

Fiscal Research Program

**PERFORMANCE MEASUREMENT
IN STATE ECONOMIC
DEVELOPMENT AGENCIES:
LESSONS AND NEXT STEPS
FOR GDITT**

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Performance Measurement in State Economic Development Agencies: Lessons and Next Steps for GDITT

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I. Introduction

The purpose of this project was to develop the basis for a comprehensive performance monitoring system for the Department of Industry, Trade and Tourism. This performance monitoring system involved the development of performance measures as well as methods and processes for the collection, maintenance and reporting of the related data. As a result of the work completed for this project, GDITT has a workable set of performance measures for its major divisions:

- Economic Development
- Film, Video and Music
- International Trade
- Tourism.

The goal was to develop performance measures to be used internally by staff and management for each of these four divisions, as well for reporting to external stakeholders, including the legislature. In this work, it was important to identify the needs of the various stakeholder groups to whom GDITT reports so that appropriate measures and reporting formats for the appropriate audiences may be identified. It was also important to develop measures consistent with the strategic goals and objectives of GDITT and its divisions. Finally, performance measures for GDITT were developed in consideration of performance measurement activities in other state economic development agencies. In order to accomplish this, the following tasks were conducted:

- *Review of existing performance measurement systems for departments of economic development in other states.* A survey of staff in economic development agencies in each of the fifty states was conducted in order to determine current practices and useful models of performance measurement and monitoring systems in other states. This information provided important guidance and input to the development of GDITT's system. As part of this process, existing and prior evaluation and performance measurement activities, as well as current data collection and maintenance procedures in GDITT were reviewed, in consultation with GDITT staff. Detailed findings of this review are provided in this report.
- *Development of logic models for key activities within GDITT.* Logic models are a graphical display of activities and related outputs and outcomes of an organization's activities and are an important building block in the development of performance measures. Logic models for each of GDITT's major divisions were created in consultation with GDITT staff, detailing the work processes,

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outputs, outcomes and likely impacts associated with GDITT activities and will be designed to be consistent with the strategic plans of GDITT.

- *Development of performance measures for the GDITT major activities.* Measures were developed for each GDITT division in the categories of input, activity, output, and outcomes, including initial, intermediate and those of a long-term nature. Significant staff involvement and discussion of these measures was important to assure their usefulness, reasonableness, and appropriateness. It is likely that there will be variations in performance, outputs and outcomes, depending on a number of factors. Therefore, it was important to address future analysis needs that involve making distinctions between groups. Thus, measures were developed so that future data analysis would allow some comparisons in outcomes of activities between (for example), regions within the state, industries or client groups. As performance measures were developed for GDITT activities, the following specific steps were involved in the development of the monitoring system:
 - Assess definitions and sources of data currently being collected
 - Refine those data procedures if necessary, working with GDITT staff
 - Develop additional data collection instruments, if necessary
 - Construct a set of performance measures for all GDITT activities
 - Conduct a preliminary assessment of data
 - Document data definitions and needs.

- *Development of Implementation Guidelines and Recommendations.* While the development of performance measures is a significant activity, the future success of these measures within the management framework requires a solid implementation plan. Because performance measurement is a data-intensive activity, discussions about on-going data maintenance and reporting were an important part of this project and will continue to be important throughout the implementation phase. Further, developing a useful, high-quality performance measurement system that provides longitudinal information over a period of time takes trial and error to develop. Processes to make adjustments to the measures and process over time were discussed and developed and are addressed in the implementation guidelines at the conclusion of this report. Further, in order to be useful, performance data must be reported effectively. Thus, guidelines on internal and external reporting formats are also provided.

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II. Issues in Performance Monitoring in the States

As state economic development agencies continue to evolve, assessing the outcomes of their activities will continue to be important. State economic development agencies exist within a larger state environment that has placed increasing emphasis on performance measurement. However, these agencies face particular challenges, as Harry Hatry has noted:

State and local governments have increased their focus on investments in economic development in recent years. With increased effort comes increased desire to determine the quality and results of that effort. Managers need to be able to regularly identify the strengths and weaknesses of individual programs. Yet, effective means for assessment of program quality and outcomes are lacking (Hatry, Fall, Singer, and Liner, 1990).

There has been some attention in the economic development literature to the difficulties associated with the measurement of its outcomes. Although there are a variety of methods in which to evaluate or to measure the success or failure of economic development programs, there is no agreed upon methodology. Further, the lack of agreement on methods of measurement and actual policy goals only compounds the issue of specifying good performance measures (Eisenschitz, 1993). Therefore, efforts to evaluate economic development policy have become “a quagmire of good intentions and bad measures” (Clarke & Gaile, 1992, p.193).

As state economic development agencies continue to develop performance measures and accountability approaches, it is likely to reflect other larger performance trends in state governments. The 1990’s served as a decade of reinvention among state agencies, which in turn led to a shift from not only an emphasis on measurements of productivity and efficiency, but also on outcomes and accountability. Numerous research studies have addressed these efforts in the states, the extent to which performance measures are integrated into the budget, utilization of these developed measures, and the very way in which to implement them for success (Melkers and Willoughby, 1998; Melkers and Willoughby, 2001.)

As state economic development agencies grapple with accountability requirements, there has been some attention to the issues surrounding the evaluation of economic development programs and activities. For example, some have

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researched the application of projections of future employment; program results; service quality obtained through informal and formal surveys; and anecdotal information to assessing program outcomes (Hatry, Fall, Singer, and Liner, 1990). The political and value-laden nature of economic development, particularly at the community level has been identified as a key concern in the successful assessment of economic development (Reese and Fassenfest, 1999). Overall, it is agreed upon that successful performance measures need to be relatively understandable, relevant, and measurable (Hatry, Fall, Singer, and Liner, 1990).

Hatry, Fall, Singer, and Liner (1990) comprised methodology applicable to state economic development agencies in their development and implementation of performance measures that emphasizes performance monitoring. They rely heavily on client input and the use of customer surveys in their approach. In their work they identified twelve key characteristics as criterion in developing performance measures for economic development agencies. This list was compiled by a panel of experts that reviewed and analyzed previous performance monitoring and auditing methods, participated in focus groups with clients of economic development programs, conducted extensive interviews with program managers, and tested data gathering procedures for eight differing pilot programs. From this research, they recommend that performance monitoring systems in state economic development agencies should:

1. focus on service quality and outcomes;
2. focus on helping program managers improve their operations;
3. provide timely and frequent information;
4. focus on the outcomes accruing to clients of program services;
5. use of multiple performance indicators to assess service quality and outcomes;
6. use nontraditional data sources – such as client surveys and unemployment data;
7. include both intermediate and end outcomes;
8. include indicators that attempt to show the extent of the agency's contributions;
9. breakout by client characteristics;

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10. provide comparisons of performance for previous years, trends, target levels and categories of clients;
11. include explanatory factors as well as performance data;
12. be designed to be cost-efficient.

In actual data collection, they proposed that:

1. procedures rely on information provided by agency clients (client-based assessment);
2. procedures are designed to be incorporated into the normal operations of the development agency so as to provide regular, periodic reports, that, over time, can be used to identify trends in performance;
3. the suggested performance indicators include both “intermediate” and “end” outcomes – both very important – “intermediate” outcomes highlight actions taken by clients that are accepted as being significant steps towards achievements of the longer term results (Hatry, Fall, Singer and Liner, 1990).

Their approach did not include analysis of activity levels, expenditures, efficiency and productivity measures, or inputs and outputs. Rather, the emphasized focus is on service outcomes and service quality and advocated the use of existing agency data such as program records; client surveys; state unemployment insurance data; national indicators such as prime lending rates, consumer price indices, or even national unemployment rates; state databases; questionnaires; and interviews.

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III. Performance Measurement in Economic Development Agencies in the U.S.

In developing performance measures and a corresponding implementation plan for GDITT, it was useful to gather details on useful and appropriate measures as well as experiences and perspectives on performance measurement processes from other state economic development agencies around the country.

The rationale behind the adoption of performance measures is that better management, program and budgeting decisions will be made. Further, data will be available to assist in both internal planning, but also for reporting outwards to funders, such as legislative bodies, and other stakeholders. Research has shown that performance measures are not widely used in changing resource allocation, but are important in changing communication patterns as well as becoming important in planning and other management activities. The emphasis has been not only on assessing outputs of government programs, but also the outcomes.

Research on the evaluation and performance measurement of economic development programs point to the difficulties of measuring and assessing outcomes associated with these programs. However, the extent of performance measurement adoption or use in state economic development agencies has not been addressed. Thus, this research focuses on the development and use of performance measures in state economic development agencies, including budgetary and program planning use, as well as its impact on communication between players within and outside of the agency. The research reported in this report is focused on questions developed around the following three themes within the context of state budget and program planning processes within economic development agencies:

- Identification and usefulness of particular measures in state economic development agencies.
- Actual use and reasons for the use of performance data in the budget and managerial decisions.
- The extent to which integration of performance measures has changed economic development planning and/or relationships with stakeholders and the legislature.

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First, given the challenges of evaluating economic development outcomes, what issues have state agencies faced in the selection and development of appropriate performance measures? Which measures have been most important, both overall as well as within specific division types? Second, how have administrators in state economic development agencies used performance measures? Here we address a range of managerial decision types as well integration in the budget process. Third, research has shown that performance measures change relationships and communication between actors. What impact has performance measures had in this regard in state economic development agencies? How do administrators in state economic development agencies that have developed performance measures perceive changes in communication with other budget actors within their agency and with key external stakeholders as a result of this implementation? Finally, do the perceptions of agency budget staff differ from those of division directors regarding the usefulness and impact of performance measures within the state economic development agency?

A. Methodology

The data reported in this research are based on a survey of key managers in state economic development agencies in each of the fifty states. The survey was a modification of an earlier survey that addressed the use of performance measurement use in state and local governments. That study was part of a multi-year effort by the Government Accounting Standards Board (GASB) to extend their on-going work in performance measurement. Funded by the Sloan Foundation, twenty-six case studies (1999-2001) and a major mail survey (2000) were conducted by the GASB Performance Measurement Research Team. While that study included several agency types across state and local governments, economic development agencies were not included. Thus, this survey provides data that will be useful not only in addressing performance measurement development and use issues for state economic development agencies, but also offers the opportunity for comparisons with prior survey data for other types of state agencies.

For the mail survey, two separate survey instruments were developed targeted at 1) administrators with performance measurement and/or budgeting responsibilities

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for each state economic development agency; and 2) division heads within state economic development agencies in core economic development program areas of Tourism, Business Recruitment, International Trade, Community and Economic Development, Workforce Development, Loans to Businesses, Marketing, and Business Training and Technical Assistance. The survey targeted to the central agency budget administrator was important for gathering information on the use of performance measures in interactions with external stakeholders and the legislature, while the division directors could address the use of performance measures within their division as well as for communicating within the agency. Contact names for both the central administrator as well as division heads were gathered using agency web pages and the Council of State Government 2001 Directory of Administrative Officials. In addition, calls were made to each state to confirm contact names. Overall, 260 survey instruments were mailed out and 88 received, for an overall response rate of 34 percent. Separate survey instruments were used in order to make question format and wording most appropriate for the respondent's position. For example, questions particular to the state-level budgeting process were only contained in the agency budget officer survey. However, surveys were designed to allow for comparability across respondents. Therefore, the majority of questions in the surveys overlapped in content and wording. As shown in Table 1, 20 states were represented in the survey of agency budgeters and 41 states for division directors within state economic development agencies. At the division level, Tourism accounted for 28 percent of the respondents, Business Recruitment for 18 percent, International Trade for 16 percent, and Community/Economic Development for 10 percent (n=68).

TABLE 1. SURVEY RESPONSES

20 State economic development central budget/performance measurement staff (response rate: 40%)	20 states represented
68 State economic development agency division heads (response rate: 32%)	41 states represented

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The mail survey included questions on the extent of performance measurement use in state governments, the types of measures used for various sorts of decisions and public management processes, the measurement verification/validation activities used in state economic development agencies, and administrator understanding of the purposes of generating and using performance data. The survey also addresses details of where performance data appears in budget and financial reports, when during the budget cycle performance information is most helpful, and current reward and sanction systems used to reward agencies for reaching or missing performance goals. Respondents were asked to identify critical measures appropriate to economic development, for internal as well as external use. Finally, the survey addressed administrator perceptions of the relative success of the performance measurement process and its impact on cost savings, efficiency, effectiveness and program results, enhanced communication and better understanding among government officials and with citizens.

B. Research Findings

Adopting Performance Measurement in State Economic Development Agencies

While assessing the outcomes of economic development programs and activities present certain challenges, our results show that state economic development agencies are making important efforts to quantify and track those outcomes – both at the agency and division levels. At the agency level, economic development administrators were asked - “To what extent are performance measures being used by programs in your agency?” The results show significant efforts in data collection – 68 percent of agency respondents reported that all of their programs in their agency were using some performance measures. At the division level, directors were asked to comment on performance measurement within their division only – 76 percent indicated that their division has data collection on a regular, on-going basis, and 19 percent indicated that their division has data collection on the outcomes of the organization on a regular basis as well as having one or more stand-alone evaluations. Further, 51 percent of division directors indicated that *all* major activities within their

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division and 35 percent indicated that most major activities within their division were using performance measures. Finally, responses also indicate other evaluative activities--half of agency level respondent's indicated that a program evaluation has been used within their agency to determine why programs or departments are performing at the level they are. It was critical to this research effort that respondents who were familiar with and engaged in some level of performance measurement activity respond to question about performance measurement effects, and other questions about performance measurement use and implementation. These responses indicate that some form of performance measurement activity is pervasive in the economic development agencies surveyed.

Prior research has revealed that requirements for performance measures in state governments are extensive. Over the past decade, state governments have established legal and/or administrative requirements for performance based budgeting systems that incorporate requirements for measuring and reporting agency and program performance results (Melkers and Willoughby, 1998). Of the 47 states with some performance related requirement, 31 have legislated performance budgeting, while 16 have initiated the reform through administrative and budget guidelines. By the end of the last decade, only three states, Arkansas, Massachusetts, and New York did not have either type of mandate to conduct PBB (Melkers and Willoughby, 1998). Centralized requirements for performance-based budgeting have created the rationale for many state agencies to engage in performance monitoring. While divisions within agencies generally must provide data for these efforts, we also know that managers are motivated for other reasons as well in developing performance measures. Thus, what is the motivation to collect and maintain performance data in state economic development agencies? When asked the primary reason that performance measurement is assessed in their division, 47 percent of division directors that responded to our survey indicated that they used performance measurement as a management tool, while 28 percent indicated legislative requirements. This suggests that while units within economic development agencies are required to provide data as part of state-wide reporting requirements, they are also motivated by larger public management initiatives.

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Selecting Appropriate Measures

A central question addressed in much of the literature on the evaluation of economic development points to the difficulty of identifying appropriate measures. If performance measurement is meant to satisfy not only central reporting requirements, but also serve as a useful internal management tool, how are measures selected? Division directors reported a range of sources. Not surprisingly, given the division directors statements about the internal management motivations for performance measurement, 65 percent stated that their division's selection of performance measures was influenced by internal management decisions while another 38 percent stated agency reporting requirements and guidelines and 33 percent stated state reporting requirements and guidelines. Interestingly, few use consultants to identify measures – only 10 percent pointed to consultant assistance. Finally, responses were split regarding the extent to which citizen opinion and views were factored into the selection of measures. While many respondents indicated that citizen opinion is considered in the selection of measures, few involve citizens in the selection process.

A frequent criticism of performance measurement efforts addresses the overuse of activity and output measures, with not enough attention to outcome and impact. What measures are used in state economic development agencies? We asked central administrators in state economic development agencies to report the use of performance measures on programs overall in their agency according to several categories. For example, we asked them to indicate their use of:

- input measures
- activity/process measures
- output measures
- outcome measures
- cost/efficiency measures
- quality/customer satisfaction measures
- explanatory measures
- benchmarks.

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Respondents were provided with a definition for each of these terms so that there was a consistent understanding of the meaning of each. For example, respondents were given the following definition to assist them with distinguishing between outputs and outcomes:

Outputs – Measures of the quantity of services provided or the quantity of service that meets a certain quality requirement. (For example, the number of lane miles of road repaired or the number of serious crimes reported);

Outcomes – Measures of the results that occur, at least in part, because of services provided. This may include initial, intermediate, or long-term outcomes. (For example, the percentage of lane miles of road maintained in excellent, good, or fair condition or the clearance rate for serious crimes, or the percentage of residents rating their neighborhood as safe or very safe);

As shown in Table 2, while activity and process measures are reported to be most common by central agency staff, measures of program outcome and quality are not far behind. Economic development agency staff were asked to indicate the extent to which the different measures were used in programs in their agency – almost half of respondents indicated that at least 50 percent of their programs were using outcome measures and another third of respondents indicated that all programs in their agency were using performance measures.

TABLE 2. TYPES OF PERFORMANCE MEASURES USED IN STATE ECONOMIC DEVELOPMENT AGENCIES, AS REPORTED BY CENTRAL AGENCY BUDGET STAFF (1= No Programs; 5=All Programs)

	N	Mean
Activity/Process measures	18	4.39
Output measures	17	4.12
Outcome measures	17	3.94
Input measures	15	3.87
Quality/Customer Satisfaction measures	17	3.35
Explanatory measures	14	3.21
Benchmarks	15	2.87
Cost/Efficiency measures	14	2.79

We asked both central agency administrators as well as division directors to characterize the measures that are in use within their division. Overall, there was widespread agreement that performance measures are focused more on program

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results, than straight workload measures, with approximately 90 percent of both groups agreeing or strongly agreeing to this statement. Further, based on their responses, there seems to be considerable attention given to outcome measures, with both groups indicating that program outputs in their agency or division tend to be linked to outcome measures. Finally, although state economic development agencies seem to frequently report comparative data on their job and employment rates, there is some split across the states and division in the extent to which benchmarks have been developed, which allows for program outcome comparison across states.

Economic development agencies are clearly pressured to report job and firm generation figures as key indicators of programmatic success and outcome. However, the diverse nature of economic development programs – ranging from tourism and promotion programs, to business assistance, to international trade, suggests the need for a more complex set of measures. We asked division directors to identify the “most important outcome measures for reporting the performance of their division’s activities.” As shown in Table 3, employment measures figure prominently in their selection of key measures, as do investment-related measures. Tourism also identifies demand measures, in terms of number of inquiries. To place these responses within the larger agency perspective, we also asked agency level staff to identify the “most important outcome measures” for core economic development divisions of business recruitment, marketing, loan programs, tourism, and business training and technical assistance. Verification of performance measurement data is an important component to the process. Our survey findings also point to the central role of agency staff in the measurement process – when asked who verifies performance measures or performance data for accuracy, reliability, relevance, and validity, 83 percent of all respondent’s said agency staff.

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TABLE 3: MOST IMPORTANT OUTCOME MEASURES, AS REPORTED BY DIVISION DIRECTORS

	Tourism	Business Recruitment	International Trade
First Best Measures	Return on Investments	Job Creation and Retention	Sales Figures (of client companies)
	Economic Impacts	# of Companies Assisted	Client Satisfaction
	# of Inquiries	Process/Activity Reports	# of new clients
	Market Share	Marketing/Advertising Effectiveness	
Second Best Measures	Return on Investment	Capital Investment	# of Clients Served
	Increased Consumer Awareness	Job Creation and Retention	# of New Clients/ Investments
	Market Analysis/ Consumer Survey	Customer Satisfaction	# of Projects Completed
		Money Generated	
Third Best Measures	Return on Investment	Job Creation and Retention	# of Clients Assisted
	Increased Consumer Awareness	# of Communities Assisted	# of New Clients/ Investments
	# of Inquiries		Money Generated
	Internal Benchmarking		Client Cost Savings
			# of Jobs Created

Finally, as performance targets are identified for state economic development agencies, what happens when those targets are not met, or, conversely, when they are exceeded? From earlier work (Melkers and Willoughby, 1998), we know that a handful of states have formally defined these rewards or sanctions. Surprisingly, 85 percent of the state agencies surveyed indicated that no sanctions are imposed. Another 83 percent indicated that their agency is not considering imposing sanctions in the future. Consistent with these percentages, 94 percent indicated that their state offers no rewards for either agency or program performance goal attainment.

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Performance Measurement Use in State Economic Development Agencies

As noted above, the motivation for implementing performance measurement in the state economic development agencies in this study included legislative requirements, but also had a strong managerial use component. We asked economic development administrators to identify the ways in which performance data were used within their agency – both at the agency and division level. At the agency level, we also asked questions about the inclusion of performance measures in budget documents and their utility in the budget process.

For most government organizations, the adoption of performance measures suggests some use in the budget process. The rationale behind performance-based budgeting is that valid, quantitative evidence of program outcomes and impacts is useful in making better and more informed budgetary decisions. Our results show extensive use of performance measures in the budget process in state economic development agencies. First, we asked respondents to indicate where performance data are reported – three-quarters pointed to the budget requests as well as agency annual reports. We asked agency-level staff to indicate the extent to which output and outcome measures have appeared in agency-level budget requests, and other budget reports and documents. Of the twenty states for which we have central agency responses, only three of them routinely indicated that measures and related data did not appear in these budget documents.

How extensive is the use of outcome measures in state economic development programs? We asked division and agency level respondents to identify the extent to which output and outcome measures were used for a number of internal and external decisions and actions, including budgeting, strategic planning, and contract management. Respondents were asked to indicate whether these measures were used in all of their programs, more than 50 percent of programs, less than 50 percent, only a few programs, or no programs at all. Agency-level respondents provided the agency-wide perspective whereas division directors were asked only about programs within their division. As shown in Table 4, the most widespread use for outcome and output measures in state economic development agencies were first

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TABLE 4. EXTENT TO WHICH OUTPUT AND OUTCOME MEASURES ARE USED IN STATE ECONOMIC DEVELOPMENT AGENCIES (1= No Programs; 5=All Programs)

	All Respondents (n=88)	Agency Level: (n=20)	Division Level: (n=68)
Internal			
Reporting results to management and staff	4.31	4.21	4.33
Assessment of program results	4.24	3.79	4.37
Program planning, annual business planning, or oversight activities, including programmatic changes	3.95	3.63	4.05
Budgeting, including resource allocation or discussion about resources changes	3.91	3.90	3.91
Strategic planning (more than one-year time horizon)	3.71	3.65	3.73
Managing operations (e.g., managing services or contractors) or daily decisions (e.g., scheduling activities)	3.66	3.37	3.75
Establishing or changing of policies	3.55	3.56	3.55
Specific performance improvement initiatives (e.g., investments, technical assistance, training, operations improvements)	3.43	3.00	3.56
Evaluation to determine underlying reasons for results	3.29	3.06	3.37
Personnel decisions including staffing levels and evaluations	3.18	3.11	3.21
Benchmarking, or comparison of program results with other entities	2.84	2.11	3.05
External			
Reporting or accountability to elected officials	4.02	4.00	4.03
Reporting or accountability to citizens, citizen groups, or media	3.55	3.41	3.59
In establishing contracts for services	3.25	3.26	3.24
To hold local jurisdictions accountable for state-funded or state-regulated programs	2.87	2.87	N/A

for managerial purposes, communication purposes, followed by budgetary uses. Fewer respondents identified more advanced uses of performance measures, including integration with performance appraisal or contract management purposes.

While it is important to know the extent to which outcome measures are used in economic development agencies, for which decisions and activities do economic

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development administrators find performance measurement to be most useful? We asked economic development administrators to indicate how effective performance measurement development and use had been for a range of functions and relationships within and outside of their agency and division, from “very effective” to “not effective.” About one-fifth of our respondents overall described the development and use of performance measures as “very effective” for:

- increasing awareness of, and focus on, results;
- increasing awareness of factors that affect performance results;
- changing strategies to achieve desired results, and;
- improving effectiveness of agency programs.

The strong responses for these effects again underscore the perspective of economic development administrators discussed earlier that emphasizes managerial rather than budgetary uses and motivations for performance measurement. Table 5 lists the mean responses for agency and division-level respondents. While division and agency-level respondents did not differ a great deal in their ranking of the importance of performance measures, division-level respondents were somewhat more enthusiastic than their agency-level counterparts regarding the extent to which performance measurement development and use was effective in program improvement. Conversely, only 5 percent of our respondents overall indicated that the development and use of performance measures was “very effective” in changing appropriation levels.

What effects has the development and use of performance measures had in state economic development agencies. As shown in Table 6, respondents are split regarding performance measurement effects on appropriations – with about half of all respondents agreeing or strongly agreeing that there is some effect. Here, division-level respondents perceive more influence in the appropriations process than do central agency budget staff. The strongest effects perceived by both agency and division-level respondents are in regard to changing communication patterns and

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TABLE 5: EFFECTIVENESS OF DEVELOPMENT AND USE OF PERFORMANCE MEASURES (*1=Not Effective; 4=Very Effective*)

	All Respondents (n=88)	Agency Level: (n=20)	Division Level: (n=68)
Making Cuts			
Reducing/eliminating ineffective services/programs?	2.45	2.24	2.51
Reducing duplicative services?	2.37	2.62	2.30
Affecting cost savings?	2.24	2.22	2.25
Improving Programs			
Improving programs/service quality?	2.82	2.72	2.85
Improving effectiveness of agency programs?	2.81	2.78	2.82
Improving responsiveness to customers?	2.72	2.59	2.75
Focusing on Results			
Increasing awareness of, and focus on, results?	2.88	2.89	2.88
Changing strategies to achieve desired results?	2.80	2.76	2.82
Increasing awareness of factors that affect performance results?	2.79	2.88	2.77
Improving Communication and Coordination			
Improving communication with the executive budget office?	2.57	2.67	2.54
Improving communication with the legislature and legislative staff?	2.54	2.67	2.51
Improving communication between departments and programs?	2.51	2.53	2.50
Communicating with the public about performance?	2.45	2.33	2.48
Improving cross agency cooperation/coordination?	2.33	2.12	2.38
Improving external government cooperation/coordination?	2.25	1.94	2.33
Changing the Substance of Discussion			
Changing the substance or tone of discussion among legislators about agency budgets?	2.36	2.41	2.35
Changing the substance or tone of discussion among legislators about oversight of programs?	2.28	2.29	2.27
Changing the questions legislators or their staff ask government managers or executives?	2.19	2.00	2.24
Changing State Spending			
Changing appropriation levels?	1.91	1.81	1.94

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TABLE 6: PERFORMANCE MEASUREMENT EFFECTS

	Combined Responses: (n=88)		Agency Level: (n=20)		Division Level: (n=68)	
	Strongly Agree	Agree	Strongly Agree	Agree	Strongly Agree	Agree
Communication Effects						
Communication between divisions and the commissioner’s office has improved with the implementation of performance measures.	NA	NA	NA	NA	20%	65%
Communication between agency personnel and our budget office has improved with the implementation of performance measures.	11%	70%	12%	59%	10%	73%
Communication between agency personnel and legislators has improved with the implementation of performance measures.	9%	67%	12%	59%	8%	69%
The substance or tone of budget discussions among legislators has changed to focus more on results with the implementation of performance measures.	5%	57%	0%	56%	6%	57%
Current Environment						
Performance measures are a vital decision aid regarding budget issues in this agency.	18%	50%	5%	60%	23%	47%
Using performance measures has enhanced the management of the programs in our agency programs.	16%	69%	5%	74%	20%	67%
Some changes in appropriations are directly attributable to outcomes from the development and use of performance measures by programs in our agency.	10%	45%	0%	53%	13%	42%

Table 6 continues next page...

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TABLE 6 (CONTINUED): PERFORMANCE MEASUREMENT EFFECTS

	Combined Responses: (n=88)		Agency Level: (n=20)		Division Level: (n=68)	
	Strongly Agree	Agree	Strongly Agree	Agree	Strongly Agree	Agree
Lasting Effects						
In the future, our agency is likely to increase the use of performance measures for decision-making.	34%	59%	50%	44%	29%	64%
Overall, our agency is better off since we began using performance measures.	25%	66%	11%	78%	30%	62%
Overall, using performance measures has enhanced program effectiveness in this agency.	18%	64%	6%	67%	21%	63%
Overall, using performance measures has enhanced program efficiency in this agency.	13%	59%	0%	67%	16%	57%

relationships, both within the agency and with the legislature. Internally, the vast majority (85 percent) of division-level respondents in fact agree or strongly agree that “communication between divisions and the commissioner’s office has improved with the implementation of performance measures.” Similarly, agency-level budget staff that interact with external stakeholders, including the legislature, point to positive communication effects – approximately 75 percent agree or strongly agree that communication between the budget office and agency personnel as well as communication between agency personnel and the legislature has improved with the use of performance measures.

Overall, administrators from state economic development agencies are positive about the effects of performance measurement on the operations of their organization, with 94 percent of respondents indicating that they feel that their agency or division is better off since using performance measures. Here, central agency respondents were more conservative in the strength of this assessment, while division-level respondents were more positive that the “agency/division is better off since [they] began using performance measures” and that performance measurement has enhanced both the effectiveness and the efficiency of the agency.

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What factors affect the use of performance measures within economic development agencies? Anecdotally, the difficulty in identifying measures and tracking results over a range of years is often pointed to as a central problem in the assessment of economic development outcomes. We asked economic development administrators “Based on your experience, have any of the following posed problems for the effective use of performance measurement in your agency?” Respondents were asked to indicate whether an item had been “a significant problem,” “somewhat of a problem,” or “not a problem.” Not surprisingly, the most critical problem addressed the difficulty of developing appropriate measures as a significant problem, as shown in Table 7. Almost one-third of respondents called the “development of performance measures that accurately reflect program activities” a “significant problem” while another 46 percent of respondents called it “somewhat of a problem.” Other factors that were considered more significant by respondents included issues related to outside factors, collection of the data themselves. These measurement issues are not surprising and are specific to issues related to the measurement of economic development outcomes. Another key problem noted by respondents diverged from the measurement issues and pointed to larger systemic performance measurement use issue within the state itself. One-quarter of respondents indicated that “performance measures do not carry enough weight in budget decisions” and another 46 percent indicate that this was “somewhat of a problem.” What is unknown, however, based on these responses is whether the issue is a lack of weight to performance measures in the budget process overall, or that economic development measures and data have issues related to use in the legislative arena.

While agency and division-level respondents rating of problems were generally similar in terms of which problems were more important than others, there were some important differences of opinion between agency-level respondents and division-level respondents in regard to problems in the effective use of performance measures. Overall, agency-level respondents considered problems to be more significant than their division-level colleagues (see Table 8). They placed more

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TABLE 7. SIGNIFICANT PROBLEMS IN THE EFFECTIVE USE OF PERFORMANCE MEASURES IN STATE ECONOMIC DEVELOPMENT AGENCIES: ALL RESPONDENTS (N=88)

	A Significant Problem	Somewhat of a Problem	Not a problem
Development of performance measures that accurately reflect program activities	31%	46%	23%
Too many outside factors affect the results trying to be achieved	29%	50%	21%
Collection of performance data	24%	46%	30%
Performance measures do not carry enough weight in budget decisions	23%	38%	39%
Maintenance of performance data	19%	41%	41%
Lack of regular use of performance measures by top management and elected officials	19%	44%	38%
Performance measures do not carry enough weight in management decisions	16%	46%	39%
Lack of understanding of how to use performance measures	15%	41%	44%
Performance measures are not reflective of what programs are trying to accomplish	14%	42%	44%
Lack of adequate technology to support performance measurement effort	14%	33%	54%
Inadequate link between performance measurement database and accounting/budgeting database systems	13%	57%	30%
Effectively reporting performance data to the legislature	13%	34%	53%
Effectively reporting performance data to citizens	13%	30%	57%
Lack of training of staff responsible for collection and maintenance of performance data	11%	40%	49%
Effectively reporting performance data to the media	11%	30%	58%
Lack of apparent link of performance measures to higher level benchmarks	10%	54%	36%
Lack of interest of leadership in using performance measures	10%	33%	57%
Effectively reporting performance data to executive leadership	9%	34%	57%
Lack of cost information about programs	6%	34%	60%

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TABLE 8. PROBLEMS IN THE EFFECTIVE USE OF PERFORMANCE MEASURES IN STATE ECONOMIC DEVELOPMENT AGENCIES

(1=not a problem, 2=somewhat of a problem, 3=a significant problem)	Agency Level: (n=20) Mean	Division Level: (n=68) Mean
Too many outside factors affect the results trying to be achieved.	2.35	2.00
Development of performance measures that accurately reflect program activities	2.35	2.02
Collection of performance data	2.24	1.86
Maintenance of performance data	2.00	1.73
Inadequate link between performance measurement database and accounting/budgeting database systems	2.00	1.77
Performance measures do not carry enough weight in budget decisions	2.00	1.80
Lack of apparent link of performance measures to higher level benchmarks	1.94	1.68
Performance measures are not reflective of what programs are trying to accomplish	1.94	1.63
Lack of understanding of how to use performance measures	1.94	1.65
Performance measures do not carry enough weight in management decisions	1.94	1.72
Effectively reporting performance data to citizens	1.94	1.46
Lack of training of staff responsible for collection and maintenance of performance data	1.88	1.56
Lack of regular use of performance measures by top management and elected officials	1.88	1.80
Effectively reporting performance data to the legislature	1.88	1.52
Effectively reporting performance data to the media	1.88	1.44
Effectively reporting performance data to executive leadership	1.81	1.44
Lack of adequate technology to support performance measurement effort	1.71	1.57
Lack of interest of leadership in using performance measures	1.53	1.53
Lack of cost information about programs	1.53	1.44

weight on external factors, and issues related to the measures themselves than did the division-level respondents. On the other hand, division-level respondents did not view problems related to reporting externally as important as agency-level respondents. Division-level respondents also placed relatively more weight on the use of performance measures in budget and management decisions than did their agency-level colleagues.

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C. Conclusion

Overall, state economic development agencies appear to be active in the development and use of performance measures. Measuring the impacts and outcomes of economic development programs presents certain challenges. However, state economic development administrators seem aware of these challenges. Further, several respondents identified activities that would help to overcome some of the barriers to performance measurement use identified in this study. We asked central agency respondents “what do you plan to do, if anything, to help prepare elected officials and citizens to use performance measures in the future?” As state economic development agencies continue to refine appropriate performance measures and performance monitoring systems, several appear poised to institute new procedures to assist in the further development of performance measurement systems in their organization. The following are some of the specific plans they articulated:

- Continue to refine our agency’s performance measurement and reporting, and assist in the statewide development.
- Assessment of the programs, training, planning and measurement, new trial efforts.
- Update and create new organizational and economic measurement.
- Continue to refine our agency’s performance measurement and reporting; assist in the statewide development.
- Engage via the web citizen and other stakeholders to more actively provide input on program performance, desired outcomes and overall satisfaction with program activities and services.
- Use [commercial performance measurement software] and the web to better integrate performance measures in our customer presentations and decision-making processes.
- Direct the use and interpretation of performance measures in management and budget decisions.

As state economic development administrators continue to make improvements and advancement in their performance measurement activities, we can hope to see even more evidence of improved communication and program planning. If performance measurement can be found to be useful to state

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economic development administrators, then it can be considered successful in adding value to decisions related to management, budgeting, and even economic development planning. This research supports this view and points to the importance of sound performance measurement – primarily as a management and communication tool, but also as an important source for information in the budgetary process.

Overall, the vast majority of our respondents expect there to be an increase in the use of performance measurement use in decision making in their agency. Their comments overall reflect an appreciation for the potential for performance measurement in a range of management and budget arenas, in spite of the difficulties inherent in the assessment of economic development outcomes. This suggests that the development of performance measures in GDITT is consistent with national standards and trends and also will likely benefit as reported by similar staff in economic development agencies around the country.

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IV. Specific Recommendations for the Development of a Performance Measurement System for GDITT

A preliminary set of performance measures for GDITT were developed in 2002 and were based on findings from other state experiences, staff input, and review of programmatic structures and outcomes. Measures were developed in the categories of input, activity, output, and outcomes, including initial, intermediate and those of a long-term nature. Significant staff involvement and discussion of these measures was important to assure their usefulness, reasonableness, and appropriateness. It is likely that there will be variations in performance, outputs and outcomes, depending on a number of factors. Therefore, it was important to address future analysis needs that involve making distinctions between groups. Thus, measures were developed so that future data analysis would allow some comparisons in outcomes of activities between (for example), regions within the state, industries or client groups. Specifically, the following guidelines were used in the development and refinement of performance measures in each of the GDITT divisions:

- Measures should reflect activities, but also outputs and most importantly outcomes (e.g. the results of your activities). Some aspect of quality and customer satisfaction should be part of the outcome measures as well.
- Measures should be identified for *major* activities as opposed to *all* activities.
- Targets should be specified separately from measures.
- Some measures may make sense to track on a monthly basis, whereas others will only be meaningful on a quarterly, semi-annual or even annual basis. This then will drive the computing platform for data maintenance.
- All measures must be explicitly defined.
- All measures must have a specified data source.
- All measures should be revisited following a period of data collection (for at least 6 months) to determine their usefulness and value.
- Measures that require client input/feedback will involve the development of data collection instruments.

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As performance measures were developed for GDITT activities, the following specific steps were involved in the development of the monitoring system:

- Assessment of definitions and sources of data currently being collected.
- Refining those data procedures if necessary, working with GDITT staff.
- Development of additional data collection instruments, if necessary.
- Construction of a set of performance measures for all GDITT activities.
- Preliminary assessment of data.
- Documentation of data definitions and needs.

GDITT staff within each division selected and identified performance measures with our assistance. The remaining tasks will be required to complete the development of performance measures for each division:

- Identify performance targets for certain measures. This will be accomplished in most cases only following a period of data collection.
- Refine and complete data definitions and data sources. This will be completed as measures are refined.

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V. Implementation Guidelines and Recommendations

The first year of a performance measurement system and process is important in producing preliminary performance information, but also for refining the measures, data maintenance, and reporting procedures. It is a critical formative year for assessing data availability, establishing data collection and maintenance platforms and processes, conducting preliminary assessments of data, and developing additional data collection tools. Thus, this implementation phase will involve key steps critical for the on-going success and quality of this performance measurement system.

Implementation Phase Key Tasks

Assignment of Implementation Phase Coordinator. A contact person and coordinator should be assigned to track progress in each of the divisions and assist in implementation tasks in the first year of performance monitoring at GDITT. This person will be important in coordinating database development with GDITT IT staff with division needs.

Preparation for Data Collection. A number of tasks need to be accomplished in order to prepare for the ongoing performance assessment within and across GDITT divisions. These tasks will be completed with the goals of 1) developing a solid base of detailed information about programmatic activities and data collection procedures; 2) finalizing and refining a set of performance measures for all relevant GDITT division activities; and 3) planning for effective and efficient management of performance data. To accomplish these goals, it will be important to work closely and carefully with GDITT staff as well as GDITT upper management. The following items, among others, should be addressed:

Confirm Data Sources, as Identified In Individual Division Tables

- Existing databases and data sources.
- Existing reporting requirements to other entities (such as the Commissioner for internal reporting and OPB for external reporting) that result in other potential activity, output, or outcome data.

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Finalize and Refine Set of Performance Measures For Divisions

- Assess definitions and sources of data currently being collected.
- Refine those data procedures if necessary.
- Review newly developed data collection instruments
- Conduct a preliminary assessment of data.
- Review and refine data definitions and needs.

Plan For Effective and Efficient Management of Performance Data

- Review data collection and maintenance capacity of GDITT.
- Use internal database expert to develop data-maintenance and reporting process and procedures. Select a data manager who can assist in the measurement refinement phase, as well as be accountable for the system overall and play a role in data verification. Care should be taken to coordinate data base structures across divisions.
- Establish data entry processes that minimize data entry errors or unauthorized altering of existing data.
- Establish data verification responsibilities and procedures alongside the development of the system itself.
 - â Plan for reporting requirements and preferences in the design of the performance data management system.
 - â Coordinate internal databases.
 - â Conduct preliminary analysis of performance measures.
 - â Consider various reporting options, including web-based dissemination of summary performance data.

Preliminary Analysis and Reporting of Performance Data. Following the above set of tasks, analysis of performance data that have been gathered in a) the first six months and b) the first year should be conducted. This analysis will also yield plans for the development and refinement of the measures and analytical approaches.

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VI. Summary Guidelines for Establishing a Quality Performance Data Management System

Development of sound performance measures and data collection instruments does not, in and of itself, guarantee a successful and useful performance measurement process. There are a number of additional considerations that are important to the successful conduct and implementation of a comprehensive performance measurement system. We offer the following key factors as important to the success of GDITT's performance measurement system.

- *Availability and access to program data.* Perhaps the most important factor critical to the success of this performance measurement process is availability and access to data. It is important to have consistent, committed cooperation from GDITT staff and related program clients. Client satisfaction data is included among the performance measures for each recipients and must be collected in a systematic and on-going basis. Some data may be shared across programs and mechanisms should be established to allow for this.
- *Strong commitment and ability to developing and maintaining the data, both within divisions and at top management.* Studies of performance measurement use and utility consistently point to the need for management support for performance measurement. Generally, this means support for the development of data and data maintenance, as well as placing importance on the data themselves. The performance measurement activities outlined in this report require a consistent, on-going data collection and maintenance effort. Data quality will be severely jeopardized in the absence of responsible and diligent collection and maintenance of the required data. Within GDITT, assistance should be provided to assure sound data management practices. Some commitment in the first phase to providing database assistance to all divisions will be important in this implementation process.
- *Reporting, Dissemination and Use of Evaluation Findings.* Another important factor in the usefulness of evaluation information is adequate communication. Regular communication about data should occur between divisions and upper management. In addition, selected measures should be identified (following the initial refinement phase) for communication with external stakeholders, such as OPB and BROCC. Division staff should work with upper management in the selection and presentation of these data. Finally, regular communication should occur throughout the initial implementation phase. Staff will learn from colleagues across divisions about data collection, maintenance and reporting issues. GDITT should consider holding a series of discussion sessions on performance measurement that allow staff to interact and learn from each other in

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this process. Further, any potential misunderstandings about the purposes or processes of this evaluation will be avoided through open and frequent communication.

In summary, an effective, quality performance data management system has a profound impact on its ease of use. With GDITT in-house information systems support, a reasonable system using existing software (such as Microsoft® Access or Excel) may be adapted to maintain and report performance data. Care should be taken to ensure easy, yet secure access by select GDITT staff. Frequent and open communication should be encouraged about measures, data, and data management and reporting issues. Care should be taken to minimize staff misunderstanding of the utility or importance of the data from the perspective of upper GDITT management.

Finally, it is also important to note that the development of the database will be incremental. While the GDITT staff can review measures in light of the issues presented in this report, there is no substitute for testing the data needs and data system in real time. Only after using the data system for a year or so will GDITT staff accurately be able to identify measurement and other problems, and other data needs. GDITT should not only be open to the possibility that changes will be made to the data system after a certain trial period, it should *expect* that the system will be refined at some point. Thus, it will be important to anticipate and plan for these needs as much as possible in this first implementation phase.

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