Leadership for the Next Generation of Government Financial Performance

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Today's turbulent economic environment is testing the relationship between the value and cost of government services like never before. In response, government financial executives hold the key to unlocking the value of administrative, budgeting, and performance systems to transform government operations and turn them into high-performance enterprises.

THE SEEDS OF MODERN BUDGETING

The seeds of budgeting as we know it today were developed from innovations championed in the Progressive Era (1890s to 1920s), a time when increased value was being placed on transparency and accountability in government operations. Most of the innovations made in that period were a reaction against the "bureaucratic feudalism of legislatures…waste and inefficiency…lack of leadership and accountability… dominance of special interests…lack of goals and the ability to implement them."[1] As government operations became more complex, single, executive budgets were developed to help centrally manage interaction between legislators and program executives about the resources needed for government programs.[2] With these systems, organizations were held accountable primarily for measures such as the level of inputs (or funds) that flow into the organizations, and as a result, their accounting systems performed one single function: controlling costs and allocating resources across an enterprise fairly and equitably.

BUDGETING TODAY: ACCOUNTING FOR RESULTS

Today, heightened levels of constituent and media expectations about government transparency and accountability are driving a new focus on measuring outcomes and impact more robustly. Some of this pressure comes from the new capabilities of networks, inexpensive data storage, and data analysis methods that allow governments to measure results across the entire value chain of inputs, outputs, outcomes, and impact. When these measures are put together, managers can assess the performance of a government enterprise from a wider perspective — across departments, agencies,

and jurisdictions — as well as a more granular perspective, deeper within programs and operating units. Once government administrators have fully harnessed the tools of "big data" and "analytics," we will look back at this era as transformational.

How should government finance officials lead these transformational efforts? First, by recognizing that financial leaders have the pivotal role in adopting the new methods and pacing the implementation. Through investments in enterprise-level financial systems, chief financial officers and budget directors have the power to guide progress over several levels of transformation, advancing the organization's ability to analyze data, tie it to results, and, ultimately, use data to inform policy change and enhance the use of multiple programs to achieve concrete strategic outcomes.

> Forward-looking government finance leaders are creating the next generation of outcomes-focused financial systems. This path into the future has the potential to revolutionize the way in which government operations are budgeted and valued.

GENERATIONAL SHIFTS

Looking backward and forward, we see that this transformation encompasses four enterprise-level generational shifts.

The first generation of enterprise-level financial and human resource systems was designed largely to replicate the cost control and allocation functions of the more limited, single-function systems they replaced. The major advance that these systems provided was the management of human resources and finance on the same system, allowing financial managers to begin managing payroll and human resource costs across programs to confirm they were appropriately supported. Yet the capabilities of these systems are also their weakness. Designed to meet the needs of central finance and personnel operations, these financial reporting systems were typically developed with little input from programs, departments, and agencies.

The second generation enables these enterprise systems to capture metrics around spending and costs. Many governments are now able to implement strategic sourcing and better cost management, and are beginning to gain insights into purchasing patterns and vendor and cost data. Now budget offices can easily group accounts into "programs,"

allowing departments, agencies, and financial executives to implement "program budgeting" and analyze investments across the organization to achieve common goals. Wanting to move beyond program budgeting, many public managers are seeking ways to measure the outputs and activities of these budgets. In response, many states have begun implementing performance budgeting, which is geared toward measuring the outputs purchased with the program inputs for each expenditure or program. Today, the Commonwealth of Virginia's Virginia Performs website provides an excellent example of this approach to budgeting.[3] Many other states are also developing "report cards" to show citizens aspects of government operations. For example, the State of Texas has a series of websites that explain, in plain language, how state and local government revenues are spent and the intricacies of debt issuance, debt burdens, and the issues to be weighed as citizens consider their votes on bond issues.[4]

As government leaders move into the third generation, they're focusing on ways in which enterprise data systems can drive "evidence-based" decision making, calling on the technology platforms deployed earlier to provide them with greater insights into how to achieve better results for taxpayer dollars. Budgeting for results requires financial and budgeting systems that can accumulate data on actual program results and match them to outcomes. Officials in the Washington State Department of Social and Health Services are currently doing this work,[5] using predictive modeling based on cross-enterprise data and statistical analysis to identify persons or families that have complex needs and are "at risk" for using costly services and experiencing problematic outcomes. Case teams synthesize information from more than 30 data sets, analyze resource spikes and trends, and then use this analysis as part of a larger care management process. These new capabilities enable caseworkers to anticipate client issues and proactively improve or stabilize clients' health, independence, and safety while reducing their use of intensive crisis services. The insight that this analysis generates also "flows up" to policymakers and informs the redesign of programs. These are exciting examples of the potential big data and robust analytics have to help bolster the value proposition for many government activities.

Looking forward to the fourth generation, advances in data management and analytics hold the promise of tools that help policymakers combine the best aspects of program, performance, and results budgeting to focus on outcomes across multiple systems. Increasingly, government policymakers will want the ability to merge, coordinate, and optimize program combinations across a portfolio of programs to achieve the optimal return on taxpayer investment across a universe of programs and constituencies. A number of public policy areas have been bedeviled by fragmentation and lack of coordination and might provide a fertile arena for applying these tools. With big data and robust analytic tools, policymakers will be able to use portfolio models to value the aggregate return on taxpayer investment from state spending across multiple systems.

CONCLUSIONS

No matter what generation your enterprise is in, transformation of this magnitude creates an imperative for financial executives to lead the charge — using administrative, budgeting, and performance systems to transform government operations across the board into high-performance enterprises.

What's certain is that the power of data, networks, and analytics will bring a new generation of capacity and accountability to government. What's uncertain is how fast and thoroughly leaders will move to adopt new methods of outcomes-focused management. The early adopters will work out some of the privacy, cost, and change-management issues that come with the new territory, but it will take sustained leadership to create an innovative culture and the vision to move up the generational curve. ▮

Notes

1. See "Development of Modern Budgeting", California.gov, available at http://www.dof.ca.gov/fisa/bag/history.htm.
2. Charlie Tyer and Jennifer Willand, "Public Budgeting in America: A Twentieth Century Retrospective," *Journal of Public Budgeting, Accounting and Financial Management*, Summer 1997.
3. See the Virginia Performs website at http://vaperforms.virginia.gov/.
4. See http://www.texastransparency.org/ and http://www.tellthetruthtexas.org/.
5. The Pursuit of Outcomes, a report from the 2011 Human Services Summit, Leadership for a Networked world; available at http://community.lnwprogram.org/sites/default/files/The_Pursuit_of_Outcomes.pdf.

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