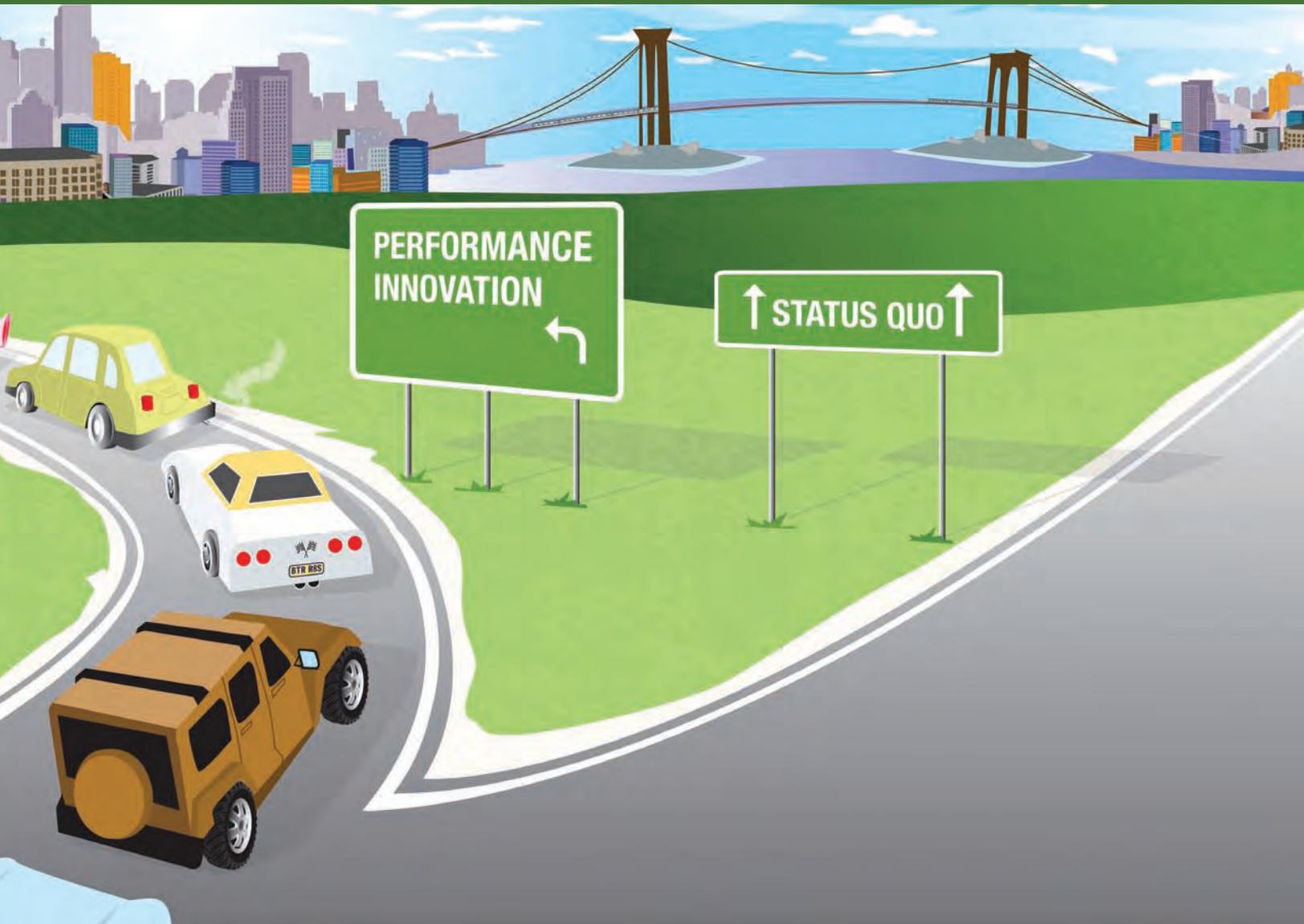


BY DANIEL B. EDDS



PERFORMANCE MANAGEMENT AS A SUSTAINABLE ENTERPRISE

THE WASHINGTON STATE
TRANSPORTATION
IMPROVEMENT BOARD'S
EXAMPLE

Developing a system of performance management and then sustaining that system over time is a significant challenge, but doing so yields significant rewards. Sustainable performance management has four levels: planning, budgeting, management, and evaluation. Getting to the point where performance management actually causes change means moving beyond planning and budgeting, and into the sustained execution of managing processes and continuously evaluating the results. The case study contained in this article is the perfect case in point: the Washington State Transportation Improvement Board's transformation from a failing agency to a success story is an award-winning example of effective performance management.

BEGIN WITH A FORMAL STRUCTURE

There are several established management frameworks organizations can use as possible structures for a performance management system — the balanced scorecard, cooperative benchmarking, performance budgeting, performance reporting, Stat systems, strategic cascading systems, and the criteria for the Malcom Baldrige National Quality Program Award. The value of these frameworks is that a proven architecture provides a disciplined approach to improving business processes, identifying key performance indicators (KPIs), and directing where change will have the greatest impact.

The main factor shared by all the popular performance improvement frameworks or systems in the last 30 years (Total Quality Control, Total Quality Management, Activity Based Costing and Management, Lean, Six Sigma, Balanced Scorecard, and Baldrige) is the requirement that organizations identify, control, and manage processes. As W. Edwards Deming famously said, "If you cannot describe what you are doing as a process, you don't know what you are doing." The reason is simple. Processes are what turn the assets and raw materials of any organization into useful products and services. A local fire department might have the best equipment money can buy, the fittest fire fighters, and the best dispatch technology, but disciplined processes that have been established over time are what put the equipment and personnel at the right place at the right time to extinguish the blaze in the most effective manner.

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Process management deals with many variables, but the following concepts are crucial to making improvements.

Identify, Monitor, Measure, and Maintain Mission-Critical Processes. Pilots manage the complex processes that fly airplanes by using a simple tool: checklists. A checklist provides for the routine maintenance of the process and, in doing so, reduces the risk of catastrophic loss.

Make Sure an Individual or Group Owns Each Process. Improving processes, which means improving output relative to resources consumed, requires leadership. Someone or some group must own the responsibility of improving mission-critical processes. If no one is responsible for a process, it will never change, and however good the manager, output will only improve at the margins. Real innovation will not happen.

Performance indicators that are not linked to core business processes are isolated numbers. KPIs that are linked to a core process are the foundation to innovation and dramatic improvements in results.

Set Control Limits. Most people realize that a performance number without a clear target is just that — a number. Setting well-defined targets for performance is crucial; however, setting the target range is just as important. A traffic light has three signals: green for go, red for stop, and yellow for caution. Control limits do the same thing. They establish the range for excellent performance, the range where change is not mandatory, and the range where performance needs careful evaluation.

Think of a local school district that must assess students for special needs services. If 100 percent of the students assessed qualified for services, it could be argued that either the assessment tool is flawed or the pre-qualifying observations by parents and teachers are perfect. A single number, say 70 percent, might represent the correct target, and a range expressed in color-coded graphics will help in evaluating performance (see Exhibit 1).

MAKING PERFORMANCE EVERYONE'S JOB

A performance management system is sustainable when it permeates the culture. One way of integrating quality into every job is to establish performance management teams.

Exhibit I: Performance Target Range

Percentage of Assessed Students Qualifying for Services



Quality Teams. Quality teams tend to integrate an organization vertically as well as horizontally — in other words, they link everyone at all levels of the organization into an interdependent unit. They tend to break down the hierarchical classes many organizations have. They provide the framework that unites everyone in pursuit of the common purpose: improving quality performance. An organization can adopt different kinds of quality teams for different functions.

Process Improvement Teams. Process improvement teams regularly review core business processes. They might meet once a month or once a quarter, but they will have predetermined schedules for reviewing mission-critical business processes. They focus on how to improve the performance, and no change is made unless the team determines that it is mandatory.

Performance Reporting Teams. Performance reporting teams design and run the data queries that tell the organization's performance story. Without meaningful data, there is no way to track improvement, so members of this team will decide what is meaningful and what is just numbers. This team scans the mountains of data to determine which numbers tell the story, good or bad.

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CASE STUDY: PERFORMANCE INNOVATION

In 2008, the Washington State Transportation Improvement Board (TIB) received both the GFOA's Award for Excellence and the Washington State Quality Award for Leadership for its hard-won gains in performance. In getting to that point, the organization learned three major lessons about the challenge of performance management sustainability:

- Use a formal structure to design the system.
- Use control limits to drive ongoing review.
- Use performance teams to get everyone involved.

The state Legislature created the TIB in 1988 to address the escalating demand for roadways as urban development increased. Essentially, the agency acts much like a bank, providing funds for road improvement projects (except the funds do not have to be repaid). The agency funds more than \$100 million in road construction projects, and this funding, in combination with other state, federal, and local resources, is how the state's urban roads are built and maintained. For small towns, the TIB also contracts for extensive construction oversight and project management to ensure that projects are completed on time and within budget.

Exhibit 2: The TIB's Modified Balanced Scorecard Structure

Traditional Balanced Scorecard Perspectives	The TIB's Perspectives
Customer	Informed investors and customers
Internal processes	Exemplary business practices
Internal learning and growth	Strong project control
Financial	Sustainable financial management

The agency had become troubled by 2001, when a new executive director took over. It had consistently over-committed resources and was nearly insolvent. The Legislature was ready to strip its funding and the governor was threatening

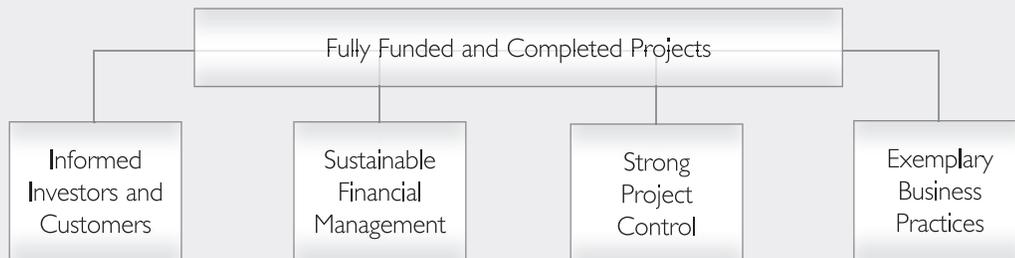
to shut it down entirely. In looking for something to save the agency, the new director chose to undertake the balanced scorecard system because:

- It was comprehensive and holistic.
- It balanced competing forces such as customer service with the requirement for fiscal sustainability.
- It provided a disciplined structure for data collection and performance reporting.
- Technology was available to automate the system and make it transparent via the Internet.

THE BALANCED SCORECARD

The framework of a balanced scorecard system places every aspect of an organization into one of four “perspectives.” In developing its scorecard, the TIB modified the

Exhibit 3: The TIB's 'Strong Project Control' Perspective



Strong Project Control

TIB is accountable for the success or failure of the projects we fund. The staff are aggressive in project management especially moving delayed projects to construction. Staff monitors the inventory of projects to ensure project progress and control. Staff works to remove barriers to project completion.

The staff educates customers to ensure they have the information to successfully utilize TIB programs. The TIB staff is aware of and can assist with the rules, regulations, and guidance through every step to project completion. Staff regularly contacts customers and exceeds expectations for quality and prompt service.

TIB Strategic Plan Goals

Goals

- ✓ Provide highest value and greatest service benefit to our clients by focusing on priority community transportation.
- Provide full funding to projects which meet intent of the six year transportation plan in local communities.
- ✓ Meet or exceed defined summary target level measures.
- TIB is the agency that local government, transit, and private sector recognizes and advocates on behalf of in meeting their transportation needs. TIB supports interagency projects and
- ✓ TIB makes effective and consistent decisions based on data.

Exhibit 4: KPI Performance

Construction payments metric tracked over the previous 24 months. The metric value for each month reflects the percentage of payments that went toward construction costs during the three previous calendar months.



traditional balanced scorecard perspectives to fit its unique organization (see Exhibit 2).

As part of the balanced scorecard structure, each perspective is defined, and then strategic goals and objectives are aligned to the perspective. Exhibit 3, from the TIB’s website, shows each organizational perspective and lists the definition for the “strong project control” perspective and the associated measurable objectives, or goals, that are aligned with the agency’s strategy, vision, and mission.

A series of performance measures are linked to these goals. For example, one of the goals — “provide highest value and greatest service benefit to our clients” — can be seen in several ways. Each road carries a numerical value that indicates its condition. A new road is 100. If the indicator drops below 70, major renovation is required at a cost factor of about three times what it would have taken to maintain the road properly. If it falls below 50, the cost factor jumps to six times what it would cost to have maintained the road properly. Therefore, the TIB looks for projects that provide a clear cost advantage by keeping the roads maintained.

The TIB also uses control limits to monitor and improve its business processes. The agency identifies KPIs to help it maintain its “exemplary business practices” perspective. Exhibit 4

illustrates one KPI, “percentage of dollars spent on construction costs.” This information is critical because the agency needs to maintain its cash flow by balancing payments between projects that are in the planning phase and projects that are in the construction phase. Too many projects in the construction phase mean account balances are being quickly depleted. The chart is color coded to visually communicate the performance target range: Data in green are optimum performance; data in yellow are acceptable but need to be watched; and data in red are unacceptable and action needs to be taken.

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THE WASHINGTON STATE QUALITY REVIEW

In 2008, the TIB undertook another performance improvement campaign: a Washington State Quality Award for Leadership review. The agency wanted the most thorough review possible, and after putting so much effort into getting its financial house in order, there

was little left for improving other areas of operation. The Washington State Quality Award review, which is based on the Baldrige criteria for performance excellence, provided the structure for looking at every process and making it as efficient as it could possibly be.

As a result, the entire TIB staff has well-defined responsibilities for performance, and everyone is on at least one business process improvement team. These teams are active and ongoing, and they routinely review business process for opportunities to improve. No process change is made until the team determines that the improvement is warranted and that it will in fact result in real improvement.

SEEING RESULTS

Creating a robust and sustainable performance management system has resulted in measurable improvement for the TIB. For example, in 2001, it took five months for the agency to pay its obligations to their municipal clients, whereas now it takes 18 days. In 2001, an application for funding might get lost in the paperwork for weeks and take months to wind its way through the approval process, but now it takes less than 30 days. (In fact, customer correspondence is so critical to the TIB's performance that the agency established a KPI to monitor it.) In 2001, administration took up 1.3 percent of the total budget, and that percentage is about the same today (meaning the agency has reduced its administrative overhead, relative to inflation). In 2001, the average project lifecycle time

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was approximately 11 years, while that is down today, to 4.5 years for the urban corridor program, 4.5 years for the arterial program, and 3 years for the small city program. Other areas also show marked improvement.

Customer Service Was Redefined.

Customer service has taken a significant new direction. Before 2001, "customer service" was defined as providing all the money the customer needed. This reactive model has changed, however. As an example, rather than waiting for an application, the TIB might contact a small city because the agency's data indicate some city streets need repair. The TIB also works with its customers to help them secure financing from both state and federal sources. Working closely with these partners allows the TIB to guide its customers through the bureaucracy faster.

The Application Review Process Is Faster. One of the projects the balanced scorecard initiative identified was a complete rewrite of the agency's regulations. Though it was a massive undertaking, the standards have been completely rewritten to conform with the Washington governor's Plain Talk executive order requiring all state agencies to use simple and clear language when communicating with citizens and businesses. The TIB now has one of the simplest applications for funds in the state. It is just one page.

Projects Are Completed on Time. Improving performance has decreased the number of delayed projects by 70 percent. Completing projects faster means reduced risk of cost overruns and the need for inflationary adjustments to cost, more cost stability because of less exposure to volatile commodity markets, and improved public safety.

Strategy and Performance Has Become Everyone's Job. Everyone who goes to work for the TIB automatically becomes part of a performance team. Continuous performance improvement is part of the organizational culture, and everyone from the board chair to the office intern knows his or her precise role. The TIB has three well-defined performance teams:

- A process improvement team that monitors and evaluates each business process.
- A performance management team that manages the agency's dashboard.



- A Plain Talk team that manages the language used in agency contracts and publications.

CONCLUSIONS

The demand for services in the face of declining revenues has caused many public-sector and non-profit organizations to put off their performance initiatives. Why divert scarce resources from much-needed services? The TIB would argue that declining revenue is the main reason to develop a balanced scorecard or initiate a quality review. Before 2001, the agency employed 18 people, while today, it employs 11 — at an operational level, the TIB is in fact doing more with less. When state legislators speak to their municipal agencies, they routinely hear about the great work the TIB is doing, which has loosened the

Creating a robust and sustainable performance management system has resulted in measurable improvement for the Washington Transportation Improvement Bureau.

legislators' purse strings. In 2005, the TIB was awarded permanent additional funding, and two active bills are pending, and legislative leaders are in discussions to provide additional funding for the agency. This is a monumental show of faith for a state that needs to trim more than \$2 billion from its annual budget. ■

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