



Testimony

Before the Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia Committee on Governmental Affairs, U.S. Senate

For Release on Delivery
Expected at
9:30 a.m. EDT
on Thursday
July 29, 1999

MANAGEMENT REFORM

Using the Results Act and Quality Management to Improve Federal Performance

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



G A O

Accountability * Integrity * Reliability

Management Reform: Using the Results Act and Quality Management to Improve Federal Performance

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the essential role that quality and process improvement initiatives such as Total Quality Management (TQM) must play in any serious effort to improve the effectiveness and performance of the federal government. A look across the federal government over the last decade clearly shows that there has been widespread interest and effort on the part of Congress, the leadership in the executive branch, and within the agencies in making dramatic improvements in public management. TQM, with its customer focus and concern with product and service quality, is one improvement approach that has been widely used in the public as well as in the private sector.

My major point today is that if federal agencies are to make the major improvements in their mission-related results envisioned by the Government Performance and Results Act (Results Act), they must have management and process improvement initiatives—including those that employ the principles of quality management—in place to achieve those results. Fortunately, TQM and the Results Act share a common and mutually reinforcing focus on achieving program results and customer satisfaction, measuring performance, and using performance data to identify and select improvement opportunities.

As agreed, my statement today will elaborate on these points by covering three topics. I will first discuss the complex and challenging environment facing governments at all levels that is encouraging a recommitment to many of the values of TQM and related efforts—efficiency, service quality, customer satisfaction, and results. Second, I will highlight selected aspects of the federal government’s response to this environment. Third, I will discuss several areas where a results orientation and quality management share common approaches to improving organizational performance and suggest areas needing additional attention for both approaches to be successful. My comments today are based on our ongoing and past work looking at management improvement efforts across the federal government and at high-performing organizations.

The Focus on Government Performance

Government decisionmakers and managers in the major democracies around the world confront a strikingly similar set of challenges to efficient and effective public management in the 21st century. Driven by citizen demands for more economical, efficient, and effective government; the pressures of economic globalization; advances in information technology; a consistent set of demographic realities; and other factors, many of these governments have undertaken major public management reform

initiatives. While these initiatives have been crafted in response to different immediate needs, political environments, and historical cultures, the reform efforts are taking a generally consistent direction.

Performance-based management, the unifying theme of these reform initiatives, seeks to shift the focus of government performance and accountability away from a preoccupation with activities to a greater focus on the results of those activities. Empowering line managers with the operational authority to achieve results—a fundamental tenet of TQM and related quality management initiatives—when combined with appropriate accountability mechanisms, is seen as vital to improving performance and is thus also acknowledged to be a key principle of performance-based management.

The public management reforms that governments around the world are implementing have profound implications for (1) what government does (in terms of the products and services it delivers and partnerships that are formed with the private sector and other governments), (2) how it is organized, and (3) how accountability is defined. Government decisionmakers and managers are adopting new ways of thinking, considering different ways of achieving goals, and using new information to guide decisions. A common lesson of the current range of management reform efforts is that change does not come quickly or easily. Old ways of doing business must be critically reexamined and new approaches have to be developed and institutionalized. This includes, for many organizations, creating the basic management capacities needed to become more performance based.

In that regard, our work and that of others over the last two decades has found that many federal agencies need to build or strengthen the management capacities that form the foundations of high-performing organizations. These capacities include (1) a clear mission and vision for the organization and a sense of direction that is clearly and consistently communicated by top leadership; (2) a strategic planning process that yields results-oriented program goals and performance measures that flow from and reinforce the organization's mission; (3) organizational alignment to achieve goals; (4) sound financial and information management systems; (5) the strategic use of technology to achieve mission-related goals; and (6) the effective management of human capital—the organization's employees—including ensuring that the right employees are on board and provided with the training, tools, incentives, structures, and accountability needed to achieve results. Management approaches that strive to achieve continuous improvement of quality through

organizationwide efforts based on facts and data, such as TQM, can be a key attribute of high-performing organizations.

The Federal Response to Demands for Improved Performance

As the federal response to demands for a higher-performing government, Congress, over the last decade, has put in place a statutory framework to promote, create, and sustain high-performing federal organizations. In enacting this framework, Congress sought to shift the focus of government decisionmaking and accountability from the activities that agencies undertake to a focus on the results of those activities. Congress' framework includes the Chief Financial Officers (CFO) Act of 1990 and related financial management legislation; information technology reform legislation, such as the Clinger-Cohen Act of 1996 and the Paperwork Reduction Act of 1995; and the Results Act. The key requirements of these Acts are as follows:

- The CFO Act, as amended by the Government Management Reform Act of 1994 and the Federal Financial Management Improvement Act of 1996, is the most comprehensive financial management reform legislation of the last 40 years. The CFO Act sets expectations for agencies to develop and deploy modern financial management systems to routinely produce accurate, reliable, and timely program cost information and to develop results-oriented reports on the government's financial condition.
- The information technology reform legislation is based on the best practices used by leading public and private organizations to more effectively manage information resources. These best practices help to ensure that information technology dollars are directed toward prudent investments that achieve cost savings, increase productivity, and improve the timeliness and quality of service delivery. Under these laws, agencies are to better link their technology plans and the management and use of information resources more directly to their programs' missions and goals. This involves, among other things, redesigning inefficient work processes and using performance measures to assess technology's contribution to achieving results. This is important because our work with leading organizations has shown that information technology projects aimed at improving performance that do not involve process improvement may fail to yield any significant, long-term benefits.
- The Results Act was enacted in part to improve federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction. The Results Act is

intended to improve the efficiency and effectiveness of federal programs by establishing a system to set goals for program performance and to measure results. The Results Act requires executive agencies to prepare multiyear strategic plans, annual performance plans, and annual performance reports. The Act also requires the President to include with his annual budget submission a federal government performance plan. In each of the first two plans, covering fiscal years 1999 and 2000, the President's plan has shown an array of management objectives and initiatives dealing, for example, with responsiveness to the public, service delivery, and program performance and management.

During the same time frame that Congress was establishing a statutory framework, other, often complementary, federal management improvement efforts have also been under way. The most noteworthy of these efforts, the National Performance Review, now known as the National Partnership for Reinventing Government (NPR), was launched by the administration in March 1993. NPR shares many of quality management's principles, such as a focus on customers. NPR's initial focus was to make the government "work better and cost less," and its first phase made recommendations to reinvent government systems and individual agencies' programs and organizations. As part of the NPR and under the direction of a presidential Executive Order, over 200 federal agencies established customer service standards. A second NPR phase, undertaken in late 1994, was designed to identify additional programs that could be reinvented, terminated, or privatized, as well as to reinvent the federal regulatory process. NPR has continued to evolve, and it is currently working with 32 "high impact" agencies that have a high degree of interaction with the public and business and it has recently focused on working to improve services that government delivers in partnership with local, state, and other federal agencies and the private sector.

A related executive branch initiative, the President's Quality Award Program, is the most important statement of quality management principles within the federal government. Since 1988, the program has given awards to federal government organizations for (1) improving their overall performance and capabilities and (2) demonstrating a sustained trend in providing high-quality products and services that result in the effective use of taxpayer dollars. The Office of Personnel Management (OPM) manages the program and its award criteria, with several modifications, are closely aligned with the Malcolm Baldrige National Quality Award Criteria.

Statement

Management Reform: Using the Results Act and Quality Management to Improve Federal Performance

The award criteria are updated annually to reflect the best approaches within the public and private sectors to systematically improve organizational performance. OPM's assessment criteria for the year 2000, issued this April, underscored the essential connection between achieving mission-related results and quality and process management.¹ The criteria are designed to define a quality system, the key elements of a quality improvement effort, and the relative importance and interrelationships of these efforts. The assessment categories include leadership, strategic planning, customer focus, information and analysis, human resources, process management, and business results. According to the Director of OPM, organizations that have used the criteria claim two important outcomes:

- “First, they can apply a disciplined approach for assessing and measuring performance on several important business factors: customers, products, services, financial, operational, and human resources.
- Second, managers are better able to target key performance gaps, set improvement priorities, and introduce better and innovative ways to work with customers, partners, suppliers, and the workforce.”

Performance-Based Management and TQM Share Common Approaches

I mentioned at the outset of my statement the important interconnection between efforts to improve agencies' mission-related results and efforts (through TQM and related initiatives) to improve the efficiency and effectiveness of the programs and processes that make those results possible. The approaches that are shared between performance-based management efforts and TQM underscore the essential nature of this interconnection. These shared approaches are grounded in the understanding that implementing and sustaining major change initiatives requires a cultural transformation for many agencies. In enacting the Results Act, Congress understood, and the experience of TQM initiatives show, that organizational change and real performance improvement do not come quickly or easily. Today, I will highlight five areas where a focus on mission-related results and TQM share common approaches to the direction the needed cultural transformations should take and how those transformations can be accomplished.

¹ The President's Quality Award Program: 2000 Information and Application, U.S. Office of Personnel Management, April 1999.

Strong Leadership is Essential to Improving Performance

Successful implementation of the Results Act and of quality management principles requires the demonstrated and clear commitment of agency top leadership. Strong, visible, and sustained commitment to change requires setting a clear and consistent vision of where the organization is going. Political appointees and top-career officials must work together to communicate this vision throughout the organization, teach people what their roles are in accomplishing this vision, and hold them accountable for fulfilling those roles.

In looking at the experiences of leading organizations that were successfully pursuing management reform initiatives, we found that four top leadership practices were central to making the changes needed.²

- First, successful leaders devolve decisionmaking authority in exchange for accountability for results. Leading organizations create a set of mission-related processes and systems within which to operate, but they give their managers extensive authority to pursue organizational goals while using those processes and systems. Consistent with quality management principles, these organizations invest the time and effort to understand their processes, how those processes contribute to or hamper mission accomplishment, and how those processes can be improved.
- Second, successful leaders use a range of tools to encourage a results orientation. For example, employee incentive and accountability mechanisms are aligned with the goals of the organization. In addition, leaders use informal mechanisms, such as staff meetings and personal contacts, to reinforce to managers and staff their commitment to achieving the agency's goals and to keeping those goals in mind as they pursue day-to-day activities.
- Third, successful leaders take steps to build the necessary expertise and skills. These leaders view training as an investment in human capital, rather than as an expense. And, as human capital and quality management experts have pointed out, organizational learning must be continuous in order to meet changing customer needs, keep skills up to date, and develop new personnel and organizational competencies.
- Finally, leaders in successful organizations integrate the implementation of separate organizational improvement efforts. As I have suggested,

² Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 1996).

Statement

Management Reform: Using the Results Act and Quality Management to Improve Federal Performance

the management reforms now under way spring from various sources. Some of these reforms may be self-initiated, such as TQM; others mandated by legislation; and still others may result from administration initiatives, such as NPR. Our work has shown that the top leadership of each federal agency needs to meld these various reforms into a coherent, unified effort. Traditionally, the danger to any management reform is that it can become a hollow, paper-driven exercise. Leaders who integrate performance-based management into the culture and day-to-day activities of their organizations will help avoid that danger.

Clear Goals and Performance Measures Should Drive Daily Operations

A central principle of both TQM and performance-based management is that a clear understanding of what is to be accomplished and how progress will be gauged drives daily operations. Organizations that implement the key principles of both reforms recognize the importance of using results-oriented goals and quantifiable measures to address program performance. Both TQM and performance-based management also recognize that desired results can have several dimensions, for example, customer satisfaction, program costs, social outcomes, and operational transparency. Our work shows that federal agencies still have a ways to go in establishing the necessary balanced sets of goals and performance measures. Our summary assessment of the fiscal year 2000 annual performance plans that executive branch agencies provided to Congress earlier this year will be released shortly.³ That report will detail our finding that agencies need to develop performance goals and measures that better depict the complexity of the results federal agencies seek to achieve. On the other hand, all of the performance plans we reviewed contain at least some goals and measures that address program results.

Building the Organization's Human Capital is Key to Achieving Results

High-performing organizations appreciate that effectively managing and developing an organization's human capital is essential to achieving results. Organizational success is possible only when the right employees are on board and are provided the training, tools, structures, incentives, and accountability to work effectively. High-performing organizations gather and use employee-related data such as employee skills and satisfaction. Such data are tied to measures of organization or unit performance, including results, customer satisfaction, and productivity.

Federal agencies still have significant room for improvement in making this vital link between their human capital planning and their mission-

³ The work was done at the request of Senator Fred Thompson, Chairman of the Senate Governmental Affairs Committee; Representative Dick Armey, Majority Leader of the House of Representatives; and Representative Dan Burton, Chairman of the House Government Reform Committee.

related goals and strategies. Most of the performance plans we reviewed do not sufficiently address how the agencies will use their human capital to achieve results. This suggests that one of the central attributes of high-performing organizations--the systematic integration of mission and program planning with human capital planning--is not being effectively addressed across the federal government.

Programs and Processes Must be Linked to Results and Customer Satisfaction

High-performing organizations understand and articulate how their day-to-day operations and processes contribute to mission-related results and improved customer satisfaction. Such understandings of how processes and strategies relate to achieving results are important to pinpoint opportunities to improve performance and reduce costs. Simply stated, an organization cannot improve performance and customer satisfaction if it does not know what it does that causes current levels of performance and customer satisfaction.

Our review of the fiscal year 2000 performance plans suggests that much work remains in this area. Although most of the agencies' annual performance plans relate strategies and programs to performance goals, few plans indicate specifically how the strategies will contribute to accomplishing the expected level of performance. Further, agencies in some cases provide no strategies at all. For example, Health and Human Services' (HHS) Administration for Children and Families (ACF) has a goal to provide children permanency and stability in their living situation and related performance measures, such as increasing the percentage of children who are adopted within 2 years of foster care placement. However, ACF does not identify the strategies it will rely on to achieve this goal.

Decisions Should be Based on Sound Data

Both TQM and Congress' statutory framework for performance-based management seek to create decisionmaking processes that are based on accurate, reliable, and timely data. Unfortunately, significant progress is needed across virtually all agencies in this regard. Most of the fiscal year 2000 annual performance plans we reviewed provide only limited confidence that performance information will be credible and they lack information on the actual procedures that agencies will use to verify and validate their performance information. For example, regarding the validity of data that will be used to measure progress in offering outreach services to homeless and mentally ill persons, HHS' Substance Abuse and Mental Health Services Administration (SAMHSA) states "since the sources of data are the local agencies that provide the services, the quality of the data is very good." SAMHSA appears to be assuming that these data are valid, but the plan does not indicate whether SAMHSA will verify the

Statement

Management Reform: Using the Results Act and Quality Management to Improve Federal Performance

quality of these data or that it has conducted prior studies that provide this confidence.

In summary, Mr. Chairman, high-performing organizations consistently strive to ensure that their organizational missions and goals drive day-to-day activities. Experience has repeatedly shown that fundamental performance improvements occur when organizations transform their cultures so that achieving results becomes the driving concern of daily operations. Program and process improvement techniques, including TQM, thus have important roles to play in agencies' cultural transformations and thereby in helping them achieve their goals and deliver the products and services at the cost and with the quality that the American people are rightly demanding.

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.

Contacts and Acknowledgement

For further contacts regarding this testimony, please contact J. Christopher Mihm at (202) 512-8676. Individuals making key contributions to this testimony included Justin Brown, Elizabeth Bowles, Susan Ragland, and Bill Reinsberg.

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. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Order by mail:

**U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013**

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 (202) 512-6061, or TDD (202) 512-2537.

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 (202) 512-6000 using a touch-tone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

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

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested
