Performance improvement and the stimulus

Public institutions receiving stimulus funds have a historic opportunity: they can introduce metrics that will continue to drive performance even after the economic crisis.

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According to conservative estimates, more than 30 countries have put together nearly $2 trillion—or more than 3 percent of global GDP—in fiscal stimulus packages. These include packages from the United States ($787 billion), China (4 trillion yuan), Germany (€82 billion), Mexico ($54 billion), France (€26 billion), and the United Kingdom (£25.6 billion). A major component of these packages is increased government spending in the form of stimulus funds awarded to many government organizations at the federal, state, and local levels.

In return, these organizations will be accountable—both to the federal government and to the public—to show that they are using stimulus funds wisely. The Obama administration, for one, has said it is committed to "an unprecedented level of transparency and accountability."[1] But because stimulus accountability is being mandated at the national level in the United States, the metrics tend to revolve around broad indicators of impact (for example, number of jobs created) and general downsides (such as preventing waste, fraud, and abuse).

We believe public agencies, state governments, and other recipients of stimulus funds should not only track their performance against these high-level metrics but also take advantage of the stimulus to establish metrics that will serve as performance-improvement tools beyond the stimulus. In our work with public institutions in various sectors that have been given priority for stimulus funding—including infrastructure, energy, education, and health—we have found that sustaining operational excellence depends on three critical steps: deriving performance metrics from "value drivers," which are the factors that contribute to achieving an organization's desired outcomes; tracking performance against these metrics; and then making those metrics matter to the organization. Under normal circumstances, taking these steps might be seen as low priority or even controversial, but the stimulus gives leaders of public institutions a historic opportunity to overcome the cultural inertia that often gets in the way of measuring and managing performance.

Deriving metrics from value drivers

Agencies should not miss this window of opportunity to establish metrics that will matter even beyond stimulus accountability. To do so, an agency should first analyze its objectives and value drivers. It must then convert these sometimes abstract value drivers into meaningful, measurable metrics.

[1] "Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009," Office of Management and Budget, Memorandum M-09-10, February 18, 2009; updated by M-09-15, April 3, 2009.

For example, the "value tree" for one US state's department of transportation started with the department's five core objectives: safety, mobility, infrastructure durability, efficiency and effectiveness in its internal processes, and employee satisfaction. The first three are public objectives, while the last two describe important internal objectives. For each of the five, the department identified the underlying factors that drive performance.

Infrastructure durability, for example, is driven by maintenance and preservation, usage, fit of design and construction to conditions, and quality of planning and management (exhibit). These value drivers were then disaggregated into metrics such as load per vehicle and pavement roughness. Infrastructure durability is one example of an objective for which "shovel ready" projects would do well to provide concrete measurements, since project evaluators will want to be sure that projects financed through stimulus funding will endure.

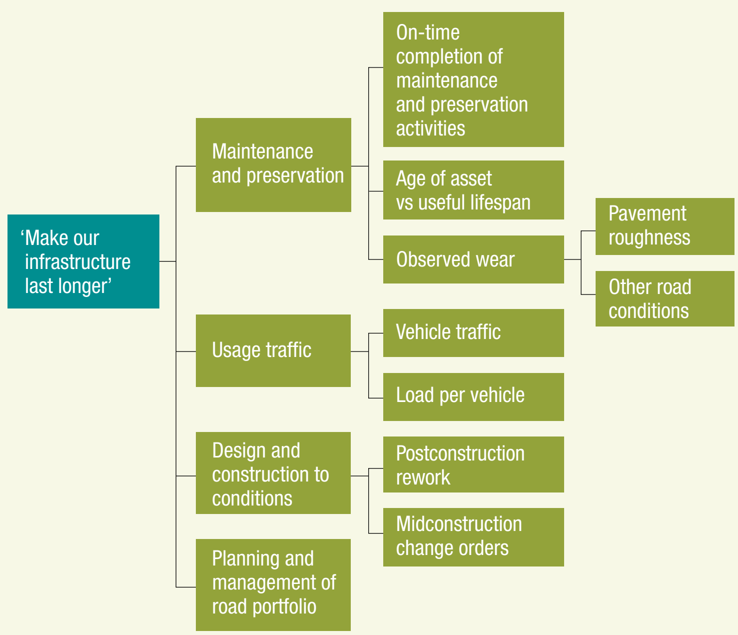
Tracking performance

For many US agencies and state governments, the stimulus is serving as a catalyst to building more robust monitoring systems, since the Office of Management and Budget (OMB) is asking agencies to submit financial and activity reports on a weekly basis and posting these on Recovery.gov. (By contrast, the OMB's program-assessment Web site, ExpectMore.gov, updates performance information only biannually for most programs.)

Exhibit

A value tree

Agencies should disaggregate value drivers into performance metrics.



Source: US state department of transportation; McKinsey analysis

Most US states have launched stimulus accountability Web sites with an emphasis on "tracking the money." Georgia's new Web site enables the public to report stimulus-related fraud and abuse, and Massachusetts's site provides details on new contracts to allay fears of patronage. But long-term outcomes are barely mentioned on the state Web sites. We recommend a shift to reporting on such outcomes—shortened commute times, higher levels of school performance, water quality improvements—so that stimulus accountability will result not only in greater efficiency but in increased effectiveness as well.

There are signs that some organizations are embracing the opportunity. For example, the US federal stimulus package includes $12.2 billion for the Individuals with Disabilities Education Act (IDEA). In response, the Maryland State Department of Education accelerated its joint effort with the Johns Hopkins University Center for Technology in Education to develop a new system for monitoring and reporting on IDEA program performance. Other agencies can similarly step up their measurement efforts. The stimulus package has directed more than $2 billion to drinking-water projects, for instance. Organizations working in this arena should use the stimulus as an impetus to invest in more granular measurements of system operations, such as leakage minimization and water-pressure adequacy.

That said, agencies must balance investment in new tracking systems with use of existing systems and find creative ways to monitor and report performance. First, they should review the new metrics they developed while identifying value drivers and determine whether any existing metrics can serve as meaningful proxies. For example, because employee satisfaction is a worthy objective but not easily measured, many companies consider rate of unplanned attrition a useful proxy. Second, they should review external performance measurements. Many public watchdog organizations keep a wide range of measurements that agencies can use and begin to see as helpful rather than threatening. Some consumer-focused government entities now use the University of Michigan's American Customer Satisfaction Index, for example. Third, agencies should determine and prioritize short-term and long-term measurement investments. Short-term investments for agencies in the energy sector, for instance, could include systems to track straightforward financial and activity metrics (number of projects launched, for example) whereas longer-term investments might be focused on tracking the penetration rate of renewable technologies in commercial and residential buildings.

Making metrics matter

Metrics truly transform performance not when they are contained within information systems but when they become part of an organization's culture and way of doing business. Investments in performance-management systems will prove to be a waste if leaders are not willing to correct or fully change course based on performance against metrics.

Agencies should choose a small set of priority metrics (between 10 and 15) that offer a quick, easy-to-understand picture of the health of the stimulus effort and of the agency as a whole. They should then report on performance against these priority metrics via a simple "dashboard"—similar to a chart of medical vital signs—that is accessible to stimulus regulators and the public. Dashboards should incorporate contextual information such as performance compared with previous years, against targets, or relative to other agencies; otherwise, the information will offer little insight or clarity into how the agency is doing.

Many government organizations have taken an important step by tasking a respected senior leader with overseeing the use of stimulus funding. The next step is to make individual departments, managers, and employees accountable for performance. This can be done in several ways: through formal review sessions with responsible departments, incorporation of stimulus-related metrics into individual employee performance reviews, or internal posting of comparative metrics of peer departments to generate healthy competition. Some government organizations are even publicizing the names of individual managers responsible for specific metrics.

One US regulatory agency is easing employees into metrics-based performance evaluation by starting with a "no risk" year—it is tracking metrics this year but offering neither reward nor penalty. Another US agency is considering an aspiration-based approach, rewarding managers who exceed their targets but not penalizing those who fall short.

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We appreciate that stimulus accountability in itself presents a measurement challenge for government organizations. Many will have to undertake additional data-gathering exercises and develop new job-creation metrics. But the most successful agencies will be those that push their thinking and their management to ensure that performance metrics become not just another set of reports to file in the context of the stimulus but rather an active organizational improvement tool.

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