MANAGING FOR RESULTS HANDBOOK

STRATEGIC PLANNING GUIDE
FOR STATE AGENCIES

AUGUST 2011

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Acknowledgements

The 2011 *Managing for Results* Handbook is the fourth revision of the state's guide to strategic planning and performance measurement development. First published in 1994, this handbook represents the efforts of the Strategic Planning Advisory Committee. The Committee assisted the Governor's Office of Strategic Planning and Budgeting (OSPB) in defining a model for Arizona's state government that not only built upon existing agency strategic planning and quality management strengths, but also incorporated the latest approaches of measuring performance to achieve meaningful results.

1998 Acknowledgments

This Handbook was revised in 1998 to incorporate changes in Arizona's Budget Reform Act by the Strategic Planning Advisory Committee.

Revised by:
Rebecka Derr, Governor's Office of Strategic Planning and Budgeting

Reviewed and Edited by:
Barbra Chavira-McCluskey, Department of Corrections

1994 /1995 Acknowledgments

The *Strategic Planning and Performance Measurement Handbook* was written and compiled by the Strategic Planning Advisory Committee and other contributors listed below.

Strategic Planning Advisory Committee Members

Art Ashton	Arizona Board of Regents
Keith Brainard	Arizona State Retirement System
Marge Cawley*	Joint Legislative Budget Committee Staff
Barbra Chavira-McCluskey*	Department of Economic Security
Rebecka Derr*	Department of Health Services
Glen Dickens	Arizona Game & Fish Department
Michael DiMarco	Judicial System
Ben Froehlich*	Department of Administration
Don L. Horne	Department of Corrections
Phyllis Knox*	Governor's Office for Excellence in Government
Constance Kohl	Department of Youth Treatment and Rehabilitation
A. A. Lidberg*	Arizona Department of Transportation
Dona Marie Markley	Private Postsecondary Education
Peggy O'Sullivan-Kachel*	Governor's Office of Strategic Planning and Budgeting
Bill Patrick	Department of Youth Treatment and Rehabilitation
John W. "Pete" Peterson	Department of Public Safety
Lois Sayrs*	Office of the Auditor General
Greg Schneider*	Arizona Health Care Cost Containment System
"Bill" Thomson	Office of the Auditor General
Thomas H. Wickenden	Northern Arizona University

Other Contributors

John A. Bogert	Arizona Department of Transportation
Anne Barton	Governor's Office of Strategic Planning and Budgeting
Marcel Benberou	Governor's Office of Strategic Planning and Budgeting
James A. Cockerham	Governor's Office of Strategic Planning and Budgeting
Monica Seymour	Governor's Office of Strategic Planning and Budgeting

*Denotes Major Contributor

Introduction

Arizona's Strategic Planning Model

Strategic planning *is* managing for results. It is a participatory process requiring the full support of the agency director, as well as the involvement of employees at all levels in the agency. Strategic planning considers the needs and expectations of customers, stakeholders and policy makers in defining agency missions, goals, and performance measures. A strategic plan guides agencies by asking and answering five basic questions:

- Where are we now?
- Where do we want to be?
- How do we measure our progress?
- How do we get there?
- How do we track our progress?

These questions and the corresponding strategic planning components make up the recommended State model that appears in this document. Since this Handbook was first published, the State has become more sophisticated and the basic model has evolved slightly to incorporate this growth.

Budget Reform Legislation

Agency Budgets:
A.R.S. §35-113. Submission of budget estimates.

Every year for annual budget units and biennially in even-numbered years for biennial budget units, the head of each budget unit, not later than September 1 or at a later date not to exceed thirty days after September 1 if approved by the director of the governor's office of strategic planning and budgeting, shall submit to the governor, with five copies, estimates of the financial requirements and of receipts, including appropriated and non-appropriated monies in no less detail than the state general fund, of the budget unit for the next two ensuing fiscal years for biennial budget units and for the next fiscal year for annual budget units.

Administrative Costs:
A.R.S. §35-115.5. Contents of budget report.

Each fiscal year for annual budget units and biennially for biennial budget units, delineation by budget unit, of requested expenditures for Administrative costs, including:
- administrative personnel salaries
- employee related expenses
- direct, indirect and shared costs for administrative office space, equipment, supplies and overhead

For purposes of this paragraph, "administrative" means any supportive activity relating to management, supervision, budget or execution of the affairs of the budget unit as distinguished from activities relating to its primary direct service functions.

The process of delineation and determination of what constitutes administrative costs for each budget unit shall be developed by OSPB in consultation with the director and staff of JLBC.

Strategic Plans:
A.R.S. §35-122A.1. Strategic plans.

Developing a five-year strategic plan for the entire budget unit. The strategic plan shall be updated annually as necessary. The plan shall contain strategic issues, a mission statement, a description, goals, strategies and resource assumptions.

The resource assumptions shall include the number of full-time equivalent positions and budgetary data, including all funding sources categorized by general fund, other appropriated funds, non-appropriated funds and federal funds that are required to support the strategic plan.

The agency shall also provide an executive summary of the strategic plan. The executive summary shall not exceed five pages in length. The strategic plan, including the executive summary, shall be posted on the agency's official internet web site and submitted to the governor's office of strategic planning and budgeting and to the staff of the joint legislative budget committee by *January 1 of each year*.

Master List of State Government Programs:
A.R.S. §35-122F. Program lists.

The governor's office of strategic planning and budgeting shall compile the submissions required in subsection B, paragraphs 2 and 3, and subsection C and no later than five days after the regular session of the legislature convenes of each even-numbered year shall publish a master list of programs that are performed or overseen by state government.

The master list shall include the program description, agency description, mission statement, strategic issues, goals, performance measures and budgetary data. The list shall include all programs that are administered jointly by two or more budget units.

Strategic Program Area Reviews (SPAR)
A.R.S. §41-1275. Strategic program area review; procedures.

A. In consultation with the governor's office of strategic planning and budgeting, the staff of the joint legislative budget committee shall recommend to the joint legislative budget committee by January 1 of each odd-numbered year a list of program areas suggested for strategic program area review.

B. The two offices shall evaluate the program areas according to agreed upon factors and shall jointly produce a report of their findings and recommendations for whether to retain, eliminate or modify funding and related statutory references for the programs that are subject to strategic program area review to the president of the senate, the speaker of the house of representatives and the governor no later than January 1 of each even-numbered year.

C. The speaker of the House of Representatives and the president of the senate shall assign all strategic program areas recommended by the joint legislative budget committee, pursuant to subsection B of this section, to the appropriations committees. The speaker of the House of Representatives and the president of the senate may additionally assign the strategic program areas to an appropriate standing committee. The assigned standing committee shall hold at least one public hearing for the purpose of receiving public input and developing recommendations to the appropriations committees whether to retain, eliminate or modify funding and related statutory references for the strategic program area subject to review.

Managing for Results

Successful Strategic Planning

Strategic planning is **required**. First and foremost, the Arizona Budget Reform legislation requires that <u>all</u> budget units in State government develop strategic plans for each agency, program and subprogram. The law requires that plans be developed at the agency-wide (budget unit) level, as well as for programs and subprograms.

A successful strategic planning process:

- has the full support of the agency director and involves staff at all levels
- clearly defines responsibilities and timetables
- establishes and ensures accountability for results
- is realistic about goals, objectives, resources and outcomes
- develops and conveys compelling evidence for its recommendations
- has a method or strategy for resolving conflicts among stakeholders

Strategic Management

Strategic management is the process of positioning an organization so it can prosper in the future**.** Strategic management integrates strategic planning with quality (or continuous improvement) management, budgeting, resource management, and performance monitoring and reporting. In practice, strategic management may not be sequential, but there are strong interrelationships between the various key components.

Quality Management

Quality Management is an approach that values customer satisfaction and is based on participation of all members of an organization in improving the processes, products, services and culture in which they work. The emphasis is on *continuous improvement* rather than a one-time fix. Other terms that are synonymous with Quality Management include business process improvement, continuous quality improvement, and process management, to name a few.

The fundamental elements of quality management and strategic planning are the same**.** Both are systematic approaches to identifying problems and opportunities which:

- promote customer-focused services and products
- emphasize employee involvement and teamwork
- use performance measurements to focus on results
- rely on data collection and interpretation
- support management that is based on facts
- involve efficient and effective resource allocation and management

Budgeting

Good management practices always include budget considerations when conducting strategic planning. The strategic plan charts an agency's direction, while the budget provides the resources to implement the plan. It establishes priorities and affords management an opportunity to reevaluate existing allocations of funds. Agencies will develop strategies and action plans that detail what will be accomplished to achieve goals and objectives each year. These action plans, together with performance measures, provide the strongest links between the operating and capital outlay budgets.

Planning and budgeting are interactive. The Internal/External Assessment component of the strategic planning process can be valuable in identifying trends, demand factors, and strategic issues to support budget development. Assumptions about available resources affect what can be achieved and help set priorities for resource allocation. Agencies should consult the current OSPB issued *Budget Instructions* for current information about budget assumptions.

Resource Management

Resource planning is an essential component of strategic planning. As with all other necessary resource needs, the information resource needs of an agency should be determined *during* the strategic planning process. IT planning should be compatible with all GITA policies, procedures, standards and guidelines and the agency strategic plan, and should reference the specific programs or subprograms it supports.

A.R.S. § 41-3504 requires State agencies to submit IT plans to the Government Information Technology Agency (GITA) each year on or before September 1. Legislative and judicial agency plans are submitted for information purposes. As part of a budget request for an information technology project that has total costs of at least twenty-five thousand dollars, a budget unit shall indicate the status of review by the department.

Performance Monitoring and Reporting

A critical component of the strategic management cycle is the monitoring and reporting of progress in achieving strategic goals. Agencies are encouraged to develop monitoring and reporting systems that collect data continuously and report, at a minimum, annually. The performance information provides a basis for reporting progress to external policy makers and the public. Results, good or bad, should be used to evaluate programs and to determine whether any corrective action needs to be taken.

Where Are We Now?

Internal/External Assessment

An internal/external assessment is a basic management tool that is used not only in strategic planning, but also in policy development and problem solving. It provides a baseline assessment of the organization. The process of conducting an assessment is often referred to as a SWOT analysis because it involves reviewing an organization's *internal* **S**trengths and **W**eaknesses and *external* **O**pportunities and **T**hreats. The data gathered during the assessment will often lead to the identification of strategic issues. The last component of the SWOT analysis is the identification and surveying of internal and external customers and stakeholders.

Conducting the Internal Assessment

The internal assessment, also called a situation inventory, identifies the organization's *strengths* and *weaknesses* and evaluates capacity to respond to issues, problems and opportunities. It also reveals the paradigms (patterns or beliefs) and values that comprise the organization's current principles and that drive (or disrupt) current operations. It throws light on administrative or managerial policies and procedures that help or inhibit quality.

When conducting the internal assessment, the following questions should be addressed:

- Where has the agency been?
- Where is the agency now?
- What are the agency's strengths and weaknesses?

Conducting the External Assessment

The external assessment identifies the *opportunities* and *threats* in the current environment and anticipates changes in the future environment. This portion of the SWOT analysis provides an essential backdrop for strategic planning and policy development.

When conducting the external assessment, the following questions should be addressed:

- What is the current external environment?
- How may the environment differ in the future?

Data Sources for the Internal/External Assessment

There are hundreds of sources where agencies can find useful information. The following list of sources may be useful.

Internal data sources:

- quality assessment surveys
- annual reports
- employee surveys
- annual progress review meetings
- customer surveys
- program evaluations
- agency audit recommendations
- internal data bases
- performance measurements
- SPAR recommendations
- budget requests
- internal plans

External data sources:

- federal and state government statistical reports and data bases
- federal, state, and local government legislation, regulations, and executive orders or actions
- federal, state, and local government budgets and policy statements
- federal, state, and local government special studies
- court decisions and actions
- national and regional professional organizations or associations
- interest or advocacy groups
- media (both broadcast and print)
- university and college resource centers
- agency advisory and governing boards

In addition to identifying all internal strengths and weaknesses, and external opportunities and threats, agencies also need to identify their customers and stakeholders.

Customer and Stakeholder Identification

Customer: anyone whose best interests are served by, or who receives or uses the products or services of an agency, program or subprogram.

Organizations have many different customers. Internal customers include units or employees in an organization whose work depends upon another unit or person within the same organization. External customers include the end users of the organization's products or services.

Stakeholder: any person or group with a vested interest in or with expectations of a certain level of performance or compliance from an agency, program or subprogram.

Stakeholders may not necessarily use the products or receive the services of a program; they may be advocates.

Identification Process

To identify and understand customers and stakeholders, the following questions should be addressed:

- Who receives or uses the goods and services produced by the agency?
- Whose best interests are served by the actions of the agency?
- Who are the stakeholders and what results do they expect from the organization or program?
- Who are the internal customers?

To gather customer and stakeholder input and feedback, the following methods can be used:

- written or telephone surveys
- focus groups
- one-on-one interviews
- comment forms
- customer advisory committees
- public meetings and hearings

Once customer and stakeholder feedback has been obtained, it must be used. Problems that have been identified need to be addressed in the strategic plan. It is crucial to continue communicating with customers by keeping them informed about how their input is being used by publishing reports.

Summary

The results of the internal/external assessment become the basis for all the other phases of the strategic planning process. The situation inventory and environmental scan may also be reviewed or repeated as part of the annual update of the agency strategic plan.

Where Do We Want To Be?

Mission Statement

Mission Statement: a brief, comprehensive statement of purpose of an agency, program or subprogram.

The mission statement is an invaluable tool in directing, planning and implementing agency efforts. The mission is part of the organization's identity, is all encompassing and rarely changes, and is the ultimate rationale for the existence of the agency, program or subprogram.

When writing a mission statement, consideration should be given to these questions:

- Who are we?
- What do we do?
- For whom do we do it?
- Why do we do it?

Address these questions by looking at the agency, program or subprogram from the outside - from the customer and stakeholder point of view.

Defining the Mission

A mission statement will address the following questions:

- What is the purpose for the existence of the agency?
- What are the agency's basic needs?
- Who are the agency's clients, customers, or users?
- How does the agency measure performance?

E X A M P L E	**Department of Health Services – Agency Mission:**
	To set the standard for personal and community health through direct care delivery, science, public policy and leadership.
	Arizona State Hospital - Program Mission:
	To provide specialized psychiatric services to support people in achieving mental health recovery in a safe and respectful environment.
	Clinical Services – Subprogram Mission:
	To provide specialized psychiatric services to support people in achieving mental health recovery in a safe and respectful environment.

Descriptions

Descriptions: a general explanation of what an agency, program or subprogram does, whom it serves, why it is needed and how it works.

Besides mission statements, budget units are responsible for developing agency, program and subprogram descriptions for the various documents required by the Arizona Budget Reform Act. Agency descriptions are required for the Five-Year Strategic Plan and the *Master List of State Government Programs,* which also requires descriptions for all programs and subprograms. The budget submittal also requires descriptions for the agency, as well as for each cost center, which may or may not line up with the program structure.

The description of an agency, program or subprogram should be clear and understandable to anyone reading it, regardless of the technical aspect of the work being done or the services being provided. Whenever possible, avoid the use of technical terminology, abbreviations and acronyms. If a program is jointly administered by another agency--funds are either "passed-through" from one agency to another or are subject to an intergovernmental agreement or contract--include the name of the organization in the description.

E X A M P L E

Agency – Arizona Department of Revenue

   Program – Education and Compliance

    Subprogram – Education and Outreach

Subprogram Mission

Provide taxpayers and tax practitioners with understandable, accurate and current tax education, information and forms to facilitate voluntary compliance with Arizona's tax laws, and to provide training and appraisal certification courses to county and state appraisal staff.

Subprogram Description

Inquiries from taxpayers and tax practitioners are directed to various employees throughout the agency best suited to answer questions and assist with issues based on different areas of expertise. Employees provide taxpayers with information and support services through publications, and, in conjunction with the Internal Revenue Service and state universities, offer tax seminars to interested parties.

Vision Statement

Vision: a compelling, conceptual image of the desired future.

Great visions are conceived through a partnership between top management and all levels of the organization. The vision becomes a focal point for everyone in the agency. By sharing the vision, management establishes commitment to the overall vision from employees at all levels.

A vision statement will be:

- brief and memorable
- inspiring and challenging
- descriptive of the ideal
- appealing to employees, customers and stakeholders
- descriptive of future service levels
- idealistic, standing above the commonplace
- enduring

In addition, a vision statement should address the following questions:

- What does the agency want, what are its aspirations?
- How does the agency wish to be known by customers, employees, the community?
- How will the agency enhance the quality of life for those who use its services or products?

Principles

Principles: the core values and philosophies that describe how an agency conducts itself in carrying out its mission.

Principles are often associated with a quality management culture and meet the following criteria:

- guide decision-making at all levels of an agency
- express common values that can be embraced by the whole organization
- act as powerful instruments for changing organizational culture
- motivate employees
- express basic beliefs about the conditions under which people work best

Articulating Principles

Describing the organization's principles represents a challenge for management. Principles should reflect the values and philosophy of the director and the executive management team, as well as organization-wide values and assumptions. The principles should be compatible and convincing for everyone inside the organization and for customers and stakeholders.

Sometimes principles are expressed in terms of responsibilities--to customers, employees, stakeholders and the community in which it operates or the physical environment as a whole. Sometimes principles are expressed in terms of quality or excellence in management and the production of goods and services.

Principles address the organization's attitude and values about the following:

- People: The way employees and customers are treated

- Processes: The way the organization is managed and services are provided

- Performance: The expectations concerning the organization's products and services

Principles summarize the philosophies or core values that will be utilized in fulfillment of the vision and mission. Thus, principles help form a bridge between where the organization *is* and where it *wants to be*.

Goals

Goal: the desired end result, generally after three or more years.

It is important to remember that goals will be set at the agency, program and subprogram levels. Agency goals represent the strategic direction for the organization as a whole and, therefore, will be broad. Collectively, agency goals will clearly chart the direction of the agency and provide a unifying theme for programs and activities. In contrast, program and subprogram goals address both strategic direction and improvements associated with *primary activities* and will be more specific than agency goals. Program and subprogram goals should not be a comprehensive listing of every activity, but they should represent a significant portion of the relevant budget.

Goals will also represent immediate or serious problems or high-priority issues that merit special attention. These critical or strategic issues, which are often uncovered during the internal/external assessment, might be described as the "make or break" kinds of issues.

Strategic Issues

Strategic issues do not necessarily fall neatly within the boundaries of a particular program; instead, they often impact several programs or the entire agency. However, agencies may be able to consolidate these issues into key result areas, which can be a combination of many different operational or programmatic concerns.

The following examples will help further identify strategic issues:

- **Strategic issues may arise as a result of an agency's internal assessment.** For example, low customer approval ratings may result in customer service as a strategic issue for the agency.

- **Strategic issues may be generated by external forces.** For example, juvenile crime has received extensive media coverage, the public is demanding action, and lawmakers are considering various proposals to address this problem. Juvenile crime would be a strategic issue for those agencies with youth-related programs.

- **Strategic issues may be addressed in the short term (during the next fiscal year).** For example, the Department of Racing entered into an interagency services agreement with the Department of Gaming in FY 2011. The agreement addressed the agency's strategic issue of improving effectiveness and efficiency.

- **Strategic issues may be implemented over the long term.** For example, the Department of Revenue began the Business Reengineering/Integrated Tax System (BRITS) initiative in 2002 as a set of ongoing projects with the overall objective of improving business processes and replacing aging systems with an integrated system.

Criteria for Goals

A well-constructed goal will:

- be in line with the agency vision, mission and principles
- fulfill, or contribute to fulfilling, the mission of the agency
- address priorities and the results of the internal/external assessment and may be developed in response to strategic issues
- tend to remain essentially unchanged, until there is a shift in the environment under which they were created and the desired outcome has been achieved
- normally encompass a relatively long period; i.e., at least three years or more
- address the gaps between the current and the desired level of service
- represent a desired program or subprogram result
- be within legislative authority or have, as an objective, legislation introduced to support them
- be challenging, but realistic and achievable

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Goals that *don't* meet the criteria:
- To continue to serve our customers. *(Not challenging.)*
- To process registration filings. (*Unclear purpose, more appropriate as an objective or action step.)*
- To enter 3,000 records by FY 2013. *(Too specific, short-term; more appropriate as objective or action step.)*

Goals that *do* meet the criteria:
- To decrease the average number of days to process applications and issue licenses. (Generic goal.)
- To improve transit service to the elderly, disabled and rural passengers. *(Program goal for the Public Transit Program of the Department of Transportation.)*

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Summary

Goals will usually relate to the major components of an agency's mission. However, each agency will vary in the number and scope of the goals set. Agencies may develop goals for distinct programs or goals that cross program lines. Although the scope of the goals set at the agency level may be more general than those set at the program or subprogram level, the process of goal setting and the definition of a goal remain the same.

The next step in planning is to develop objectives. Objectives are more specific, quantifiable and time-bound than the goals they support. The next section will introduce the criteria for developing objectives.

Objectives

Objectives: specific and measurable targets for accomplishing goals.

In contrast to goals, objectives are specific, quantifiable and time-bound statements of desired accomplishments or results. As such, objectives represent intermediate achievements necessary to realize goals.

Criteria for Objectives

Objectives should be **SMART** and meet the following criteria:

- **S**pecific: Objectives should reflect specific accomplishments that are desired, not ways to accomplish them.
- **M**easurable: Objectives must be measurable to determine when they have been accomplished.
- **A**ggressive: Objectives are to be standards for achievement; they should be challenging, but should not demand the impossible
- **R**esults-oriented: Objectives should specify a result; for example, "Respond to 75% of all correspondence within 30 days with an annual average response of 21 days or fewer."
- **T**ime-bound: Objectives should specify a relatively short time frame for meeting objectives, from a few weeks to no more than a year.

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Objectives that are not "SMART"
- To reduce processing time. (Not specific, measurable, or time-bound.)
- To eliminate highway deaths. (Too broad, not realistic.)
- To complete 3,000 background record searches and 750 field investigations.

"SMART" Objectives
- To reduce by 5% the average cost of processing new hires by June 15, 2013.
- To reduce the highway death rate by 10% in FY 2013.
- To complete 750 field investigations in FY 2013.
- To complete 3,000 background record searches during FY 2013.

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How Do We Measure Our Progress?

Categories of Performance Measures

Performance measure: used to measure results and ensure accountability.

Arizona's strategic planning model incorporates five common performance measures: *input, output, outcome, efficiency* and *quality*. Each category is designed to answer a different question and must often be used in combination to analyze agency, program or subprogram results.

Inputs: measure the amount of resources needed to provide particular products or services.

Inputs include labor, materials, equipment and supplies and can also represent demand factors, such as target populations. Input measures are useful in showing the total cost of providing a service, the mix of resources used to provide the service, the demand for services, and the amount of resources used for one service in relation to other services.

Examples of input measures:

- number of clients eligible for the program
- number of customers requesting service
- amount of paving material available
- number of child abuse reports received
- number of applications received

Outputs: measure the amount of products or services provided.

Outputs focus on the level of activity in a particular program or subprogram. Workload measures, which are designed to show how staff time will be allocated to respond to service demand, are most commonly reported. Outputs are useful in defining what a program produces. However, they are limited because they do not indicate whether the program goals have been accomplished, and they do not reveal anything about the quality or efficiency of the service provided.

Examples of output measures:

- miles of highway resurfaced
- number of police reports filed
- number of AFDC applications approved
- number of patients treated and released
- number of vaccinations given to school age children per year
- number of registered autos inspected

Outcomes: measure whether services are meeting proposed targets.

Outcomes reflect the actual results achieved, as well as the impact or benefit, of programs. Both intermediate and long-term outcomes can be evaluated. Policy makers are generally most interested in outcome measures. Yet information about the ultimate result is not always available or practical to measure. In these instances, it may be necessary to use proxy or surrogate measures. For example, completion of the 12th grade is not the same as literacy, but it may be the measurement that comes closest, and the one that can currently be measured.

Examples of outcome measures:

- percentage reduction in auto emissions
- reduction in incidence of measles
- percentage of discharged patients living independently (versus homeless)
- percent decrease in repeat complaints to a regulatory board
- percent increase in new businesses attracted to the state
- percent reduction in recidivism for juvenile offenders

Output measures are often mistaken for outcome measures. Outcomes assess how effective or successful the program has been. Outputs alone cannot tell management how successful the program has been. How much work a program does is different from how well a program is working.

Efficiency: measures the productivity and cost effectiveness of a program or subprogram.

Efficiency can be measured in terms of the cost per unit of output, the ratio of outputs per unit of input and the ratio of outputs per unit of time. Ratios help express the relationships between different performance measures.

Examples of efficiency measures:

- Output/Input: number of students graduating to number of students enrolled
- Time/Output: turnaround time per application processed
- Cost/Input: cost per inmate
- Cost/Outcome: cost per patient released and rehabilitated

Quality: measures the effectiveness in meeting the expectations of customers and stakeholders.

Measures of quality include reliability, accuracy, courtesy, competence, responsiveness and completeness associated with the product or service provided. Lack of quality can also be measured: the resources that will be devoted to performing rework, correcting errors or resolving customer complaints.

Examples of quality measures:

- Number of defect-free reports compared to number of reports produced
- Number of course ratings in highest category related to total number of course ratings
- Percentage accuracy of information entered in the database
- Cost associated with errors in licenses requiring recall or cancellation

Measuring Progress

Choosing Performance Measures

One of the most difficult aspects of strategic planning is picking a balanced set of results-based performance measures to gauge the success in meeting goals and objectives. Once measures are decided on, agencies need to define the performance measures, determine data requirements, identify current baselines, set realistic performance targets based on benchmarking, and compare actual performance with expected results.

1. **Select Initial Performance Measures**
   Review the mission, vision, goals, and objectives for the agency, programs and subprograms. Keep the intermediate and final outcomes in mind. Review "service" measurements from the budget, and performance measures from existing strategic plans and the *Master List of State Government Programs*.

   Ideally, performance measures will be chosen with input from relevant staff at all levels of the agency, as well as input from customers and policy makers. The most effective measures are those which represent a consensus of what is intended and expected.

2. **Evaluate the Performance Measures**
   The following criteria can be used to evaluate performance measures:

   - Meaningful--significant and directly related to the mission and goal
   - Valid--represents what is being measured
   - Customer focused--reflect the point of view of the customers and stakeholders
   - Comprehensive-- the set includes all key aspects of program performance
   - Balanced--the set includes several types of measures
   - Credible--based on accurate and reliable data
   - Cost effective--based upon acceptable data collection and processing costs
   - Simple--easy to calculate and interpret
   - Comparable--useful for making comparisons with other data over time

3. **Select the Key Performance Measures**
   Once the entire set of performance measures has been chosen, a subset of key measures needs to be selected. While internal management will need programs to collect enough measures to capture all aspects of performance, external policy makers will be interested in the success of the program.

   For external planning documents, focus on the desired results, the primary measure of achievement and a balance between external and internal focus. Review the complete list of measures for the agency and each program and subprogram and select those that are most important based upon the mission and goals. Identify the key or *vital few* measures to report on external planning documents. Recognize that outcome, efficiency and quality measures will be most useful to decision-makers. Also consider which measures could be aggregated to the next level of management for reporting purposes.

4. **Determine Data Requirements**
   Once all measures have been chosen, the data needs of the agency, programs and subprograms will need to be determined.

   To determine what data is needed, the following should be addressed:

   - What information is currently being gathered and does it meet agency needs?
   - What new information needs to be collected?
   - Do any data collection problems exist?
   - What resources will be needed to manage performance data?
   - Are there any constraints to changing data collection?
   - How often will the data be collected: monthly? quarterly? annually?

5. **Define Performance Measures**
   Good performance measures need to be clearly defined, including exactly what is being measured, the source of the data and how the value is being calculated. Definitions that are clear and specific are not open to interpretation and this ensures that staff will be able to provide accurate and consistent information over time.

6. **Determine Baseline Performance**
   The next step is to assess current performance (where are we now?). This information is then compared with future data to measure progress and improvement. The baseline is usually derived from the most recent one-year period. If no data is available, sometimes industry averages can be used. Otherwise, data will need to be collected to establish the initial baseline.

Example of Performance Measures in Relation to Goals and Objectives

The following generic example is designed to show the relationship of goals, objectives, and performance measures. The example includes a balanced set of measures.

Adult Literacy Course

Goal:
To increase the literacy of adult students.

E
X   **Objectives:**
A   Increase the number of adult students able to read above 6th grade level to 25% in FY 2013.
M   Increase the number of adult students able to read above 6th grade level to 30% in FY 2014.
P   Increase the number of adult students able to read above 6th grade level to 35% in FY 2015.
L
E   **Performance Measures:**
     Input: Number of adults enrolled in the literacy course.
     Output: Number of adults completing the course.
     Outcomes: Number of students reading above the 6th grade level upon completion of course.
     Efficiency: Cost per student.
     Quality: Students rating course content a 5 (Scale 1 to 5).

Benchmarking

Benchmarking: involves seeking out exemplary models inside or outside of the organization, studying them to determine why they are the best at what they do, and applying what is learned.

Benchmarking data may represent: professional, national, or accreditation standards as well as quality practices; the highest or lowest rating (whichever is more desirable) in a given issue or field; or performance or workload levels set in statutes, regulations, or official guidelines.

Potential benchmarking partners can be identified through:

- previous studies
- literature from national associations
- awards given to organizations
- business/government press literature
- the Internet

Benchmarking is an ongoing process. This process consists of four stages:

1. Planning
2. Data Collection
3. Analysis
4. Setting Performance Targets

Summary

Review and Update Performance Measures

Developing good performance measures is an evolving process that improves with time. The following questions can be used to review and update performance measures, as well as goals, objectives and any other component of the model:

- What adjustments, if any, should be made to the measures currently used?
- What developments in the past year will influence current performance measures?
- Have there been any problems in measuring performance in the past year?
- What changes should be made in the way data are collected and analyzed?
- Is the measurement information useful?
- How could performance reports be enhanced?
- Are additional measures necessary?

How Do We Get There?

Action Plans

Action plan: a detailed description of the strategies and steps used to implement a strategic plan.

Action plans spell out the details of the methods, or strategies that will be used to accomplish the objectives, goals and missions of the agency and its programs and subprograms. Tasks and responsibilities are outlined in SMART (specific, measurable, aggressive/attainable, result-oriented and time-bound) steps.

Planning assumptions are often included. Planning assumptions clarify expectations about future conditions upon which the strategic plan is based. If these conditions significantly change, planning assumptions and, possibly, the strategic plan may need to be amended. This part of the process builds upon past experience, current activities and projected trends, which could significantly impact future performance.

<table>
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Sample planning assumptions for a social service agency:

- <u>Demographic:</u> The demand for services will continue to grow based on the state's population growth, changes in the family structure, and aging of the population.
- <u>Economic</u>: Due to the improving economy, unemployment will continue to decrease, creating a lower demand for the Job Training program and placement services.
- <u>Government/Legislative</u>: Welfare reform will be enacted.

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Formulating Strategies

In order to build an action plan, managers, supervisors and other key staff members must determine how to achieve the desired results. The costs, benefits and possible consequences of alternative courses of action, or strategies, must be evaluated. The most effective and efficient strategies should be selected. Researching successful programs in other State agencies, both local and out of state, can prove helpful. Private-sector organizations are also a good source of information.

Looking at other units or sections within the agency can prove fruitful. You may find similar goals, objectives and procedures that can be borrowed. Also, fellow staff members may have experience or knowledge that can be utilized.

The following questions can be used as a test of each suggested alternative:

- If implemented, is it plausible that the objective will be reached?
- What are the anticipated costs and benefits of this course of action?
- Will this course of action have a positive or negative impact on any other objectives?
- Is this objective dependent upon the successful implementation of any other objective?
- Is the agency organized to implement this course of action?
- If changes are necessary, how long will they take?
- Once implemented, will procedural changes be required?
- What are the steps necessary for implementation and how long will each step take?

Resource Allocation: the determination and allotment of resources or assets necessary to carry out strategies and achieve objectives, within a priority framework.

To avoid creating unrealistic expectations, planning decisions must be grounded in fiscal reality. The emphasis on efficient agency operations and results-oriented management also means that, regardless of the current political and economic climate, all agencies should plan under the general assumption that future funds will be limited. Budget units should consider service delivery alternatives, processes that leverage existing resources, or resource redeployment before requesting budget increases.

The following questions can be used to determine the resource needs:

- Are the resources required to implement this course of action available? If not, how will needed resources be obtained? Can resources be reallocated within the agency?

- If information resources (hardware, software, etc.) will be required, will these needs be reflected in the annual Information Technology (IT) plan?

- What will the fiscal impact of this course of action be? Will additional funding be needed?

Once the costs, benefits, possible constraints, time frames and resources have been analyzed, select the best strategy. Next, identify the steps necessary to successfully implement the strategy in order to achieve the objective. These are the action steps that will appear in the action plan.

Putting the Action Plan Together

The action plan is the level where the actual production of a program occurs. Action plans are geared toward operations, procedures and processes. The action plan describes who performs each step and when the step is scheduled for completion.

The following process is one way of managing the action plan:

1. Assign responsibility for implementation of the action plan.
2. Detail the action plan in steps.
3. Set a time frame for completion of the action plan.
4. Determine the fiscal impact of the action plan and the resources necessary to carry it out.

How Do We Track Our Progress

Tracking Systems

Tracking systems: monitor progress, compile management information and keep the plan on track.

Tracking the implementation of objectives and goals will normally be the responsibility of the individual or team responsible for completion of the action plan. Ideally, monitoring should follow a regular schedule--quarterly or monthly.

Developing a tracking document

Elements for a workable tracking document should include:
- goals
- objectives
- performance measures
- action plans, including the identification of the position, unit, section and/or division responsible for implementation
- room for comments and an explanation of the actions taken to date
- information on current status

Progress and non-progress should be reported. Report progress to date on steps in the action plan that are completed ahead of schedule and that are on schedule. If things are not progressing according to plan, report the reasons, as well as what is being done to get implementation back on track.

Agencies will develop their own methods of tracking implementation of their goals, objectives and action plans. The document needs to track the status of each action step. For example, is it on schedule, delayed, canceled, ahead of schedule, or in the planning stages? Ample space should be included for comments. Program managers should be encouraged to include as much or as little comment as is necessary to give complete information to upper management.

Monitoring Performance Measures

In addition to tracking progress on goals, objectives and action plans, performance measures should also be monitored. Data should be collected for each performance measure and reported at a regular interval. Progress reports on performance measures could be in the form of data tables or presented in charts or graphs.

Comparison of actual performance, as reported in the monitoring document, to the "planned" performance (i.e., target) provides the basis for periodic evaluation of the strategic plan and the planning process. Management should use the results of the quarterly or monthly reports to identify reasons for not meeting expected results and use this information to review and revise policies, procedures, goals and objectives, as necessary.

Tracking performance and reporting results is an important way to measure progress toward meeting the goals in the strategic plan. Assist staff by articulating some boundaries:

- Designate specific cut-off times for reporting.
- Pay special attention to continuity of data collection and calculation during personnel changes.
- Implement effective internal controls to ensure information is properly collected and reported.

For each performance measure, compare actual performance with the proposed performance level, and report the results. Ask the following questions about variances:

- How does the report compare to previous periods?
- Do external factors affect performance to the extent that targets may not be met?
- Is the variance due to a faulty project of performance?
- Are there unanticipated effects resulting from the variance?
- What kinds of explanatory data do you think will be needed to explain trends and results?
- How will the data/information be verified and checked for accuracy?
- How can you avoid unintended results from implementing the strategies?
- How will you use the data to evaluate, improve, and change your programs?
- How will you know if your program is inefficient or ineffective?

Reporting the Results

Each agency will establish its own guidelines concerning how often performance information is to be collected and reported. At a minimum, data for each measure will have to be collected annually, but some measures may be calculated more frequently.

External reporting
External stakeholders, policy makers, providers, contractors, etc., want to know how well the organization and its programs are performing. If performance measurements show a continuous improvement process with a positive impact on results, some of the stakeholders' concerns may be allayed.

Reports for policy makers should be clear and concise. Reports are often easier to read if the data are presented graphically. Reporting performance measures can also be aggregated and incorporated in annual reports.

Use explanatory information when reporting results. You can rarely measure all the variables or identify true cause-and-effect relationships. Multiple factors can influence outcomes and many are beyond the control of the program manager. Recognize that your measures have some limitations, and try to explain any unexpected results.

The following may help in the communication of results:

- Include targets as well as actual results.
- Include explanations where performance varies significantly from previous levels or targets.
- Develop reports that are user-friendly and easy to understand.
- Will the information enable readers to assess the level of performance?
- How will feedback on the reported information be gathered?

Internal reporting
Internal reports can take various forms. Chief among these are program performance evaluation, planning and budgeting activities, and implementation of improvement activities. These reports for program managers can be more detailed and are usually more frequent than those for policy makers. They may also include more process information. Sometimes the data may be separated in order to clearly convey patterns. For example, results may be more meaningful if reported by geographic area.

Conclusion

Strategic plans are a practical, action-oriented guide based on an examination of internal and external factors that directs goal-setting and resource allocation to achieve meaningful results over time.

A successful strategic plan includes:

- the full support of the director and agency's executive team
- a clear mission statement
- an inspiring and challenging vision
- clear, long-term, challenging, but realistic and achievable goals
- SMART objectives
- a balanced set of performance measures that accurately reflect the key results of the goals

A glossary of terms, references and resources can be found in the appendices of this handbook and can be used to assist agencies in each phase of the strategic planning process.

Appendices

Glossary

<u>Accountability</u> - Monitoring, measuring, and evaluating the performance and progress of policies, plans and programs to ensure that results are achieved.

<u>Action Plan</u> - A detailed description of the strategies and steps used to implement a strategic plan.

<u>Administrative Costs</u> – The accounting, human resources, budgeting, strategic planning, public information, auditing, and executive management expenses associated with the support, management, and oversight of services delivered in support of an agency, program or subprogram mission.

<u>AFIS</u> - The Arizona Financial Information System, which is the statewide accounting system maintained by the Department of Administration. Also known as USAS (Uniform Statewide Accounting System).

<u>A.R.S.</u> - An abbreviation for Arizona Revised Statutes - the laws governing the State of Arizona.

<u>Baseline</u> - Base level of previous or current performance that can be used to set improvement goals and provide a basis for assessing future progress.

<u>Benchmarking</u> - The continuous process of collecting information on external standards, processes, and/or best practices, evaluating why they are successful and applying what is learned.

<u>Biennial Budget</u> - A process that estimates revenues and expenditure for a two-year period.

<u>Budget Reform Legislation</u> - Refers to the provisions contained in Laws 1993, Chapter 252; Laws 1994, Chapter 218; Laws 1995, Chapter 283; Laws 1996, Chapter 339; Laws 1997, Chapter 210; Laws 1999, Chapter 148; and Laws 2002, Chapter 210.

<u>Budget Unit</u> - "Any department, commission, board, institution or other agency of the state organization receiving, expending, or disbursing state funds or incurring obligations against state funds." (A.R.S. § 35-101) All budget units are subject to the requirements of budget reform legislation.

<u>Capital Outlay</u> - Expenditures for the acquisition, construction, development, improvement, major maintenance, and/or preservation of buildings and property.

<u>Cost-benefit Analysis</u> - A management tool that involves calculating or estimating the known costs and potential benefits of a course of action under consideration.

<u>Critical Issues</u> - Strategic issues that are brought to the Governor's attention through the budget unit operating budget request. (See Strategic Issues.)

<u>Customer</u> – Anyone whose best interests are served by, or who receives or uses the products or services of, an agency, program or subprogram.

Efficiency Measure - A type of performance measure that reflects the productivity or cost of providing a good or service.

External Assessment - An analysis of key external elements or forces that affect the environment in which an organization functions. Also called an Environmental Scan.

Financial or Budget Manager - The person responsible for analyzing fiscal impacts of potential strategies, projecting resource allocation needs, and using the strategic plan to guide development of the annual operating and capital outlay budgets.

FTE - Full-time equivalent positions, calculated at either 2080 hours or 2088 hours per year.

Fund - An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves and equities, which are segregated for the purpose of carrying on specific activities in accordance with limitations, restrictions or regulations.

FY - An abbreviation for Fiscal Year. Arizona's fiscal year begins July 1 and ends June 30; the Federal fiscal year begins October 1 and ends September 30.

GAO - The General Accounting Office of the Arizona Department of Administration.

GITA - An abbreviation for the Government Information Technology Agency.

Goal - The desired end result, generally after three or more years.

HB - An abbreviation used to denote a House Bill

Input - A type of performance measure that identifies the amount of resources needed to provide particular products or services.

Internal Assessment - An evaluation of an organization's position, performance, problems and potential. Also called a Situation Inventory.

IT - An abbreviation for Information Technology.

JLBC - The Joint Legislative Budget Committee consisting of 16 members of the Legislature which include the following members: Majority Leaders of both the House and Senate; Chairmen of both the House and Senate Appropriations Committees; Chairman of the Senate Finance Committee; Chairman of the House Ways and Means Committee; 5 members of the House Appropriations Committee; and 5 members of the Senate Appropriations Committee.

JLBC Staff - The Legislative counterpart to the OSPB; they prepare an analysis of the Governor's budget recommendation as soon as it is presented to the Legislature. *Note:* Although the Joint Legislative Budget Committee Staff is often referred to as the JLBC, it should not be confused with the Legislative Committee described above.

Master List of State Government Programs – A list, published by OSPB, which inventories all programs and subprograms in Arizona state government. Included in the list are: *agency* descriptions, missions, goals, objectives, performance measures and summary FTE and funding information; and program and subprogram descriptions, missions, goals, performance measures and FTE and funding information.

Mission - A brief, comprehensive statement of purpose of an agency, program, or subprogram.

Objectives - Specific and measurable targets for accomplishing goals.

Operating Budget - A plan of all proposed expenditures other than capital expenditures, including Personal Services, Employee Related Expenditures, Professional and Outside Services, Travel, Other Operating Expenses, and Equipment.

OSPB - An abbreviation for the Governor's Office of Strategic Planning and Budgeting. The OSPB staff advises the Governor in the preparation of the Executive Budget, facilitates a strategic planning process for state government and is responsible for implementing many of the provisions of budget reform legislation.

Outcome - A type of performance measure that reflects the actual results achieved, as well as the impact or benefit, of a program.

Output - A type of performance measure that focuses on the level of activity in a particular program or subprogram.

Performance Measures – Used to measure results and ensure accountability.

Performance Targets - Quantifiable estimates of results expected for a given period of time.

Planning Assumptions - Expectations concerning future trends that could significantly impact performance (derived from the Internal/External Assessment results).

Principles – The core values and philosophies that describe how an agency conducts itself in carrying out its mission.

Program – Activities that result in the accomplishment of a clearly defined mission.

Quality Management - An integrated management methodology that aligns the activities of all employees in an organization with the common focus of customer satisfaction through continuous improvement in the quality of all activities, goods, and services.

Quality Measure - A type of performance measure that reflects the effectiveness in meeting the expectations of customers and stakeholders.

Resource Allocation - The determination and allotment of resources or assets necessary to carry out strategies and achieve objectives, within a priority framework.

SB - An abbreviation used to denote a Senate Bill.

SLI - An abbreviation used to denote a special line item in the appropriations bill.

Stakeholder – Any person or group with a vested interest in or with expectations of a certain level of performance or compliance from an agency, program or subprogram.

Strategic Issues - Those concerns of vital importance to the organization, which often impact several or all of the programs in an agency.

Strategic Management - The process of positioning an organization so it can prosper in the future. The overall framework within which policy development, strategic/quality planning, programmatic operational planning and budgeting, capital outlay planning and budgeting, program implementation, program evaluation and accountability take place.

Strategic Plan - A practical, action-oriented guide based on an examination of internal and external factors that directs goal-setting and resource allocation to achieve meaningful results over time.

Strategic Planner - A person who provides the coordination and tools for moving the organization through the planning process.

Strategic Program Area Review (SPAR) - A formal evaluation of state government programs or subprograms. The SPARs are conducted in three phases: an agency self-assessment, a review and joint report by OSPB and JLBC Staff, and recommendations to retain, eliminate or modify the programs or subprograms.

Subprogram - Two or more integral components of a program that can be separately analyzed to gain a better understanding of the larger program.

SWOT Analysis – An abbreviation used to denote an analysis of an organization's internal **S**trengths and **W**eaknesses, and external **O**pportunities and **T**hreats. Also called an Internal/External Assessment.

Tracking Systems - Monitor progress, compile management information and keep goals on track.

Vision - A compelling, conceptual image of the desired future.

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Resources

- To obtain further information on **strategic planning and performance measures**, contact the Governor's Office of Strategic Planning and Budgeting at 542-5381.

- The Handbook is available on the OSPB website at http://www.azospb.gov.

- For information on current **budget assumptions**, refer to your agency's most recent budget submittal, the most recent OSPB Budget Instruction Manual or call your OSPB Budget Analyst at 542-5381.

- For information on **technological trends and the State's Information Technology Strategic Plan**, contact the Government Information Technology Agency (GITA) at 340-8538