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PERFORMANCE-BASED ORGANIZATIONS

Lessons From the British Next Steps Initiative

Statement of J. Christopher Mihm, Acting Associate Director
Federal Management and Workforce Issues
General Government Division

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Performance-Based Organizations: Lessons From the British Next Steps Initiative

The administration has proposed the creation of performance-based organizations (PBOs), modeled after British Next Steps agencies. PBOs, like Next Steps agencies, seek to separate service delivery functions from policy functions. In exchange for flexibilities from certain governmentwide requirements, the head of the agency is to be held directly accountable for the agency's performance.

Next Steps agencies are the British government's predominant form of service delivery. As of March, about 75 percent of all British civil servants were employed in one of the 130 Next Steps agencies or agencies that operate along Next Steps lines. These agencies have reported that, over the years, performance has improved, in some cases substantially. Some agencies have also reported significant cost savings.

The British government has confronted some difficult and continuing issues Congress may want to consider as it considers the PBO concept. These are:

First, a lack of clarity in the relationship between agencies and their parent departments. The British have found that the roles of the Next Steps agencies and their parent departments often remain unclear because of the problems inherent in trying to delineate responsibilities. Management decisions made by Next Steps agencies can have an impact on policy choices made by their departments.

Second, an uncertainty concerning who is accountable for performance. Lack of clarity in roles between agencies and departments affects accountability. It is sometimes difficult to tell if a poor result was due to poor policy or inadequate implementation of that policy.

Third, difficulties in developing and setting performance goals. British evaluations identified three areas of concern regarding performance measurement. First, goal setting does not always reflect what is realistic as much as adding incremental improvements to prior results. Second, it can be difficult to determine exactly what to measure. And third, it is important to ensure that performance information is put in a proper context and used to improve performance.

GAO reported to Congress in May 1997 on the administration's proposal to convert the Saint Lawrence Seaway Development Corporation to a PBO. GAO found that such a conversion would result in significant changes in the Seaway's management structure, funding mechanism, and relations with

Congress. However, since PBOs must be created through the enactment of enabling legislation, Congress has an opportunity to define its role with regard to the Seaway or any other PBO.

Performance-Based Organizations Lessons From the British Next Steps Initiative

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the British Next Steps initiative, a model the administration used in crafting its performance-based organization (PBO) proposal, and the lessons that the Next Steps experience suggest for PBOs in the United States.

According to the British government, the aim of the Next Steps initiative has been to improve the delivery of government services, obtain better value for the taxpayers' money, and give staff more satisfying work and working conditions. Under Next Steps, a government department's service delivery functions, such as paying social security benefits, repairing military vehicles, and doing inspections to enforce regulations, are separated into distinct organizational units, referred to as agencies. Agencies are responsible for delivering those services and are accountable to their parent departments for their performance, while departments continue to be responsible for policy decisions. Agencies generally are given broad flexibility in managing operations while being held accountable for meeting specific, agreed-upon performance goals.

The administration's proposed PBOs have some important similarities in design with Next Steps agencies. For example, both are intended to separate the delivery of services—the agency's role—from policy functions—the department's role. Also, like the Next Steps agencies, the administration proposes that PBOs be granted flexibilities to deviate from some governmentwide requirements, such as certain personnel and procurement processes. Both are to be led by a chief executive—to be called a chief operating officer in a PBO—who is selected competitively and evaluated annually on the basis of his/her agency's performance. The chief executive's pay and job security are to be directly tied to annual agency performance. The chief executive is to be directly accountable to the head of the parent department, who, in Great Britain, is accountable to Parliament, or, in our country, to Congress and the President.

The administration expects that the orientation of management and accountability in PBOs will shift from a focus on processes to a focus on customers and achieving program results. This shift in focus is to be achieved by establishing clear measures of performance which are also required by the Government Performance and Results Act of 1993. According to the administration, PBOs are to commit to clear management objectives, measurable goals, customer service standards, and specific targets for improved performance. These clearly-defined performance

goals, flexibility in managing operations, and direct ties between the achievement of performance goals and the pay and tenure of the head of the PBO, are intended to lead to improved performance. The administration expects that, in most cases, the creation of a PBO will require statutory changes.

As agreed with the Subcommittee, today I will first provide an overview of the Next Steps initiative, including the number and size of British agencies participating in the Next Steps program and the reported performance of those agencies. Second, I will discuss the lessons the British have learned about the Next Steps experience that we believe are most relevant to PBOs. Finally, I will highlight some of the major issues that Congress may wish to examine as it considers the administration's proposal to transform the Saint Lawrence Seaway Development Corporation into a PBO.

My statement today is based on our May 1997 report on the PBO initiative and the Saint Lawrence Seaway Development Corporation's candidacy.[1] It also is based on our continuing efforts to track reinvention initiatives overseas. Our work in this area began with our May 1995 report on management reforms other counties were undertaking and the insights those reforms provided for reform efforts here in the United States.[2]

Next Steps Is the Centerpiece of British Management Efforts

The Next Steps initiative was launched in 1988 under then Prime Minister Margaret Thatcher. According to the British government, Next Steps was undertaken in response to the government's desire to have the public sector provide services through markets or market-like arrangements, managed by people with the resources and authority to provide those services. The reforms were also carried out to streamline the central government, which, the government concluded, was burdened by high operating costs and a workforce that was too big and insufficiently focused on results.

Beginning with the first Next Steps agency—the Vehicle Inspectorate of the Department of Transport which was created in August 1988—Next Steps agencies have become the British government's predominant form of service delivery. As of March 1997, about 75 percent of all British civil servants were employed in one of the 130 Next Steps agencies or in

[1]Performance-Based Organizations: Issues for the Saint Lawrence Seaway Development Corporation Proposal (GAO/GGD-97-74, May 15, 1997).

[2]Managing for Results: Experiences Abroad Suggest Insights for Federal Management Reforms (GAO/GGD-95-120, May 2, 1995).

agencies that operate along Next Steps lines. Nearly one-third of the agencies employ 250 or fewer staff, and more than half the agencies employ 700 or fewer staff.

However, some agencies are fairly large. The largest agency is the Social Security Benefits Agency, which has about 75,000 employees. Other large agencies include those responsible for the prison system, employment training, and defense evaluation and research. Each of these agencies has over 10,000 employees. While not formally Next Steps agencies, Inland Revenue (which administers income and other taxes) and Her Majesty's Customs and Excise (which, among its responsibilities, enforces import and export restrictions) operate fully along Next Steps lines. Each of these organizations has over 20,000 employees.

Many agencies provide services directly to the public—for example the United Kingdom Passport Agency and the Social Security Benefits Agency. Other agencies provide services to other parts of the government, such as those agencies that provide information technology support or logistics support for the defense forces. Next Steps agencies also cover a range of service and program types. For example, several agencies have a research focus, such as the agencies that do research on agricultural issues, while some other agencies have regulatory responsibilities, such as those concerning food and vehicle inspection.

Next Steps agencies have reported that, over the years, performance has improved, in some cases substantially. For example, the United Kingdom Passport Agency reported that since 1993 it has made significant and consistent improvements in the timeliness of its processing of passport applications. Overall, the British government's most recent annual summary review of the Next Steps initiative notes that 79 percent of the agencies' key performance goals were met for the 1995-1996 time period.[3] This level of accomplishment generally is consistent with the levels reported in previous years. Eight agencies reported that they achieved at least 80 percent of their goals for 1995-1996, even after they had set at least 80 percent of those goals at a more stringent level than in previous years. Not all goals are comparable from one year to the next, but for those that are quantified and are comparable, about 60 percent reported the same or better results for 1995-1996 as compared to 1994-1995. On the other hand, 14 agencies reported that they had failed to achieve at least half of their key performance targets.

[3]Next Steps Agencies in Government, Review 1996, London, The Stationary Office, Cm 3579.

Some agencies also have reported significant cost reductions. For example, both the National Health Service Pensions Agency and the Scottish Office Pensions Agency showed significant savings in their "running costs," which essentially include employee pay, benefits, and other administrative costs. The National Health Service Pensions Agency reported that it reduced its running costs by 11 percent in 1994-1995, and the Scottish Office reported that it reduced its 1995-1996 running costs by 17 percent. In addition, the United Kingdom Passport Agency reported that it had reduced the unit cost of passport services by 4.3, 5.2, and 7.25 percent over the past 3 years, respectively.

Assessments of Next Steps Provide Insights for PBO Proposals

In moving forward with the Next Steps initiatives, the British government has confronted some difficult and continuing implementation issues that Congress may want to consider as it assesses the PBO concept. These issues include (1) a lack of clarity in the relationship between agencies and their parent departments, (2) an uncertainty concerning who is accountable for performance, and (3) difficulties in developing and setting performance goals.

Agency and Department Roles

The British have found that the roles of the Next Steps agencies and their parent departments often remain unclear because of the problems inherent in trying to delineate responsibilities.[4] For example, while in theory departments make policies and agencies implement those policies, a British evaluation found that there has not always been a clear separation between policymaking and implementation. Management decisions made by Next Steps agencies sometimes have had an impact on policy choices made by their parent departments. For example, if an agency's goal is to reduce an operating deficit, it may propose to do so by creating a user fee. While this proposal may be viewed as a decision by agency management on how to implement the policy of reducing costs, it could also be viewed as making a policy decision about the type of public program for which user fee funding is appropriate.

The British government has taken steps to address the issue of unclear department and agency roles, but with limited success, according to published studies. One step taken by the British government has been the establishment of the "Fraser Figure," a senior official who is to improve coordination between the agency and the department. The Fraser Figure is used in about 40 percent of the Next Steps agencies. However, evaluations

[4]Trosa, Next Steps: Moving On (Feb. 1994) and After Next Steps: The Massey Report (Jan. 1995).

suggest that this approach has not worked well because (1) the Fraser Figure rarely is able to represent the views of both the department and agency in a balanced way, and (2) this official does not have sufficient staff to coordinate activities. In addition, advisory boards have been established in about 30 percent of the Next Steps agencies, but they too are reported to have had limited success. Available reports indicate that the boards tend to be unbalanced in their advisory and monitoring responsibilities, generally emphasizing one over the other.

Accountability

The lack of clarity concerning the respective roles and responsibilities of agencies and departments also affects accountability for results. Since the distinction between administration and policy often remains unclear, one British evaluation described the task of assessing accountability as a "complex web of issues."[5] For example, because policies and their implementation are inherently linked, it is difficult at times to distinguish who is truly responsible for a result—the department minister who makes the policy or the agency chief executive who implements the policy. Questions have arisen about whether a poor result was due to poor policy or inadequate implementation and about who was ultimately accountable for the resulting performance. To mitigate this concern, the British government has encouraged greater collaboration between ministers and chief executives, facilitated by Fraser Figures—an approach that, as I have noted, has had limited success.

Performance Goals

The British experience with Next Steps has underscored the fact that public sector performance measurement is a complex, iterative process involving a number of competing considerations. A British evaluation suggested that three major concerns have arisen in connection with Next Steps goal-setting.[6] First, goal-setting does not always reflect what is realistic; it often consists of no more than adding incremental improvements to prior results. As a result, targets are sometimes set simply to reflect an improvement on the previous year's achievement rather than being based on an assessment of what might be possible. Tensions can arise between the agency and department over target magnitude, with departments generally favoring more ambitious improvement targets.

[5]After Next Steps: The Massey Report (Jan. 1995).

[6]Trosa, Next Steps: Moving On (Feb. 1994).

A second challenge to performance measurement is the difficulty of determining exactly what to measure. The evaluation showed that performance measures frequently focus on what agencies can measure, rather than on what is most important in assessing performance. For example, one enforcement agency had established a performance measure to count the total number of enforcement actions. However, the agency had no information about how many infractions actually occurred, so the agency did not know to what extent, if at all, its enforcement actions contributed to reducing illegalities. Further complicating the determination of what to measure is the fact that some targets, such as efficiency and quality, may even be in conflict with one another, requiring a careful balance.

Finally, a third issue raised by the study was the need to ensure that performance information is put in a proper context and used to improve performance. The study stated that all the chief executives interviewed believed goals and performance information should be the basis for decisionmaking and resource allocation, but only as a starting point and tool for subsequent discussions. Using unmet targets to criticize agencies, rather than attempting to examine the reasons why the targets were not reached and developing strategies to meet unmet goals, may simply lead agencies to establish more easily achievable targets. For example, one British official commented that the goal-setting process can be discouraging when an agency is criticized for reaching 98 percent of a 100 percent target without considering how much effort the 98 percent represents.

The British government has initiated several efforts to address the performance measurement issues it, in company with other governments, confronts. For example, in an attempt to provide a basis for making summary judgements on the overall performance of agencies, Next Steps agencies are moving to what the British are calling “indexation.” Indexation is a method of measuring an agency’s overall performance whereby each performance goal is given a score that is weighted to its level of priority. The scores of all goals are then combined to produce an overall score for an agency. By comparing overall scores over time, ministers of departments and agency chief executives can tell if overall performance is improving and whether targets are becoming more challenging. Some agencies are already adopting this approach in reviewing performance and setting targets, and reporting will begin in the Next Steps’ 1997 annual summary report.

Potential Issues With the Saint Lawrence Seaway Development Corporation PBO Proposal

The administration's proposal to transform the Saint Lawrence Seaway Development Corporation into a PBO suggests how the Next Steps experience can be illustrative for Congress as it considers the administration's initiative. We reported to Congress in May on the administration's proposal to convert the Seaway into a PBO. We noted that a such a conversion would result in significant changes to the Seaway's current management structure, funding mechanism, and relationship with Congress. I will briefly highlight the points we raised with regard to each of these issues:

- First, as a result of the Seaway's conversion to a PBO, the Seaway's leadership would change from an administrator appointed by the President and confirmed by the Senate to a contracted-for chief operating officer (COO) selected by the Secretary of Transportation. The COO would be directly accountable to the Secretary of Transportation who would, in turn, continue to be accountable to Congress and the President for the activities and performance of the Seaway PBO.

  British evaluations of Next Steps have shown that developing and monitoring a chief executive's contract is a long-term and iterative process. We noted that, since the Seaway is a relatively small part of the Department of Transportation (DOT), the Secretary may have to spend a disproportionate amount of time in crafting and monitoring the COO's contract with specific and measurable performance goals. This degree of oversight and accountability has not been applied before to the Seaway. However, if the Seaway is one of the first PBOs, administration architects of PBOs may pay particular attention to the development of the contract, since it could be a model for other PBOs.

  Although the PBO would remain part of DOT, it would have greater autonomy in its relationship with its parent department. The Seaway proposal follows the Next Steps program in attempting to separate policymaking from the carrying out of services. The Seaway has started to work on this separation by drafting a list that divides the functions to be performed between itself and DOT under the PBO concept.

- Second, the Seaway is currently funded through the annual appropriations process. However, as a PBO, the Seaway is proposed to be funded through a mandatory payment, whose amount will be determined by a formula based primarily on the tonnage of cargo moved through the Seaway. Because of its design, Seaway officials told us that they believed the formula would provide a more predictable funding mechanism than annual

appropriations, and that this would allow them to operate in a more businesslike manner and better plan Seaway operation and maintenance functions. We noted, however, that the proposed funding mechanism raises a potentially significant issue of budget policy, in that funding would shift from a discretionary account to mandatory funding.

- Third, the relationship between Congress and the Seaway PBO would fundamentally change. Congress would no longer have a direct role in funding the agency or in selecting the agency head. It is also unclear what type and level of oversight Congress would have over the Seaway. However, since PBOs must be created through the enactment of enabling legislation, Congress has an opportunity to define its role with regard to the Seaway or any other PBO.

In summary, PBOs would seek to emulate Next Steps agencies in important ways in both intent and design. Both are to operate in a more businesslike manner, gaining flexibility and freedom from constraints in exchange for greater accountability for results. Because of their similarities, unresolved issues from the Next Steps experience can provide lessons for the U.S. effort, such as the need to focus on clarity in relationships between agencies and their parent departments, certainty concerning who is accountable for performance, and developing and setting good performance goals.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions you or other Members of the Subcommittee may have.

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