United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Government Management, Information and Technology
Committee on Government Reform and Oversight
House of Representatives

For Release on Delivery
Expected at
2:00 p.m. EDT
Tuesday
June 20, 1995

MANAGING FOR RESULTS

Critical Actions for Measuring Performance

Statement of Johnny C. Finch
Assistant Comptroller General
General Government Programs
and
Christopher Hoenig
Director, Information Resource Management/
Policies and Issues
Accounting and Information Management Division

GAO/T-GGD/AIMD-95-187

Managing for Results: Critical Actions for Measuring Performance

Summary of Statement by Johnny C. Finch
Assistant Comptroller General
General Government Programs and
Christopher Hoenig
Director, Information Resource Management/
Policies and Issues
Accounting and Information Management Division

Too many structures and processes that may have worked well years ago no longer allow the government to respond quickly and effectively to a rapidly changing world where the resources available for public purposes are being significantly reduced. While the need for change is great, the challenges are both complex and long-term.

The federal government faces many challenges that are not individually unique to the public sector but in combination tend to make fundamental performance improvements more difficult to achieve. For example, many federal agencies have not yet developed the processes, systems, and information needed to successfully manage their operations. Even as these challenges are faced and met, private sector experience has shown that many improvement efforts which yield substantial benefits have taken several years to plan and implement.

GAO's work on federal, state, foreign, and private sector reform efforts has shown that the following actions are critical for developing and using performance measures to improve programs:

(1) focus on mission and desired results;
(2) involve key stakeholders--those with a direct interest in the success of the program--in the development of the performance measures;
(3) develop performance measurement systems that are outcome-linked, significant, responsive to multiple priorities, and responsibility-linked, as well as based on credible information; and
(4) use performance information and benchmarking in the selection of process improvement techniques most likely to enhance performance.

In passing the landmark Government Performance and Results Act--the federal government's major statutory performance measurement initiative--Congress recognized that its ability to make sound decisions was hampered by the absence of sound financial and performance information. As a result, Congress has a central role in ensuring that agencies establish appropriate strategic goals, define proper performance measures, and develop useful performance information to meet both congressional and executive branch needs.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to contribute to this Subcommittee's series of hearings on federal management. The Subcommittee has recognized that the state of management in the federal government needs to be improved substantially to meet the public's demand for a more cost-effective government. Too many structures and processes that worked well years ago no longer allow the government to respond quickly and effectively to a rapidly changing world where the resources available for public purposes are being significantly reduced. There is a growing consensus among the public, Congress, and the administration that the federal government's performance must improve substantially. However, many agencies lack the critical performance information needed to determine what to improve, by how much, and how rapidly.

The federal government faces many challenges that are not individually unique to the public sector but in combination tend to make fundamental performance improvements more difficult to achieve. For example, the government's multiple stakeholders make it difficult to reach consensus on mission, goals, and performance measures. Also, many federal agencies have not yet developed the processes, systems, and information needed to successfully manage their operations. Even if these challenges are faced and met, private sector experience has shown that improvement efforts that yield substantial benefits have taken years to plan and implement.

When we testified before this Subcommittee last month, we noted that agencies need to develop more precise outcome-oriented performance goals and to better measure performance to manage for results.[1] As agreed, our statement today will elaborate on how agencies can better measure their performance. Specifically, we will discuss the actions that our work on federal, state, foreign, and private sector reform efforts has shown to be critical for developing and using performance measures to improve the effectiveness, efficiency, quality, and timeliness of federal programs. These actions are as follows:

(1) focus on mission and desired results;

(2) involve key stakeholders--those with a direct interest in the success of the program--in the development of the performance measures;

(3) develop performance measurement systems that have certain characteristics in order to produce relevant performance information for program managers, staff, and other decision-makers; and

---

[1]Managing for Results: Steps for Strengthening Federal Management (GAO/T-GGD/AIMD-95-158, May 9, 1995).

(4) use performance information in the selection and use of process improvement techniques that will further enhance performance.

My comments today are based on our reports on leading state, foreign, and private sector efforts to create a more results-oriented environment and our ongoing work on federal implementation of the goal-setting and performance measurement requirements of the Government Performance and Results Act (GPRA) and related initiatives.[2] Next week, as requested by the Subcommittee, we will discuss a fuller range of issues involving the early implementation efforts under GPRA--the federal government's major statutory initiative for goal-setting and program performance measurement.

FOCUS ON MISSION AND DESIRED RESULTS IS ESSENTIAL FIRST STEP TO MEASURE PERFORMANCE

First and foremost, successful performance measurement efforts require agencies to have a clear understanding of their mission, customers, and desired results. In the federal government, management and accountability traditionally have focused on inputs and processes rather than on the mission, performance, and outcomes of federal programs. In addition, many federal agencies are only beginning to identify their customers and define those customers' needs. Thus, developing and maintaining a focus on defining mission, achieving mission-specific results, and satisfying customers' needs will require a change for many federal agencies. Our work on the experiences of leading state and foreign governments clearly demonstrates that, while such a change is essential to measure performance and improve effectiveness, it will not come quickly or easily.[3] In our review of private sector efforts, we found that making such organizational changes was a long-term process that could take 5 to 10 years to accomplish.[4]

Our general management reviews over the last decade have shown that many agencies have not developed the basic elements of a strategic management process that effectively

---

[2]Managing for Results: Experiences Abroad Suggest Insights for Federal Management Reform (GAO/GGD-95-120, May 2, 1995); Government Reform: Goal-Setting and Performance (GAO/AIMD/GGD-95-130R, Mar. 27, 1995); Managing for Results: State Experiences Provide Insights for Federal Management Reforms (GAO/GGD-95-22, Dec. 21, 1994); and Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology (GAO/AIMD-94-115, May 1994). Also see our reports included as footnotes and the "Related GAO Products" section of this statement.

[3]GAO/GGD-95-120, May 2, 1995, and GAO/GGD-95-22, December 21, 1994.

[4]Organizational Culture: Techniques Companies Use to Perpetuate or Change Beliefs and Values (GAO/NSIAD-92-105, Feb. 27, 1992).

relates agency mission, program goals, and strategies for achieving desired results.[5] GPRA provides a statutory framework for federal agencies to employ a strategic management process that includes the development of strategic plans and performance measures that focus on outcomes.

The experiences of the Coast Guard provide an example of how strategic planning that focuses on outcomes can lead agencies to redirect their efforts and contribute to dramatic improvements in effectiveness. The mission of the Coast Guard's marine safety programs is to protect the public, the environment, and U.S. economic interests through the prevention and mitigation of marine incidents. Through its strategic planning process, the Coast Guard recognized that, although it traditionally concentrated on inspecting the physical condition of ships, two-thirds or more of all reported casualties were caused by human error. When the Coast Guard began to focus on the outcomes it was trying to achieve, such as fewer injuries and fatalities, rather than on activities, such as inspections, it fundamentally shifted its program efforts. For example, the Coast Guard worked in partnership with the towing industry to build the knowledge and skills of towing industry employees. The Coast Guard's redirected efforts contributed to a significant decline in the towing industry fatality rate, from 91 per 100,000 industry employees in 1990 to 36 per 100,000 in 1994.

STAKEHOLDER INVOLVEMENT IS CRITICAL TO ENSURING PERFORMANCE MEASURES ARE USEFUL

Working with multiple internal and external stakeholders can pose a challenge for federal agencies in developing performance measures. Customers and other key stakeholders are important because they have a central role in defining whether a program is successful. The involvement of multiple stakeholders helps agencies to ensure that their performance measures (1) are developed properly; (2) target a program's outcomes; and (3) will be useful to a wide range of congressional, agency, and other users. We have found that a lack of agreement among the stakeholders on an agency's goals and intended program outcomes can limit the use of performance information to improve effectiveness.

Leading states' efforts to develop and use performance measures underscore the importance of the executive and legislative stakeholders reaching a consensus on the types, value, and format for presenting performance information. We reported in February 1993 that the difficulty some states had in achieving stakeholder consensus on

---

[5] Managing IRS: Important Strides Forward Since 1988 But More Needs to Be Done (GAO/GGD-91-74, Apr. 29, 1991); General Services Administration: Status of Management Improvement Efforts (GAO/GGD-91-59, Apr. 3, 1991); and Management of VA: Implementing Strategic Management Process Would Improve Service to Veterans (GAO/HRD-90-109, Aug. 31, 1990).

meaningful performance measures was a key reason performance measures had not attained sufficient credibility to influence decisions on resource allocation.[6] Our December 1994 report on leading state management reforms continued to emphasize the importance of executive and legislative branch officials working together early in the development of performance measures.[7]

We reported that Oregon, a national leader in state government efforts to reach out to stakeholders, brought together diverse internal and external stakeholders in order to reach consensus on statewide goals. Oregon business, city, county, community, and state representatives, as well as legislators from both parties, met in 12 regional meetings over 6 months to develop the Oregon Benchmarks--Oregon's statewide outcome goals. As a result, these stakeholders shared a common focus on specific statewide goals that they did not have before. These shared goals formed the basis for cooperative state, local, private, and non-profit sector efforts.

To apply this lesson at the federal level, the executive branch and Congress must work closely to ensure that appropriate strategic goals are established, proper performance measures are defined, and useful performance information is developed to meet both congressional and executive branch needs. In passing GPRA, Congress noted that its ability to make sound decisions was hampered by the absence of sound financial and performance information. While a wealth of information exists and is reported to Congress on the activities that agencies perform, little is reported on the outcomes of those activities.

Our work on the experiences of leading organizations also has shown that obtaining the views of agency managers and staff is essential to the development of sound performance measures. A major benefit of involving these individuals in the development of the measures is that they are closest to the programs and customers. Therefore, they will be among those who know best what should be measured to determine progress toward meeting strategic goals. Agency managers and staff also will be more inclined to use performance information to improve program services and delivery if they were involved in developing the measures.

The U.S. Army Corps of Engineers is an example of how a federal agency is working to involve managers and staff in the development of performance measures and to foster support throughout an organization. The Corps' Civil Works Operation and Maintenance Program is responsible for managing water resources by maintaining navigable waterways, controlling flooding, and promoting environmental stewardship.

---

[6]Performance Budgeting: State Experiences and Implications for the Federal Government (GAO/AFMD-93-41, Feb. 17, 1993).

[7]GAO/GGD-95-22, December 21, 1994.

The Corps' process for developing performance measures was one of shared leadership and team-developed measures. The Corps developed a tiered concept so that each level of the organization--headquarters, district, and project--assisted in setting measures that were meaningful at that level. Under this approach, senior management officials at the headquarters level were responsible for defining the operation and maintenance mission and key results areas. Actual performance measures were developed at successive levels. The Corps plans to implement these new measures in fiscal year 1996.

SUCCESSFUL PERFORMANCE MEASUREMENT SYSTEMS HAVE COMMON CHARACTERISTICS

Our work on leading state and foreign governments' and federal agencies' efforts to set outcome-oriented goals, measure performance, and use performance information found that the content of performance measures naturally will vary by program. However, successful performance measurement systems typically produce measures that are outcome-linked, significant, responsive to multiple priorities, and responsibility-linked, as well as based on credible information.

Performance Measures Should Be Linked to Outcomes

Successful performance measurement systems focus on program outcomes to the extent practicable. Our work has shown that outcome measures should (1) indicate the degree to which strategic goals are being met and (2) gauge the impact of a program's products or services. To establish this cause-and-effect relationship poses a difficult and formidable challenge.

Many federal agencies will need to make substantial progress before they are able to successfully link their performance measures to outcomes. For example, we have found that federal rural development agencies have done little to analyze the impact of their programs on the development of rural areas.[8] Some agencies, such as the Department of Agriculture's Rural Business and Cooperative Development Service[9] and the Department of Commerce's Economic Development Administration, attempted to determine the results their programs achieved by using output measures, such as the number of grants made or number of people temporarily employed on a short-term project. While such information is valuable for program management and accountability, it does not present the most complete picture of the results of the federal effort. More outcome-oriented performance measures, such as a project's contribution

---

[8]Rural Development: Patchwork of Federal Programs Need to Be Reappraised (GAO/RCED-94-165, July 28, 1994).

[9]The Rural Business and Cooperative Development Service was formerly named the Rural Development Administration.

to an increased tax base or income growth, would show the impact of federal efforts on the targeted economy.

Nevertheless, the efforts of some agencies that the Office of Management and Budget identified as leaders in implementing GPRA suggest that it is possible to focus a program on outcomes and to measure whether those outcomes are being attained. For example, as I discussed earlier, by focusing on outcomes, the Coast Guard's redirected efforts have contributed to a significant decline in fatalities.

Performance Measures Should Be Limited to a Few

Our work has shown that the experiences of leading organizations suggest that the number of measures should be limited to a vital few that provide the most needed information for accountability, policymaking, and program management. Using a few significant performance measures provides a clearer basis for assessing accomplishments, facilitating decision-making, and focusing on accountability. Too many measures, including those that have little value for stakeholders, can confuse and overwhelm users or make a performance measurement system unmanageable.

The National Oceanic and Atmospheric Administration (NOAA) provides an example of an agency that has begun to use a few significant measures to focus on outcomes. For example, it has set an outcome-oriented goal to increase the warning time before tornados, hurricanes, and floods by improving performance. Agency officials determined that the most meaningful performance measures to gauge tornado warnings are the number of minutes that elapse in predicting tornados and the accuracy of those predictions. Thus, while NOAA continues to use an array of process measures for internal management purposes, elapsed time and accuracy are now viewed as the critical measures for determining the overall success of its efforts. Preliminary estimates show that NOAA increased the lead time in predicting tornados from 7 to 8 minutes and increased the accuracy of its predictions from 47 to 53 percent of the time from fiscal year 1993 to fiscal year 1994.

Performance Measures Should Address Multiple Priorities

Our work has shown that public organizations face a variety of competing interests and demands that continuously force policymakers and program managers to strike difficult balances. As a result, the performance measures that are developed need to address various aspects of program performance and balance priorities among several goals. Managers must balance quality, cost, and customer service and weigh the impact of improving any one or two of these measures on the others. Agencies can ensure that they remain sensitive to these inherent tensions of delivering public programs and services by using performance measures that force a balance among competing priorities.

The Veterans Health Administration (VHA) of the Department of Veterans Affairs is an example of an agency that is trying to balance competing measures to gauge overall performance. According to VHA, accurately assessing the quality of a service or product depends on having measures in three key areas: customer satisfaction, the medical industry's standards of quality, and cost limitations. The relationships among these measures represent competing demands on VHA. For example, the demand to reduce costs, which might be met by strictly holding to appointment schedules, could shorten the amount of time a patient would like to spend with the doctor and reduce customer satisfaction. Currently, VHA is monitoring its progress in balancing these competing demands.

Performance Measures Should Be Responsibility-Linked

Our work has shown that leading organizations try to link their performance measures to specific organizational units or to the individuals that have responsibility for program performance. Through this linkage, the responsible organizational unit is held accountable for program results. This accountability helps to ensure that day-to-day activities remain focused on achieving the outcomes the organization is trying to attain. The experiences of leading foreign countries present different models of accountability for results.[10]

For example, since 1991, the United Kingdom's Citizen's Charter reforms have called for individual agencies to publish service standards, measure performance against those standards, and solicit citizen feedback on performance. According to the 1994 Citizen's Charter report, the United Kingdom has published 38 Citizen's Charter documents covering major public services and setting out the specific service standards and remedies that citizens could expect if the standards were not met. For example, the Post Office was to compensate customers for the late arrival of a special delivery item by refunding twice the fee paid or a book of First-class stamps, whichever was greater.

Our work on leading foreign countries has shown that, although there is broad agreement on holding agencies accountable for achieving results, there is as yet no consensus on the best approach for holding individuals accountable. For example, New Zealand and the United Kingdom have chosen to hold government ministers accountable for outcomes, recognizing that program managers do not control all of the factors that may affect an outcome. These countries have chosen to hold program managers accountable for efficiently providing specified goods and services on which the managers and ministers have agreed, rather than the outcomes of those goods and services. Australia and Canada have taken a different approach. While also recognizing that their managers did not control all the factors that contributed to program outcomes,

[10]GGD-95-120, May 2, 1995.

Australia and Canada have chosen to hold program managers accountable for assessing the overall effectiveness of their programs and for reporting on how controllable and uncontrollable factors affected program outcomes.

Credible Financial and Performance Information Is Essential for Sound Decision-making

Our work has shown that reliable financial and program performance information is a fundamental prerequisite for improving the management of government programs and providing the needed accountability for program results.[11] Consequently, agencies must have the systems, processes, and skills to generate and use this information. Accurate and timely financial and program performance information is essential for government leaders to control costs, achieve needed management improvements, or make tough budget decisions.

However, our work has shown that today's financial systems provide agency managers and Congress with little meaningful financial information. For example, most government financial management systems are as yet unable to routinely perform the most rudimentary bookkeeping functions. With the passage of the Chief Financial Officers Act of 1990 and the more recent Government Management Reform Act of 1994, Congress paved the way for the federal government to have the same kind of financial statement reporting that is required in the private sector and by state and local governments.[12] Beginning in fiscal year 1996, the 24 major agencies that constitute virtually the entire executive branch budget are to prepare entitywide annual financial statements and to have those statements audited.

Program performance and financial information that managers and other decision-makers need to guide resource allocations and improve business processes come from sound, well-run information technology systems. Unfortunately, the federal government's current use of technology to gather and analyze financial and program information is also a source of great concern. The government has spent or obligated more than $200 billion on information systems and related technology activities over the past 12 years. However, our work has shown that the government has invested heavily in costly information system projects and related technology that often fail to produce dramatic service improvements or significant reductions in personnel and administrative

---

[11]GAO/T-GGD/AIMD-95-158, May 9, 1995.

[12]Financial Management: CFO Act Is Achieving Meaningful Progress (GAO/T-AIMD-94-149, June 21, 1994).

costs.[13] We have found that information systems projects are frequently developed late, fail to work as planned, and cost millions--even hundreds of millions--more than expected.

The recent reauthorization of the Paperwork Reduction Act in 1995 incorporated essential changes relating to information technology in line with the principles and practices we have identified from our work.[14] For example, the act requires agencies to promote the use of information technology to improve the productivity, efficiency, and effectiveness of government programs, including improvements in the delivery of services to the public. It also requires agencies to assume responsibility and accountability for maximizing the value and assessing and managing the risks of information systems initiatives. To do so, agencies will require well-defined processes to select, control, and evaluate technology investment decisions.

USING PERFORMANCE INFORMATION AND BENCHMARKING TO SET GOALS AND IMPROVE PROCESSES

Even the best performance information is of limited value if it is not used to identify performance gaps, set improvement goals, and improve results. Our work has shown that successful organizations recognize that it is not enough just to measure outcomes. Instead, they also assess the main processes that produce the products and services that lead to outcomes. Such organizations typically assess which steps or activities of a process are the most costly, consume the most labor resources, and take the most time to complete. By analyzing the gap between where they are and where they need to be to achieve desired outcomes, management can target those processes that are in most need of improvement, set realistic improvement goals, and select an appropriate process improvement technique.

Using Benchmarking to Compare With Leading Organizations

By setting realistic performance goals and taking advantage of existing knowledge of processes or practices, an organization can (1) choose areas of concentration for process improvement efforts, (2) set specific strategies to achieve those improvements, and (3) learn new or better ways of implementing changes to core processes. Using performance measurement information, an organization can compare--or benchmark--its performance with that of world-class organizations. Benchmarking is a critical part of an effective

---

[13] Information Management and Technology Issues (GAO/OCG-93-5TR, Dec. 1992) and Government Reform: Using Reengineering and Technology to Improve Government Performance (GAO/T-OCG-95-2, Feb. 2, 1995).

[14] GAO/AIMD-94-115, May 1994.

improvement program because it helps an organization identify outstanding levels of performance that actually have been achieved.

Benchmarking therefore helps define specific reference points for setting goals for improving performance. It leads an organization to compare the performance of its processes and the way the processes are conducted with either (1) internal organizational pockets of excellence or (2) relevant peer organizations to obtain ideas for improvement. Peer organizations may be in the same industry or "best-in-class" in a given process or practice, such as product development, inventory management, claims processing, or customer relations.

The objective of benchmarking is to target those areas most in need of improvement and set goals that will dramatically raise the level of performance in those areas. For example, the Xerox Corporation was among the first to use benchmarking to set ambitious performance goals and dramatically improve performance. Faced in the early 1980s with a highly competitive marketplace, Xerox sought to elevate its Business Products and Systems group to world-class status. It devised a benchmarking system to measure business performance in 240 key areas, such as purchasing, customer service, and financial management. The ultimate target for each area was set at the level of performance achieved by the world leader, regardless of industry. By 1989, when it won the Malcolm Baldrige National Quality Award, Xerox's gains over the previous 5 years included a 78-percent decrease in the number of defects per 100 machines, a 40-percent decrease in unscheduled maintenance, and a 27-percent drop in service response time (nearly 2 hours). Xerox also became the first in the industry to offer a 3-year product warranty.

As the Xerox example suggests, successful organizations typically create ambitious performance goals aimed at achieving dramatic improvements in performance, rather than settling for marginal improvements of just a few percentage points. However, the goal-setting process requires careful consideration. Performance goals should be realistically achievable to avoid negative consequences, such as employee disillusionment or customer dissatisfaction, if they are not met. At the same time, setting goals that are too modest can also be counterproductive. They may lead the organization to focus on optimizing current work processes that are inherently inefficient, thereby further entrenching the processes and making them even more difficult to change. Ambitious, or stretch, goals help challenge and motivate an organization to fundamentally rethink how it does its work. Benchmarking is helpful because knowing what others actually are accomplishing helps reduce internal resistance to change built up around perceptions of what can be done and what should be attempted.

In addition to attempting to establish realistic, attainable goals at the outset of the planning process, it is important for organizations to recognize that goal-setting is an iterative process and requires some flexibility. Our work has shown that successful organizations regularly reevaluate their performance goals to ensure that they are still practical and appropriate to the evolving business environment and to challenge themselves to meet even higher levels of performance. At Motorola, for example, an iterative goal-setting process is part of the organization's aggressive and ongoing commitment to continuous performance improvement. In 1981, the company set out to achieve a tenfold improvement in quality. Once this was accomplished, however, Motorola realized that achieving a one-time tenfold goal was not ambitious enough. In January 1987, it established the "Six Sigma" challenge, a goal for achieving a standard of near-zero defects. As part of the Six Sigma effort, Motorola's goals now call for a tenfold reduction in defects every 2 years. This means that quality lapses now measured in defects per <u>million</u> are in 6 years to be measured in defects per <u>billion</u> and in 12 years in defects per <u>trillion</u>.

Performance Measurement and Benchmarking Are the Basis for Selecting Appropriate Process Improvement Techniques

Because ambitious performance improvements are so difficult to achieve, it is important that federal agencies adopt and execute a comprehensive framework for managing their improvement efforts. Performance measurement and benchmarking are key elements of an improvement framework, in part because they help an agency understand the nature of the gap between current and desired performance levels. They are also instrumental in helping the agency to select the appropriate process improvement technique, or the means, by which to improve poorly performing business processes. The size of the performance gap helps determine how much change is needed and the time frame for accomplishing the change.

For example, the Harper Group, an air-freight forwarder based in San Francisco, decided that it needed to set ambitious goals to address its performance gap. A problem that it faced was that it relied on supplier airlines--air carriers--to deliver its goods. The company set what to many seemed an unrealistically high goal--97 percent on-time performance--and proceeded to work cooperatively with supplier airlines to meet that standard. In the Harper Group's top 20 markets, on-time deliveries improved from roughly 65 percent to the high 90 percent range within 7 months from the start of the improvement process.

Our work has shown that leading organizations use a variety of improvement techniques, depending on (1) the seriousness of the performance problem; (2) the speed with which a process must be improved; and (3) a careful consideration of the costs, benefits, risks, and barriers to change. These techniques include continuous process improvement, process redesign, and business process reengineering.

<u>Continuous process improvement</u> focuses on improving by incremental changes to one or more work tasks performed within a single business process. This technique is appropriate in cases where performance measurement indicates that the gap between current performance and customer expectations, or desired results, is small. It is often

carried out by process improvement teams made up of the staff who are responsible for carrying out the work task that is to be improved. The risks of failure are low and improvements should be expected in less than a year.

Process redesign focuses on improving an entire business process--or a major subprocess--where performance measurement and benchmarking indicate the opportunity or need for significant performance gains. Because it often requires additional resources or a redistribution of existing resources, redesign requires more senior management attention than continuous process improvement. Redesign often affects several parts of an organization, reporting relationships, procedures and policies, and skill needs. The length of redesign efforts typically ranges from several months to 2 years.

Business process reengineering focuses on radically altering many of the processes of an organization, using an approach that critically reexamines, rethinks, and redesigns how the organization supports its mission. The purpose of reengineering is to achieve dramatic levels of performance improvement organizationwide. It may be the appropriate technique to use when performance measurement and benchmarking indicate an opportunity or need for dramatic performance gains. However, the "pain" of reengineering implementation is high because of the far-reaching nature of changes brought about by this technique. Reengineering efforts can range in length from 2 to 5 years.

Reengineering is perhaps the most frequently discussed improvement technique today. Its attraction is in its promise of achieving high levels of improvement in cost, quality, and timeliness that can help propel an organization into a leadership position in its market. Our work with leading organizations indicates that accomplishing significant improvements in performance nearly always requires that critical work processes be redesigned or reengineered in conjunction with the application of information technology. Information technology projects aimed at improving performance that do not involve process improvement may fail to yield any significant, long-term benefits. Our reviews of major system modernization efforts across the government have shown that many federal agencies are still automating current ways of doing business. This results in the expenditure of millions of dollars with little or no benefit and lost opportunities to fundamentally improve government performance and public satisfaction.

As an example of the failure to reengineer before automating processes, the Veterans Benefits Administration (VBA) of the Department of Veterans Affairs embarked on a modernization effort aimed at speeding up the processing of veterans' compensation claims. We recently reported that in 1992, a veteran had to wait an average of 151 days--

more than a third of a year--for an original compensation claim to be processed.[15] VBA planned for the modernization effort to eventually involve the acquisition of up to $680 million in computer and communications equipment. VBA, however, neglected to set new performance goals and redesign its current claims process before acquiring the equipment. In our review of this modernization effort, we determined that applying new technology to VBA's current process would only improve service by 6 to 12 days.

Like VBA, the Social Security Administration (SSA) needs to improve the efficiency and effectiveness of its work processes. However, unlike VBA, SSA has recognized its need to fundamentally improve its disability determination process in order to achieve major performance improvements. SSA's disability claims determination process is highly inefficient and paper-driven. When SSA measured the performance of this process in 1993, it found that an average of 155 days elapsed from a claimant's first contact with SSA to an initial decision. Usually only about 13 working hours were spent on the claim, but as many as 26 people handled it before an initial claim decision was reached. SSA's goal is to reduce its initial claims processing time to an average of 60 days.

Organizations that have reengineered successfully generally followed a set of identifiable practices, including strong executive leadership and commitment, a shared recognition and willingness to change, a clear strategic vision of the organization's future, a sound methodological approach to reengineering, and--most crucially--the ability of the organization's leadership and staff to successfully implement and manage the potentially profound and painful changes that are inherent in fundamentally altering the way business has been done in the past.[16] Reengineering efforts that do not follow these practices significantly increase their risk of failure. These risks are very high because the scope and complexity associated with reengineering are so great. It involves comprehensive changes not simply to business processes but to management and support structures, people and organizations, technology and information systems, and policies and regulations.

Importance of Ongoing Performance Measurement and Benchmarking in Sustaining Process Improvements

Sustaining improvement and institutionalizing a results-oriented focus requires ongoing performance measurement, benchmarking, and process improvement. Leading organizations show that these activities are not only essential at the beginning of improvement efforts--regardless of the process improvement techniques used--but also

[15]Reengineering: Opportunities to Improve (GAO/AIMD-95-67R, Jan. 6, 1995).

[16]Reengineering Organizations: Results of a GAO Symposium (GAO/NSIAD-95-34, Dec. 13, 1994).

after the improved processes have been implemented. Put simply, an organization must strive to continually better the way it carries out its mission. Ongoing performance measurement and benchmarking are essential feedback mechanisms for controlling costs, correcting unanticipated problems in improved processes, and identifying new needs and opportunities to make further improvements. If an organization fails to respond to those needs and opportunities, its performance will erode over time.

\- - - - -

In summary, Mr. Chairman, although some federal agencies are making progress in establishing well-defined, meaningful, and sound performance measures, most agencies still have a long way to go. The experiences of leading state and foreign governments, federal agencies, and businesses provide valuable lessons for federal agencies as they begin to implement GPRA's performance measurement requirements and redesign their critical work processes to achieve significant improvements.

Agencies are confronted with the central issue of developing performance measurement processes that focus on outcomes that are important to key stakeholders while also providing the critical management information needed to improve business processes to achieve those outcomes. Given the challenges that agencies face and the need to make significant performance improvements during a time of severely limited resources, Congress has an essential role to play through its oversight, appropriation, and authorization capacities.

This concludes our prepared statement. Mr. Chairman, we would be pleased to answer any questions you or Members of the Subcommittee may have.

RELATED GAO PRODUCTS

EDA's Management Challenges (GAO/GGD-95-62R, Feb. 17, 1995).

Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, Dec. 5, 1994).

Management Reforms: Examples of Public and Private Innovations to Improve Service Delivery (GAO/AIMD/GGD-94-90BR, Feb. 11, 1994).

Improving Government: Actions Needed to Sustain and Enhance Management Reforms (GAO/T-OCG-94-1, Jan. 27, 1994).

Improving Government: Measuring Performance and Acting on Proposals for Change (GAO/T-GGD-93-14, Mar. 23, 1993).

Financial Management Issues (GAO/OCG-93-4TR, Dec. 1992).

Government Management Issues (GAO/OCG-93-3TR, Dec. 1992).

Program Evaluation Issues (GAO/OCG-93-6TR, Dec. 1992).

The Public Service (GAO/OCG-93-7TR, Dec. 1992).

Quality Management: Survey of Federal Organizations (GAO/GGD-93-9BR, Oct. 1, 1992).

Performance Measurement: An Important Tool in Managing for Results (GAO/T-GGD-92-35, May 5, 1992).

Program Performance Measures: Federal Agency Collection and Use of Performance Data (GAO/GGD-92-65, May 4, 1992).

The Chief Financial Officers Act: A Mandate for Federal Financial Management Reform (GAO/AFMD-12.19.4, Sept. 1991).

Management Practices: U.S. Companies Improve Performance Through Quality Efforts (GAO/NSIAD-91-190, May 2, 1991).

(246086)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (301) 258-4097 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

United States
General Accounting Office
Washington, D.C. 20548-0001

Bulk Mail
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use $300

Address Correction Requested