A high performance, Integrated Management System: A value-driven, results-drawn approach to performance management

Introduction: Developing an execution culture

We present here an approach to performance management that is based on the values the organization is seeking to enact and the results it is seeking to achieve. Our approach applies some of the best private sector performance management practices to the specific requirements and challenges of the public sector.

Our approach is a system that integrates performance data with organizational values, strategic direction, the resource allocation process, the business processes and the personnel appraisal and reward system. It is a full system intended to both improvement performance, but even more importantly to development a culture of execution where the motto is, “do it, do it right, do it right again and again”. The end we seek is an organizational culture where high performance is sustained over time.

The fundamental tests for a performance management system are: (1) is it providing information that helps the organization manage better? (2) is it fostering a performance or execution culture? There are other benefits, but unless there is a positive answer to these two questions the system should be re-designed. We present below a model we believe meets these tests.

The purposes of performance management

Organizational performance management fulfills seven key purposes, each critical if an organization is to perform at a high level and be able to sustain that performance. These purposes are:

- **Values management.** A well designed performance management system clarifies, reinforces and rewards behaviors and accomplishments consistent with and supportive of the
organization’s values. It instills and reinforces those values throughout the organization and provides a mechanism for addressing failure to act in accordance with values.

- **Alignment.** A performance management system has the capacity to ensure that the resources of the organization, coupled with the work efforts, are in alignment with organizational goals and priorities.

- **Clarification of role and contribution to mission and vision.** A well-designed performance management system clarifies the role and contribution that each position makes to the mission and vision of the organization. In knowledge and service work, this understanding is important to both customer service and quality work.

- **Feedback.** It is a rudimentary but important fact that performance cannot improve without feedback. When performance is meeting the desired standards, feedback is needed so that the actors can continue the same behaviors and use the same processes. When performance is not meeting the desired standards, feedback is even more critical so that modifications of behavior or process can occur. The most immediate impact of a well-designed performance system is the feedback it immediately provides both about expectations and performance toward those expectations.

- **Accountability and Public proof of value added.** Accountability standards for public organizations have increased significantly and will continue to do so in the future. While systems are clearly in place to account for the use of public dollars, performance management systems help determine whether or not those public dollars were used effectively and thereby raise accountability to a new level. With respect to public proof of value added currently at least there is broad skepticism about the effectiveness and value of public services. Whether this skepticism continues into the future or not is beside the point. Public agencies need to be able to document the value that they are adding for the tax or fee received. Performance management systems provide the data to prove or disprove added value.

- **Analytics.** Public entities are no different from private or third sector entities in that things do not always go as planned. Some errors or deviations are minor and the reasons obvious. Other deviations however may be substantive, significant and difficult to understand why the deviation occurred. For these latter types of deviations, the analytic power of a well-designed performance management system is important. On the flip side, well-designed systems provide an analytic capacity that allows us not only to understand failure but to also understand the factors critical to success.

- **Execution and Value Added.** The key word in performance management is performance. While a performance management system provides value in several ways, the bottom line question is did the intent of the policy-makers and CEO as stated via mission, strategic plan, business plan, budget or other directive get executed? The mantra of a performance management system is “do it, do it right, do it right again and again”. We first want people to act toward some goal or objective. We next want the direction to be clear enough, the standards specific enough and the feedback direct enough that so that their action is correct or quickly correctible. Finally, we want both the skill development and feedback to be of sufficient quality and timeliness that correct action can be sustained repeatedly over time. Stated another way, a performance
management system is about the value we want to add and determining if we are adding that value over time.

- **Results.** The ultimate purpose is to ensure that there is progress toward, and achievement of, the results that the organization is seeking.

The tests of a sustainable performance management system

Sustainability is dependent upon four factors posed as questions: (1) is the performance management system and performance culture it is developing aligned with the values the organization wants expressed; (2) do the metrics add value? That is do they provide information that truly helps managers manage? (3) Is it adaptable? Are there internal processes for updating goals, objectives and measures based on changes in direction, policy or priority? (4) is it aligned or have the capacity to be aligned with the strategic and business plans and budget

Why a value driven approach?

We developed this approach for several reasons. They include:

- **The purpose of organizational performance is to add value.** A performance management system both specifies the value to be added and determines if that value is being added. The term value in this context refers to worth and importance. Are we providing services, products and experiences that our taxpayers and residents find to be valuable for themselves.

- **Organizations have values whether stated or not.** Furthermore there are dominant or what we call driving values which determine the organization’s choices or action when difficult decisions or actions must be taken. For a performance management system to be effective it first must be consistent with those values. If for any reason the performance management system focused on providing products and services in a manner inconsistent with those values there will be performance issues.

- **Performance occurs via behavior.** Someone has to do something for performance to occur. That behavior should be aligned and consistent with the values the organization wants to emphasize and display. For example, we may want a performance management system that encourages entrepreneurial activity. However, we want that activity to be legal and honest.

Why a result drawn approach?

We developed this approach for several reasons. They include:

- **Results are the ultimate test of added-value.** The real test of any plan, any system, is whether it produces what we wanted it to produce.

- **Results are a source of challenge and focus.** Results provide a direction, a focus, a reason for the effort. Results that are seen as legitimate and important build morale and create energy.
Results provide the context. Results answer the “why are we doing this” question. They provide the context for work and assist each employee to understand their contribution.

Why an Integrated Approach?

If performance management systems are developed solely at the work unit level, without reference to broader strategic or business plans, good measures may be established but the value of performance management will not be optimized. To be most worthwhile, performance management should link measurement and accountability indicators to larger organizational goals. This linking ensure alignment of effort, more efficient use of resources, linking of work unit efforts where needed, and greater clarification of how a unit’s work contributes to the greater whole. In linking to higher goals, the interfaces between units who have roles in achieving those goals should be an element of the system.

In our view performance management systems are most effective when linked to strategic and business plans, the budget and work unit/individual performance reviews. Such linkages ensure we have linked priorities with resources which then link with work tasks and deliverables and finally with the efficiency, productivity and quality of those tasks and deliverables.

One of the most enduring and difficult challenges of organizational management is getting beyond the silos that seem to emerge almost on their own. A performance management system can either reinforce those silos or help cross them. An integrated system is designed for the latter impact.

The Basic Model for Integrated Performance Management: The components

Figure 1 presents a model of an integrated performance management system consisting of four categories and the components within those categories. As stated earlier, performance management is about the execution of the organization’s driving value set. That provides the direction which in turn guides the systems to produce the desired work product.

In order to keep the figure clean the various connecting lines are not illustrated. But in practice each component is linked to each other component and aligned with each other. The components of the system are:

- A strategic plan which sets long term direction;
- A strategy focused organizational structure designed to ensure execution of the strategic plan;
- A strategic budget which allocates resources to strategic priorities
- A strategy management system that ensures goals are managed in a systemic and integrated manner. This component is critical because it is highly likely that goals cut across departmental lines and cannot be managed effectively is simply assigned to an individual department;
• A process management system that ensures both the strategic and operational work of
the organizational are conducted consistent with organizational value;
• Business plans that detail specific implementation plans with timelines, resource
requirements and accountability points;
• Line of sight statements which assist work units or individuals to understand their
contribution to the strategic direction;
• Behavioral guides which describe in behavioral terms the product or service delivery
expectations and how the organizational values look in practice;
• Balanced scorecards which describe the actual deliverables.

Figure 2: Components of the Integrated Performance Management System.

There are two truisms which a performance management system must reconcile and balance. One is that you can’t manage what you can’t measure. This is certainly true if we understand measurement as feedback that comes in a variety of forms. Without feedback we cannot know if we are headed in the right direction, much less our speed or quality of performance. A well attuned City Manager for example doesn’t need a vote on the dais to know whether his or her Council is upset about an issue.

The second truism is usually attributed to Albert Einstein and it is, “not everything that is important can be measured and not everything that can be measured is important”. We have to understand this statement in the context of Einstein’s profession of physics, a field in which highly precise measurement is possible. So from a performance management system perspective, let’s focus initially on the first half of his statement, “not everything that is important can be measured”. This is certainly true if measurement is defined as highly precise hard data. However if measurement is understood as occurring on a continuum ranging from
quantitative to qualitative, and on a continuum from highly precise hard counts to information which is attitudinal and perceptual we can obtain feedback about what is important to us even if it is not expressed in terms of .00026 rather than .0003. What a performance management system must do is determine what is truly important and how feedback can be obtained about the truly important. If this feedback can be in the form of highly quantifiable data, so much the better but it is the feedback which is critical.

Turning now to the second part of the quote, “not everything that can be measured is important” five perspectives are significant. First, measurement always has some costs associated with it so we never want to measure just for measurement’s sake. Second, what is important inside an organization varies with where you sit. The type of information that the City Manager needs for example is different than the type of information that a water plant operator needs. Third, we don’t want to make the error of choosing performance measures simply because they are easy to count. The easy to count may not be the important to count. Fourth, the level of precision of measurement matters. We probably don’t need a daily count or daily report on the number of pencils in the supply cabinet. We do however need someone to notice when the pencil supply is getting low. Fifth how much variability really matters? Most performance can operate satisfactorily within some range. As long as the number is within the range, we are fine or performance is acceptable. It is only when numbers go outside the range that issues arrive. For example, the difference between an annual rainfall of between 30 and 35 inches may not be particularly significant in agriculture. The difference between 35 inches and 5 inches is likely to result in crop failure. Or to use a municipal service example, the difference between an EMS response time of 3 minutes 45 seconds and 4 minutes is negligible in terms of life safety. The difference between 4 minutes and 10 minutes can be life threatening.

The import of Einstein’s statement is that first we want to measure activities and accomplishments that will give us information about what we need to do today and prepare to do tomorrow. The operative question is, “will having this information help us make decisions or take actions?” If it does, then it falls into the category of important. The second import is that what and how we measure matters. We only want to measure precisely enough so that we have the information we need for decision making. To use the pencil illustration again, a simple glance tell us all we need to know on whether to re-order pencils.

In developing the measurement element of a performance management, these two truisms lead us to the following questions:

- To whom is the data important, i.e. will it make a difference in their decision-making or actions? If it won’t then it either doesn’t need to be collected or reported to them;
- What level of precision makes a difference in decision making and action?
- Does the benefit of the information outweigh the costs of collection? If it does not, can a less precise and less costly measure suffice? Or is there another less costly way to collect the data? Or is there data that is highly correlated that we could afford to
collect? Or finally, is the cost of error due to inadequate data less than the cost of collection and therefore we are willing to live with the error?

The Measurement Levels of the Model

This model provides the capacity for measurement of five types of performance. They include:

**Results.** Results are high level impacts of concern to community and policy-makers. They are relatively straightforward to understand and express the fundamental expectation that people have of their local government. Results are often stated as end states. In that sense they require continuous effort and are never checked-off as done and finished. Some common results statements pertinent to local government include safe community, economic growth, environmental protection, affordable public services, clean and attractive community. Results can be measured by comparative benchmarks to other communities, indicators that describe trends, or community perceptions and attitudes.

Results present two challenges in a performance management system. First, they are not always, in fact rarely, under the full control of local government. A result of a safe community for example is impacted by many forces, some of which are external to local government. Second, they are often perceptual in nature. One can have great crime statistics for example, but people can believe the community is unsafe because of an isolated single event.

**Outcomes.** Outcomes are logical or documented and demonstrable impacts that contribute to a result. Unlike results, they are under the full or significant control or influence of the local government. To continue with the public safety example, it is well documented that code enforcement impacts the level of crime by maintaining the public appearance of an area and avoiding the non-verbal communication that nobody cares (the broken windows phenomenon). An outcome of preventing deterioration of commercial districts or neighborhoods is something the City has the power and ability to impact.

**Outputs.** Outputs are the actual work products, efforts or deliverables that when combined together create the outcome. To continue with the public safety example, if the outcome is preventing deterioration then some relevant outputs could include: code enforcement actions, amount of patrols by police, maintenance of public infrastructure, organization of neighborhood associations, development of neighborhood plans.

**Inputs.** These are the resources devoted to producing an output.

**Process indicators.** These are measures of error rates, time cycles, customer satisfaction, rework or other indicators that inform as to how well the process is producing the desired product or service and if the process is working as designed.

The various types of measures vary in significance at different levels of the organization. Figure 2 illustrates this relationship at an abstract level.
Guidelines for developing and selecting metrics

The selection of metrics to assess performance is a critical aspect of any system. It in essence puts the system at risk of “garbage in – garbage out” if done poorly. If done well, not only can level of performance be well understood but some analytic capacity to understand why performance is succeeding or failing will be present and a management tool that truly adds value will have been developed. Some guidelines to use in the development and selection of metrics include:

1. Be cautious about what is easily measurable. The early phases of performance management selected measures simply because they were readily countable. However, what is easily counted may not be of great value in managing system performance. The question to ask is “how important is this data in managing the organization?” If of low or marginal value, then it probably should not be included in the system even if the data is highly quantifiable and easily available.
2. Determine what will happen if this data is collected. Setting aside from this discussion data collection required by external agencies, the question is, “will we take meaningful action based upon this data?” The world of work is filled with stories of forms being filled out, sent in and nothing ever seems to happen.

3. Data collection costs, collect only what you need. Depending upon how automated and routinized the data collection system is, data may be relatively cheap or very expensive. Whatever its cost, it is not free. If we cannot determine a use for the data that exceeds the cost of collection, it should not be collected.

4. Some metrics are more important than others. Not all metrics are equal. In any business there are certain key variables that are early warning signs, others are signals of substantive danger in the immediate future, others tell you that you are on target and “getting it right”. Focus your metric development efforts on those variables that either help you avoid serious error or tell you to continue pushing because you are on the right path.

5. Use a balanced scorecard approach. All critical dimensions of organizational performance should be measured. We use the balanced scorecard technique to assist in this guideline. The approach is described later in the paper.

6. Be careful about too much information. The purpose is to help you manage performance. If you are so overwhelmed with information that you cannot focus on what is important and critical due to the deluge, then you have too much information and need to reduce the flow.

7. Understand the intended and potential unintended consequences of measurement. What you measure gets attention. It will lead to people acting in one way and not another. You want to be sure that the behaviors the metrics will generate as the behaviors you want. For example in a discussion on library metrics the topic of fines and fees was raised. Given that it was a significant amount of money there were certainly an accountability issue and the funding source was important for book replacement. One early metric was to measure the amount each library aide collected. After further thought it was determined that might create an incentive to push for fines or to avoid dealing with fines. That was not the intent of the topic so a different metric was developed. However, just as with the proverbial patrol officer who has a quota of traffic tickets to issue, the incentive created by the measure must be understood.

8. Approach measurement broadly. Some define measurement solely as a quantifiable endeavor. If it can’t be counted, then it can’t be measured and therefore it is unimportant. While strong advocates of quantifiable metrics, we believe such a stance both unproductive and unrealistic. Any information that provides useful feedback, that helps us understand if we are on the path to success for a particular endeavor is worthy of consideration. It is important to remember that sometimes the most important information does not lend itself to a quantifiable format. A variety of more qualitative approaches, such as interviews, focus groups or staff meetings may be needed. Ideally these could be used in conjunction with some quantifiable measure.

9. Use different types of measures. In some cases we can count behavior whether that behavior is miles of right-of-way mowed, response times, number of persons served, hours in crime prevention activities, etc. But we may also need to measure attitudes, such as customer satisfaction or employee morale. Finally, given that perception is reality, we at times need to
measure perceptions, such whether the community is safe or the economic climate pro-
business. All three of these dimensions should be examined.

The Balanced Scorecard

The balanced scorecard is a performance management tools originally developed for the
corporate sector which has proven to be of sufficient value that it has been adapted for a broad
range of organizational forms. The premise of the scorecard is that there are four dimensions of
organizational performance which must be managed and measured. They are:

- **Financial performance.** From a private sector perspective this is the proverbial bottom line
  of profit and loss. While the public sector has some profit/loss aspects (in its enterprise
  funds), it has to focus more on both accountable use of public funding and comparative
costs of public services. Some potential metrics to consider in this category include:
  - per capita spending trends for City services and programs
  - program costs to be paid for by users vs. general taxation or fees
  - full costing of services
  - budgeting for contingencies (advantages, disadvantages)
  - adherence to reserve requirements and policies
  - bond ratings and related assessments of capital financing and strategies for debt
  - awareness of and impact of long-term program costs
  - key ratios of financial condition
  - indicators of revenue diversification and stability
  - relative competitiveness of economic development objectives, incentives and
  potential

- **Run the business.** This category addresses the fundamental purpose of each operating and
  administrative support unit by measuring and documenting the core services or products
  each delivers. Given the diversity of operations in a city, there will be a wide range of
  indicators in this category. This is the area where extensive performance management work
  has been done by ICMA and there are many resources one can draw upon in the selection of
  metrics. Measures in this category tend to be of the following types:
  - Productivity and efficiency. How productive the unit is compared to either past
    measurement cycles or to benchmark communities. These are usually output
    and/or input measures;
  - Quality. How well either external or internal standards were met;
  - Impact. What difference was made? These measures are usually assessed in the
    context of a desired outcome. Has crime decreased? Is water delivery more
    reliable? Are new businesses opening? These are the type of questions that are
    asked and answered in this type of measure.
  - Process indicators. These measures focus on key processes that determine the
    unit’s ability to produce its key deliverable. While specifics vary by the deliverable,
there are usually measures of error rates and re-work, time cycles to produce the deliverable, achievement of stated standards.

- **Customer and Working Relationships.** For local governments this category covers all those entities whose cooperation is required for successful delivery of services, who have regulatory authority over the local government, who have the ability to impact the development of the community, who pay the taxes, who receive the services. In essence, if the City is dependent upon an entity to do its work, or the entity is dependent upon the City for its work, all those entities are included in this category. This is a category where perceptual and attitudinal measures are particularly important. Why? For example, you may complete a permit request within the established time frame, have it done correctly according to procedure and completed it at a cost within the fee received. From that perspective your performance is exemplary. However, if in doing so you attitude has been unfriendly or unhelpful, if you have been non-responsive to questions, or if you have just generally been a pain, the customer’s experience has not been a good one. That bad experience overshadows the other good work and serves to create a reputation for yourself and your work unit. Reputations unfortunately travel much faster than performance and suddenly your community has a reputation as business unfriendly or a bunch of real bureaucrats. Managing and measuring this category of performance is one of the most critical. Some of the tools that are available include:
  - Satisfaction surveys of various forms and formats;
  - Opinion surveys which seek to obtain ideas and perspectives about how the unit is doing and how it could do better;
  - Focus groups to obtain real-time feedback;
  - A regular feedback group of users who develop a deep understanding of your options and constraints but at the same time can assist you to address issues;
  - Observation. Simply watch how employees interact with stakeholders and identify strengths and opportunities for improvement;

- **Innovation and learning.** In the private sector version of the scorecard the emphasis in this category is on whether there are new products in the pipeline so that market share can be maintained or enhanced. While this is a dimension of the public sector scorecard, there is greater emphasis on quality improvement and capacity development. Metrics here consist of types such as:
  - Process improvement metrics such as reduced cycle times, reduced error rates, higher compliance with standards;
  - Accomplishments and recognitions by one’s profession such as accreditation, certification, etc;
  - Documentation of steps which increase the capacity of the organization to do more such as cross-training of staff;
  - Documentation of innovations which improve services or lower cost.
Feedback loops in the model

This model is intended to operate as an integrated system. To do so, it must have a number of feedback loops and connections. These are illustrated in figure 3 at the most direct level of feedback. In reality feedback loops provide many additional direct connections but to draw those would create a blur of lines that confuse the issue. The point is simply that every component provides information for other components.

Figure 3: Illustration of feedback loops

The Line of Sight Concept

For organizational performance to achieve high levels significant amounts of information sharing and collaborative problem solving must occur. One of the factors which assist employees to accurately interpret and use information for problem solving is an understanding of context. While there was a time when the statement, “if you needed to know I would tell you” was satisfactory, that time is not now. In knowledge and service work an understanding of
organizational direction, of expected response, of why tasks are assigned is very helpful to performance.

Understanding context is an on-going communication challenge that no one technique or approach will fully satisfy. Nevertheless we think that one element of a performance management system must be designed to provide this context. We call that element “line of sight”. As shown in figure 4, line of sight assists the employee to place his or her work in the context not just of the outcomes they are producing but how those outputs lead to outcomes which contribute to results and ultimately to the strategic direction of the organization.

Line of sight statements should be simple and direct. They need be developed only to the level of positions doing distinctive work. For example, if twenty patrol officers complete the same duties and functions, there only needs to be one line of sight statement for them as a group. However, if my work is substantively different from yours even though we have the same classification title, then separate line of sights statements are warranted.

Figure 4: Line of Sight