50%	51%	51%		50%*	51%	52%
I Urgent 196. Percentage of Oregonians employed outside the Willamette Valley and the Portland tri-county area	26%	26%	26%	26%	26%	26%		26%*	26%	26%
197. Unemployment rate (civilian labor force, annual average)	8.3%	5.7%	6.2%	6.0%	7.5%	7.2%		5%	5%	5%
a. African-Americans			12.8%						5%	5%
b. American Indians			14.9%						5%	5%
c. Asians			6.1%						5%	5%
d. Hispanics (all races)			9.7%						5%	5%
e. Whites (non-Hispanic)			5.8%						5%	5%

Source: Oregon Progress Board report, *Oregon Benchmarks: Standards for Measuring Statewide Progress and Institutional Performance*, December 1994.

Appendix C

State Agencies and Programs Involved in DPB Performance Measure Pilot Project

Responsible Agency	Program	Performance Measures Currently Used
Dept. of General Services	Worker's Compensation - In House Claims Management	✓
Dept. of Employee Relations Counselors	Grievance Resolution Services	✓
Dept. of Economic Development	Economic Opportunity Fund	✓
Dept. of Housing and Urban Development	Center on Rural Development	
Dept. of Labor and Industry	Apprenticeship Program	✓
Virginia Commonwealth University	Center on Urban Development	
Virginia Commonwealth University	Virginia Labor Center	✓
Dept. of Education/State Council of Higher Education in Virginia	Guaranteed Assistance Program	✓
Dept. of Education	Dropout Prevention Program	
Dept. of Taxation	Tax Compliance Phone System	✓
State Internal Auditor	Fraud Hotline	✓
Dept. of Social Services	Comprehensive Services Act Funding	
Governor's Employment and Training Dept.	Opportunity Knocks	✓
Department of Health	Hampton Project	✓
Dept. of Conservation and Recreation	Best Management Practices	✓
Virginia Marine Resources Commission	Salt Water Fishing License	
Dept. of Environmental Quality	Environmental Permitting	✓
Dept. of Criminal Justice Services/ Virginia State Police	City/State Anti-Crime Partnership	
Virginia State Police	Violent Crime Strike Force	✓
Depts. of Corrections & Correctional Education	Offender Day Reporting Center	✓
Department of Corrections	Boot Camp	✓
Department of Motor Vehicles	Dealer Automation Program	
Department of Motor Vehicles	GRTC Ridership	
Department of Motor Vehicles	Mail-In Auto Registration Discounts	

Source: Department of Planning Budget report and JLARC staff interviews with agency staff.



Appendix D

Executive Memorandum 3-95

COMMONWEALTH of VIRGINIA

Office of the Governor

George Allen
Governor

EXECUTIVE MEMORANDUM 3-95

GOAL SETTING AND PERFORMANCE BUDGETING

Purpose

To provide guidelines for agencies to undertake an assessment of their activities examining elements such as the agency's role and purpose, its customer needs, organizational structure, current activities and how they are accomplished, and the critical issues facing the agency. The results of this assessment will form the basis for developing proposals for the 1996-98 biennial budget and improving overall agency management and accountability.

Applicability

All Executive Department agencies except institutions of higher education.

Effective Date

June 2, 1995.

Introduction

By virtue of the authority vested in me as Governor under Article V of the Constitution of Virginia and the laws of the Commonwealth, including but not limited to Chapter 5 of Title 2.1 of the *Code of Virginia*, and subject to my continuing and ultimate authority and responsibility to act in such matters, I hereby establish an initiative for goal setting and performance budgeting, which will examine the ability of the state agencies to respond effectively to the changes facing state government. The guidelines and responsibilities set out in this Executive Memorandum will govern this initiative.

Virginia has a longstanding tradition of excellence in the area of financial management. Virginians demand that public spending be undertaken to achieve the greatest value for each tax dollar spent. As state government conscientiously strives to meet this objective, it is increasingly challenged to improve its skills in allocating scarce resources to meet the needs of Virginia's citizens in the most effective way. This requires reexamining the role and structure of state government to discover ways to better serve Virginians.

The complexities of modern-day society challenge any organization or institution. The way in which an entity responds to change is critical to both its short- and long-term viability. Agencies must be willing to examine opportunities, build on strengths, foster innovation and creativity, and stress continual improvement if they are to meet the needs of Virginia's citizens, the realities of shrinking resources, and the necessity to do more with less.

An assessment of Virginia state government is an ongoing process. Past priorities and missions must be reexamined not only in the context of today's needs, but also in light of tomorrow's expectations. Agencies must be customer-focused, results-oriented, and mission-driven. Today's well-informed citizens demand greater choice, increased customization, and quality. We must look toward relying more heavily on market mechanisms for resolving problems. Each agency must examine these factors to identify ways in which Virginia state government can become more creative, flexible, and entrepreneurial in responding to our citizens' needs.

The process outlined herein integrates planning and performance measurement with budgeting. This provides a framework for performance-based budgeting in which allocation of resources is based on agency achievement of established goals. The process of developing the 1996-98 budget will involve five major steps as follows:

Steps	General time frame
Governor issues general guidelines to agencies for the goal setting and performance budgeting process and specific guidance on policy and budget issues to Secretaries, who will communicate as needed to agencies	Early June
Agencies conduct assessments and meet with Governor's Office and Secretaries	June - September

Agencies develop budget decision packages including goals, objectives, strategies, and performance measures and

- * submit draft packages to Cabinet Secretary
- * submit final packages to DPB

August - September

By October 2
By November 10

Secretaries and DPB review and analyze budget submissions

October - November

Governor makes final budget decisions and submits recommended budget to General Assembly

By December 1
December 20

Requirements

Governor's Office

1. The Governor will issue guidelines (attached) for use in implementing this process within the applicable Executive Branch agencies.
2. The Governor's Office and the responsible Secretary will meet with each agency to review the outcomes of the process and provide individual guidance.

Responsibilities of the Governor's Secretaries

1. Work with the Governor in developing any supplemental guidance for their respective agencies in carrying out their assessments.
2. Identify any specific issues that cross Secretarial lines and determine how these will be addressed.
3. Meet with agency management to disseminate and clarify guidelines and requirements.
4. Oversee and monitor implementation of the assessment process by all the applicable agencies within the Secretariat.
5. Review and approve all agency submissions generated through these activities.

Responsibilities of Affected Agency Heads


1. Designate agency staff that will participate in the process to ensure the broadest level of participation of agency employees.
2. Conduct the required activities in accordance with the guidelines provided with this memorandum and any guidance provided by the responsible Secretary.

3. Develop the materials and presentation of findings required by the guidelines.
4. Report on the outcomes to the Governor's Office and responsible Secretary, as required by the guidelines.
5. Develop the agency's 1996-98 budget proposals based on the guidance received from the Governor's Office and Secretary and the instructions issued by the Department of Planning and Budget.

Responsibilities of the Department of Planning and Budget

1. Develop the schedule for agency assessment meetings and notify each affected agency of the meeting date, time, and place.
2. Designate the appropriate DPB staff to attend the assessment meetings along with the Governor's Office and Cabinet Secretaries or their representatives.
3. Issue instructions to state agencies for developing the appropriate budget submissions for the 1996-98 biennium which support the achievement of the agency's identified goals.
4. Review the budget submissions and make recommendations to the Governor for inclusion in the Governor's budget to be submitted to the 1996 General Assembly.

This Executive Memorandum shall remain in full force and effect until December 20, 1995, unless superseded or rescinded by further executive action.


Governor

Appendix E

Agency Response

As part of an extensive data validation process, the major State agencies involved in a JLARC assessment effort are given an opportunity to comment on an exposure draft of the report. Appropriate technical corrections resulting from the written comments have been made in this version of the report. This appendix contains the response of the Department of Planning and Budget.



COMMONWEALTH of VIRGINIA

Robert W. Lauterberg
Director

Department of Planning and Budget

P.O. Box 1422
Richmond, VA 23211

June 8, 1995

Mr. Philip A. Leone, Director
Joint Legislative Audit and Review
Commission
Suite 1100, General Assembly Building
Richmond, Virginia 23219

Dear Mr. Leone:

Thank you for providing me with a copy of your draft report *The Concept of Benchmarking for Future Government Actions*. I would like to compliment you and the JLARC staff on the quality of both the research and analysis contained in the report. Generally, we are supportive of the recommendations made in the report and their potential for enhancing the planning and management of state agency programs and services. As you are aware, we are already implementing the central recommendations as part of the Allen Administration's new Goal Setting and Performance Budgeting process. Our specific comments regarding your recommendations are listed below:

Recommendation 1: We agree with this recommendation and, as we have indicated above, have already begun implementing planning and performance measurement activities as part of our general Goal Setting and Performance Budgeting process.

Recommendation 2: We concur with this recommendation to include performance measures as part of the final budget document.

Recommendation 3: We agree with conducting a pilot project of "best practice benchmarking" for select agency programs including the utilization of activity-based accounting concepts.

Recommendation 4: We would like to explore the feasibility and costs associated with the development of an on-line network to manage information concerning "best practice benchmarking," performance measures management and leadership issues.

Mr. Philip A. Leone
June 8, 1995
Page Two

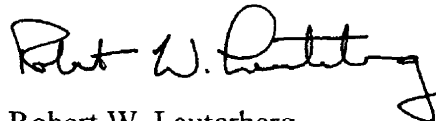
Recommendation 5: We support providing training to agencies in these practices, and would welcome the development of such a training program by the Department of Personnel and Training with input from the Department of Planning and Budget.

Recommendation 6: We believe that the Secretary of Finance is well positioned to establish an inter-agency advisory group as needs for such a group are identified.

We would also note that both the positions and appropriations associated with the Planning and Performance Measurement section at the Department of Planning and Budget were eliminated by the 1995 General Assembly. Given these budget constraints, it is only because of Governor Allen's support and commitment to good planning and management practices that we have been able to make such significant progress in our goal setting and performance measurement efforts. We hope that this study will underscore for the General Assembly the great value associated with goal setting and performance measurement.

The Department of Planning and Budget looks forward to future discussion on these issues.

Sincerely,



Robert W. Lauterberg

rwl:hhh

cc: The Honorable Paul W. Timmreck
Herb Hill

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