



**PERFORMANCE BUDGETING –
Past Initiatives Offer Insights for GPRA Implementation**

UNITED STATES GENERAL ACCOUNTING OFFICE (GAO)

A teljesítmény-költségvetés vágya nem új, a különböző országok több évtizede próbálkoznak ennek megvalósításával. Az USA teljesítmény-költségvetését például öt fázis áttekintésével lehet elemezni: (i) a Hoover-bizottság által javasolt teljesítmény-költségvetés; (ii) a PPBS – Planning-Programming-Budgeting System (Tervezés-programozás-költségvetés rendszere); (iii) az MBO – Management by Objectives (Megegyezéses Eredménycélok Alapuló Vezetés); (iv) Nullabázisú költségvetés (ZBB – Zero-Base Budgeting) és (v) a GPRA (Government Performance and Results Act – Teljesítmény-, eredményalapú költségvetés).

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OBJECTIVES, SCOPE, AND METHODOLOGY

The specific objective of our work was to compare and contrast the key design elements and approaches of GPRA with those of similar past initiatives in order to identify potential challenges for GPRA implementation. To identify past federal performance budgeting initiatives, we used the following criteria: (1) the initiative occurred after World War II, (2) the initiative was implemented governmentwide, and (3) the initiative asserted (either initially or ultimately) a relationship between performance information and the federal budget process. Based upon these criteria, we identified four prior federal initiatives: federal performance budgeting initiatives derived from the first Hoover Commission; the Planning-Programming-Budgeting-System (PPBS); Management by Objectives (MBO); and Zero-Base Budgeting (ZBB). Our work did not address performance budgeting initiatives that were limited to a few programs or agencies, nor did we address initiatives that were planned but never fully implemented. For example, this approach excluded the end-results budgeting efforts in the Forest Service during the 1980s and President Ford's Presidential Management Initiatives.

To collect information on GPRA and on the four prior federal initiatives, we used a qualitative research design. In making our review of each prior initiative, we conducted extensive literature searches, including pertinent legislative histories, hearings, and committee prints. For GPRA, we collected information on its legislative history as well as other relevant information including OMB guidances, selected pilot performance plans and reports, and available reviews of GPRA implementation efforts to date. We compiled information on the context, implementation approach, and results of each of the prior initiatives. To compare and contrast these analysis results with GPRA, we summarized our findings for each initiative, then compiled a set of observations relevant to GPRA design and implementation. From this work we identified a set of potential challenges for GPRA implementation as well as relevant observations based on past initiatives.

To compare the results of our analysis with GPRA implementation experiences to date, we contacted selected individuals in the executive and legislative branches and other experts from outside government. We selected these individuals based on their knowledge, experience, and interest in GPRA. We asked them to review the identified challenges and observations and participate in one of three panels: (1) an executive panel of individuals

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with direct responsibility for implementing GPRA and representing agencies covering a range of functions and program types (e.g., regulatory, direct service provision, grant administration, research and development); (2) a legislative panel composed of staff from authorizing, budget, and appropriations committees in the House of Representatives; and (3) a panel of individuals from the National Academy of Public Administration (NAPA), academia, and former government officials with expertise in GPRA or prior performance budgeting initiatives.

We asked the panelists to review our observations and indicate the extent to which the challenges we identified held true for the programs and/or budgets under their purview or within their experience. We also asked panelists to discuss what approaches had been used or might be considered to mitigate these concerns. To assure maximum candor, individuals were informed that there would be no attribution of their comments to them or their organizations.

We conducted our work in Washington, D.C., between October 1996 and March 1997. We requested comments on a draft of this product from the Director of OMB. On March 3, 1997, we met with designated OMB officials and discussed and incorporated changes based upon their comments.

THE FIRST HOOVER COMMISSION

Context

After World War II, America was left with a wartime organizational bureaucracy and a huge national debt that exceeded the gross domestic product (GDP). Reorganization planning evolved as a systematic means of reducing federal spending while allaying concerns that such reductions would cause a return to the depression of the 1930's. The President and the Congress explored various reorganization efforts, the most effective and well known being the Commission on the Organization of the Executive Branch, more commonly referred

to as the first Hoover Commission, established by law in 1947.

The Declaration of Policy in the act creating the first Hoover Commission (61 Stat. 246, July 7, 1947) focused on promoting economy, efficiency and improved services in the executive branch of government. The Commission was charged with the structural reorganization of departments and agencies and the President's managerial authorities; it published 19 reports with over 270 recommendations in the Spring of 1949. With estimates of the number of implemented recommendations being as high as 196, the first Hoover Commission is considered to have been highly successful.

One recommendation deemed successfully implemented was that for performance budgeting, which the Commission defined as follows:

"Under performance budgeting, attention is centered on the function or activity—on the accomplishment of the purpose—instead of on lists of employees or authorizations of purchases . . . this method of budgeting concentrates congressional action and executive direction on the scope and magnitude of the different Federal activities. It places both accomplishment and cost in a clear light before the Congress and the public."

Performance budgets as prescribed by the Hoover Commission were to provide more comprehensive and intelligible information to the President, the Congress, and the public. And, the Commission recommended that attention should shift away from government inputs—items of expense, lists of federal employees—to government outputs—its accomplishments, activities, and their related costs.

Implementation Approaches

Both the executive and legislative branches of government made efforts to implement a performance budget. In the executive branch, initial work on a performance budget began in 1949 when the Bureau of the Budget (BOB) began preparation for the 1951 budget.¹ BOB

¹The executive branch acted on Hoover Commission recommendations to change the President's budget prior to legislative enactment of the Budget and Accounting

Procedures Act of 1950. In fact, the executive branch argued that congressional action was not necessary, since the budget presentation was already being changed.



issued a statement to the Congress about the unique nature of the 1951 budget presentation, and pledging its support for a performance-type budget suggested by the Hoover Commission and others:

“While the 1951 budget may be described as the first performance budget, it will be far from perfect, and we hope that we can improve it immeasurably in later years.”

The 1951 budget submission was a distinct change from prior Presidential budgets. One of the more significant changes made was in the “obligations by activities” section of the budget. This section provided (1) listings of the programs or activities imbedded within a budget account, (2) separated operating and capital expenses, and (3) established breakouts for grants, and other fixed charges as well. Prior to the 1951 budget, less than 45 percent of all budget accounts contained obligation by activity subdivisions; after the 1951 budget, all accounts did. The 1951 budget also included narrative statements on program and performance for each account. Narrative statements varied in their approach, some presenting workload and unit cost information and others simply describing activities within the budget account. Finally, the 1951 budget replaced detailed lists of civilian positions and salaries that accompanied each account with summary information on employment levels.

Most executive agencies charged with implementation had high expectations for performance budgets as a means of better defining, presenting, and executing the budget. Performance budgets were expected to align programs and activities in a uniform manner and assist managers in making trade-offs between—and within—particular programs. Agencies also viewed performance budgets as correcting budgeting and accounting weaknesses and improving the administration and oversight of programs. And, some agencies saw the submission of budgets on a program and functional basis as a simplification of the federal budget.

However, some agencies did provide more cautionary statements regarding the implementation of performance budgeting. In particular, agencies expressed concern regarding whether—or how—to define different functions

and activities consistently. Agencies also noted that the requirements for performance budgeting were adding to rather than substituting for their current budget and reporting requirements. Agency comments regarding the requirements for performance budgeting were mixed, with some expressing concern that requirements were too rigid and others stating that requirements were very generally and broadly defined.

Congressional efforts to enact performance budgeting requirements were contained in two laws. The first was the National Security Act Amendments of 1949 (63 Stat. 578, August 10, 1949) which set performance budgeting requirements for the newly created Department of Defense (DOD) specifically patterned after the Hoover Commission’s recommendation for a performance budget. That act added Title IV, the “Promotion of Economy and Efficiency Through Establishment of Uniform Budgetary and Fiscal Procedures and Organizations,” to the National Security Act of 1947 and statutorily mandated the implementation of a performance budget similar in form to the President’s fiscal year 1951 budget. New Section 403, “Performance Budget,” stated:

“The budget estimates of the Department of Defense shall be prepared, presented, and justified, where practicable . . . so as to account for, and report, the cost of performance of readily identifiable functional programs and activities, with segregation of operating and capital programs. . . .”

And, as far as practicable, the Defense budget estimates and authorized programs were to be presented in a comparable form and follow a uniform pattern. The use of a performance budget was expected to correct weaknesses in budget formulation and presentation as well as improving the administration and management of authorized programs. And, BOB expected that a uniform pattern of accounts would allow comparisons across the services that were currently difficult to obtain.

A second law, the Budget and Accounting Procedures Act of 1950 (BAPA, 64 Stat. 832, September 12, 1950), ultimately provided a less prescriptive definition of performance budgeting for governmentwide application. Early versions of this bill had contained detailed definitions



of performance budgeting very similar to that of Title IV legislation. However, during congressional deliberations, the specific language for performance budgeting was removed from the bill. The conference report notes that the term performance budget was considered surplusage—words in a statute which add nothing to the force and legal effect of the statute—and might result in an interpretation more restrictive than intended by the Congress. BOB also supported BAPA's less prescriptive language, arguing that (1) the executive branch was already implementing performance budgeting and (2) specific performance budgeting language would appear too rigid and make it difficult to proceed with future budgeting improvements. Thus, the final enacted version of BAPA did not contain the term "performance budgeting." Instead, the final language stated in part:

"The Budget shall set forth in such form and detail as the President may determine—(a) functions and activities of the Government;"

Results

The Congress considered that the Hoover Commission recommendation for performance budgeting was instituted on a governmentwide basis with the passage of BAPA. The second Hoover Commission, established on July 10, 1953 (67 Stat. 184), noted that performance budgeting was first used generally in the budget for fiscal year 1951. Reflecting on the implementation of performance budgeting, the second Commission observed that many programs did not have adequate cost information and suggested that budget activities and organization patterns be made consistent and accounts established to reflect this pattern; and, that budget classifications, organization, and accounting structures should be synchronized.

DOD performance budgeting efforts in the 1950's did work towards a consistent presentation

of budget accounts that led to the current budget structure of DOD. Comptrollers were established in DOD and the Services with the aim of enhancing the development of adequate budget preparation and review. Each Service was required to develop similar systems which allowed for some general comparisons between the services and standard classifications of cost categories were developed.²

Although it did not specifically mention performance budgeting, BAPA is generally credited with advancing several important changes to federal budget practices. The statute institutionalized efforts to report sub-account level information to the Congress through the obligations by activity sections, now termed program activities.³ A greater amount of performance information was placed into the President's budget, primarily output based work-load and unit cost information. BAPA also required additional coordination between agencies, created management devices such as working capital funds, delineated responsibilities for budgeting and accounting between the executive and legislative branches, and emphasized the need for a close relationship between accounting, management, and programming activities.

Despite the successes cited, concerns remained that the budget did not adequately link programs with their costs. The report of the second Hoover Commission summarized these concerns as follows:

"The installation of performance budgeting in the Federal agencies has met with varying degrees of success. . . . performance budgeting has encountered practical difficulties greater than originally contemplated and in some cases created congressional dissatisfaction with respect to program classification and accounting support."

In 1954, Arthur Smithies, noted chronicler and analyst of the budget, clarified this issue by distinguishing between a performance budget and a program budget.

²While DOD budgets continue to reflect the performance budgeting requirements developed, the term performance budget was repealed when the National Security Act Amendments and other statutes were codified in 1962. The legislative history of this codification (P.L. 87-651, September

7, 1962) notes that its passage was not intended to make any substantive change to the law, but to bring up to date Title 10 of the U.S. Code.

³In fact, GPRA requires that annual performance plans cover each program activity set forth in the budget of an agency.



“Congressmen themselves are dissatisfied with the present form of the budget. They feel they have lost something by the performance budget and have not gained much. Unless the performance budget can evolve into a true program budget, the Congress may decide to revert to the old system and console itself with the fiction that it has no programmatic responsibilities. While the preparation of a meaningful program budget is a task of immense difficulty, and may never be wholly successful, there can be little doubt that further progress without direction is both feasible and desirable.”

PLANNING-PROGRAMMING- BUDGETING-SYSTEM (PPBS)

Context

In January of 1965, President Johnson described the nation's economic performance as “a creditable record of achievement.” From 1961 to 1964 the economy had been growing in real terms at an average annual rate of over 5 percent. Average annual inflation was just over 1 percent during this period, while unemployment was roughly constant at 5 percent. There was some concern about annual federal deficits, which in 1962 reached \$7 billion, or 1.3 percent of GDP.

A Planning-Programming-Budgeting-System (PPBS) was seen as a means of building upon the Nation's economic strength by modernizing the management tools used in the federal government. Proponents of PPBS believed that efficiencies and improvements in government operations could be achieved through a common approach for (a) establishing long range planning objectives, (b) analyzing the costs and benefits of alternative programs which would meet these objectives, and (c) translating programs into budget and legislative proposals and long-term projections. President Johnson considered PPBS a technique for controlling federal programs and budgets, rather than “having them control us.”

Furthermore, an earlier introduction of a PPBS-type system in DOD in 1961 was deemed a significant improvement over previous budget practices. Prior to PPBS, the DOD

system was highly decentralized and resource formulation and allocation processes across the services were duplicative, inequitable, and limited to consideration of a single budget year. Initially termed a “program package-program element” system, DOD's PPBS activities provided a means of evaluating and deciding among major alternative methods of accomplishing military missions. Planning horizons were also extended with the development of a 5-year defense plan.

On August 25, 1965, President Johnson announced his intention to introduce PPBS on a governmentwide basis, asserting that three major objectives would be achieved:

“(1) It will help us find new ways to do jobs faster, to do jobs better, and to do jobs less expensively. (2) It will insure a much sounder judgment through more accurate information, pinpointing those things that we ought to do more, spotlighting those things that we ought to do less. (3) It will make our decision-making process as up-to-date, I think, as our space-exploring program.”

Implementation Approaches

There were distinct differences between DOD approaches and the subsequent governmentwide implementation of PPBS. DOD implementation involved several hundred analysts and over 10 years of contractor-assisted development efforts. DOD introduced three key phases of activity for implementing PPBS: (1) reviewing requirements, (2) formulating and reviewing programs, extended several years into the future, and (3) developing annual budget estimates. The first two phases were continual, year-round efforts that resulted in a 5-year program plan for the entire defense establishment. In phase three, the budget year requirements established in the 5-year program plan are separated out into an annual budget request.

In contrast to this phased approach used at DOD, governmentwide implementation of PPBS was expected to be accomplished in less than 6 months. On October 12, 1965, less than 2 months after the formal announcement of PPBS, the Bureau of the Budget (BOB) issued Bulletin 66-3



which provided agency guidance and instructions for implementing PPBS. Overall, 22 executive departments and establishments were mandated and 17 smaller agencies were encouraged to implement PPBS. Bulletin 66-3 gave agencies 10 days to designate an official responsible for their PPBS system and to report their choice to BOB. Within the next 20 days, agencies were to make tentative decisions on their broad program categories. Agency instructions, procedures, or regulations regarding PPBS implementation were to be forwarded to BOB within the next 2 months. A final Program Structure, approved by the director of the agency, was expected by February 1, 1966.

Program Structures were the basic foundation of the PPBS system, designed to provide a coherent statement of a national need, an agency's authority to fill that need, and the activities planned to meet that need. BOB expected agencies to categorize all operations and activities in output oriented terms reflecting each agency's objectives. Three subdivisions of activities were available within the Program Structure: (1) program categories, defined as activities with similar broad missions, (2) program subcategories, defined as subdivisions of narrower objectives, and (3) program elements, defined as the specific products (e.g., goods and services) contributing to agency objectives. For example, if education is a sample Program Structure, a program category might be secondary education; subcategories might include college preparatory and vocational activities; and program elements might include facilities, books, and teachers.

Three documents were expected to provide data on Program Structures: Program and Financial Plans (PFP), Program Memoranda (PM) and Special Studies. The PFP were similar to the DOD 5-year plan, containing multiyear descriptions of program objectives and accomplishments in quantitative nonfinancial terms related to the universe of need. PM were expected to describe agency program categories, summarize PFP data, and delineate recommended programs. Agencies were to illustrate how they would achieve national needs, showing costs and effectiveness of alternative objectives, program types, and levels of operation. Furthermore, PM

should include any assumptions and uncertainties on the cost and criteria used to support agency recommendations and estimates. Special Studies were expected to vary greatly in scope and were carried out in response to agency top management or BOB inquiries, or at the initiative of analytic staff.

Contrary to expected time frames, PPBS implementation proceeded slowly—even after several years of effort. In November of 1966, President Johnson issued a memorandum to Cabinet members and agency heads stating that too many agencies had been slow in establishing PPBS and that PPBS had not been used to make top management decisions. The President urged personal participation of agency heads and instructed the Director of BOB to review and report on agency progress in implementing PPBS. Nevertheless, fully 2 years into implementation, agency directors and former BOB officials testified that implementation was proceeding more slowly than hoped. Some agencies characterized their efforts as in the beginning stages or as requiring several more years before achieving notable results. Others reported that new information systems had to be developed or devised in order to track data on a program or mission basis.

As originally designed, PPBS information systems were not expected to correlate to the Presidents' budget submission to the Congress. Instead, agency operating budgets—used to allocate resources and control day-to-day operations—were expected to conform gradually with PFP. Hence, BOB did not expect changes to the President's budget or to the internal submission of annual budget requests to BOB. Bulletin No. 66-3, the first guidance on implementing PPBS, specifically noted:

“The introduction of the Planning, Programming, and Budgeting system will not, by itself, require any changes in the form in which budget appropriation requests are sent to Congress. Further, this Bulletin is not to be interpreted to set forth changes in the format of annual budget submissions to the Budget Bureau.”

However, to affect resource allocation decisions made within the executive branch, PPBS reports were timed to occur with the BOB budget preparation schedule. PM and Special Studies



were expected to be used during the BOB spring review of the budget, when agencies and BOB would develop initial estimates of budgetary need and PFP was expected to be used during the fall as agencies developed annual budget requests for BOB. The result was two tracks of budget information: one which addressed the new PPBS requirements and one which addressed the existing BOB requirements for submitting the President's budget to the Congress.

This separation between Program Structures and the President's budget created an implementation burden that later BOB bulletins tried to address, primarily by devising a more concrete link between PPBS and the budget. In July 1967, a second BOB bulletin (No. 68-2) directed agencies to provide a crosswalk—or a reconciliation—between their PPBS and appropriations structures. The crosswalk was to be sufficient to ensure that the budget submission was consistent with the intent of the program decisions. In 1968, the Congress requested and received an accompanying commentary to BOB's third bulletin (No. 68-9); the commentary noted that the then-current “two-track system” of program and appropriation structures was confusing and causing an undue burden. Agencies were asked to consider changing their PPBS program structures so as to avoid crosswalks and integrate PPBS and appropriations structures.

Subsequent BOB guidances made procedural changes to the PPBS system, primarily limiting the scope and magnitude of reporting requirements for agencies and increasing staff hiring and training. Although originally allowed to include unlimited program proposals without regard to agency budget levels, the PFP requirements became limited to budgeted activities. Noting that many PM lacked analysis of major alternatives, policy decisions, or strategies directed towards specific outputs, BOB dramatically reduced its requests for major policy issues presented in PM documents. Further, BOB provided agencies extra preparation time for PM, and pledged assistance with the analysis and review of major policy issues. Lastly, during the first two years of implementation, al-

most 900 PPBS-specific positions were created, of which almost 400 were filled through new hires. Four years into implementation, over 4,500 staff had attended PPBS training sessions.

Results

While DOD continues to use PPBS procedures today, the governmentwide initiative begun with such great promise in 1966 was formally discontinued in 1971 with remarkably little comment. Some observers and participants faulted the implementation process, contrasting DOD's 10 years of preparation with a significantly shorter governmentwide implementation period. A former agency official charged that PPBS was implemented indiscriminately, with agencies lacking the capability to perform PPBS activities, and BOB lacking the competence to guide them. Others said PPBS failed to garner the necessary support it needed because it affected the balance of power between the executive and legislative branches.

PPBS participants and observers cited many problems developing measures and analysis techniques, as well as incorporating results into decision-making practices. Congressional hearings reviewed executive approaches to estimating, measuring, and valuing benefits, ultimately recommending the use of standard interest rates and discount policies. A GAO report cited several obstacles to relating output measures to program benefits; for example the report noted that the increased use of grants meant that program outputs could not be obtained due to a “rather loose and intermittent” federal control over grantees' program performance.⁴ Some members of Congress questioned the broader purposes and accomplishments of PPBS as a decision-making tool, particularly in light of the impact of assumptions on analysis results; they further noted that their lack of access to PPBS documents placed them at a disadvantage in considering resource allocation questions. Some agencies cautioned that PPBS analysis could not substitute

⁴Survey of Progress in Implementing the Planning-Programming-Budgeting System in Executive Agencies (B-115398, July 29, 1969).



for inherently political decisions such as the allocation of resources among different priorities (e.g., health v. education); others asserted that decisions for certain federal functions—such as foreign affairs—could not be relegated to systems analysis. Other observers found PPBS unrealistic because it attempted to improve decision-making without recognizing the differing goals and interests of the decisionmakers.

Over 3 years into PPBS implementation, the Joint Economic Committee of the Congress published a compendium of papers on the analysis and evaluation of public expenditures in PPBS.⁵ In this compendium, an Assistant Director for Program Evaluation at BOB noted that expectations for PPBS needed to be constrained by certain realities of the federal environment, namely

- Governments operate with limited resources, and the demand for these resources always exceeds the available supply.
- Past resource commitments place heavy constraints on current budgets, providing limited control over resource allocation.
- Workable program measurement techniques are difficult to achieve, particularly given the complexity and size of the federal government.
- Implementation of new ideas can be slowed by the size of government, the inherent uncertainties of its tasks, and the high degree of coordination needed.
- Often there are political and moral claims made on the federal government which do not necessarily reflect an interest in cost effectiveness or efficiency.
- The resource allocation process in government is not well linked to planning, as these activities serve different needs and respond to different time frames.
- Once a budget is established, there is minimal accountability for performance.⁶

Although it failed as a governmentwide performance budgeting initiative, PPBS is cre-

ated with instituting improvements in federal program management. PPBS allowed agencies to reappraise their mission and functions; accumulate better information on inputs, outputs, and their relationship to objectives; and increase top official interest over planning, budgeting, and performance. Furthermore, decisionmakers increased the use of systems analysis, recognizing its value as a means of better understanding outputs, benefits, and costs. Finally, PPBS left a long-standing legacy of increases in the amount and quality of program evaluation in the federal government.

Despite the immense implementation difficulties—a truncated start-up, significant increases in paperwork, problems measuring program benefits and costs, and complex crosswalks to link program and budget structures—few individuals argued against the goals of PPBS. Some argued for its continuation, asserting that the goals and purposes of PPBS were critical to improving government operations. At a congressional hearing in 1970, one former HEW official summarized this view in the following manner.

“... Rekindle the spluttering flame of PPB[S] . . . In my judgment PPB[S] is absolutely right in concept. It requires more sustained support from the Congress, the White House, and the BOB. It requires patience. Its message and value is care in considering what the Government has done and might do. New initials will be needed but the job must be done.”⁷

MANAGEMENT BY OBJECTIVES (MBO)

Context

During the 1960's a bipartisan consensus developed that federal management needed improvement. A study requested by President Johnson in 1966 and carried out by the Heineman

⁵The Analysis and Evaluation of Public Expenditures: the PPB system, a compendium of papers submitted to the Subcommittee on Economy in Government of the Joint Economic Committee, Congress of the United States, U.S. Government Printing Office, Washington: 1969.

⁶“The Status and Next Steps for Planning, Programming, and Budgeting,” by Jack W. Carlson, Assistant Director for Program Evaluation, BOB.

⁷Statement of William Gorham, formerly Assistant Secretary for Program Coordination at HEW, in a hearing before the Subcommittee on Economy in Government of the Joint Economic Committee, Congress of the United States, 91st Congress, Second Session, June 2, 1970.



Task Force criticized the federal government's management of the new Great Society programs. The Task Force recommended strengthening the management responsibilities of the then-Bureau of the Budget (BOB). In 1970 President Nixon proposed changing BOB into a new Office of Management and Budget (OMB), with the new agency expected to give greater attention to federal management issues.

To gain greater administrative control over major executive branch departments and agencies, President Nixon proposed a new governmentwide initiative: Management by Objectives (MBO). MBO was a popular management technique used in the private sector and had also been implemented at the Department of Health, Education, and Welfare during the President's first term. MBO was intended to centralize goal-setting decisions while at the same time allowing managers to choose how to achieve the goals. It focused on tracking progress toward goals previously agreed upon between a supervisor and subordinate.

Implementation Approaches

President Nixon formally initiated MBO in an April 18, 1973, memorandum to 21 agencies, which included the 11 cabinet departments and constituted about 95 percent of the budget and federal employees. President Nixon stated: "I am now asking each department and agency head to seek a sharper focus on the results which the various activities under his or her direction are aimed at achieving.... This conscious emphasis on setting goals and then achieving results will substantially enhance federal program performance." A follow-up memo to the MBO department heads from the Director of OMB further explained that the new initiative aimed at better communication, faster identification of problems, and greater accountability of managers to supervisors. Ultimately, the OMB Director stated, MBO would lay the groundwork for the President to decentralize more responsibility to the agencies.

In his April 1973 letter, the President asked each agency to propose the 10 or 15 most important objectives—referred to as "presidential

objectives"—to be accomplished in the coming year; the goal was to identify 100 presidential objectives. Different agencies were given different deadlines, varying between 2 and 8 weeks, to submit proposals. Subsequently, agencies were told that their search for objectives need not be limited to their proposals to the President. Agencies were encouraged to identify additional objectives, to track progress towards achieving them, and to use MBO in all aspects of their operations.

OMB was to play a key role in implementing MBO. As part of MBO implementation, a new position within OMB was created: the "management associate." Thirty management associates with varying backgrounds, some with government experience and some without, were hired. Their responsibilities would include providing day-to-day assistance to the departments in preparing objectives, tracking progress, working closely with OMB budget examiners, and providing technical assistance to agency staff and OMB top management to help implement the initiative. In addition, staff were specially selected to implement MBO at the agencies and were generally located between the Office of the Secretary and program managers.

OMB statements emphasized that the initiative was to be conducted with a minimum of paperwork. Face-to-face meetings were to be held roughly every 2 months between top OMB and agency staff. The meetings were to focus on agency progress in achieving objectives, problems requiring top management attention, and any changes to objectives. Some existing OMB requirements were eliminated as a way of encouraging agency acceptance of the new initiative.

OMB gave agencies some guidelines on their proposals for presidential objectives. In proposing presidential objectives, agencies were to consider the importance to the President's agenda, measurability, and the ability to achieve the objective without additional resources and within 1 year. Agencies were to identify objectives on their own—that is, without intervention by OMB—and were asked to develop action plans with specific milestones for accomplishing objectives. All objectives were to be linked to the organizational



units that would be held accountable for achieving them. If circumstances warranted, objectives could be changed during the year. OMB would review agencies' proposed presidential objectives as well as track progress toward achieving them. In its first year, no explicit connection of MBO to the budget process was attempted.

MBO fell far short of expectations during its first year. Although 20 of the 21 MBO agencies had identified presidential objectives and 18 had progress tracking systems in place by the end of the first year, many other important implementation steps were not achieved. For example, management conferences were held, although not as often as originally planned with 4 to 6 months passing between conferences for some agencies. Despite OMB's intention to address this problem, scheduled meetings continued to be canceled frequently. And, as MBO reviews were increasingly done at the staff level, rather than at the OMB and agency head level, MBO paperwork increased. At OMB, tensions initially developed between the new management associates and OMB's budget examiners; this eased to some extent as the management associates found that monitoring agency objectives was not a full-time task, especially given the associates' lack of control over agency actions. Increasingly the management associates became involved in non-MBO tasks such as doing special studies. Most importantly, presidential involvement in MBO also faltered during 1974, affecting agency implementation and acceptance of MBO.

In the second year of MBO, an attempt was made to re-emphasize MBO by linking objectives with agency budget submissions. In a February 1974 meeting, OMB informed agency heads that their 1976 budget requests were to be based on their presidential and agency (secretarial) objectives. OMB hoped that this would increase the permanence of MBO and encourage more explicit statements of the purposes for which money was to be spent. In June 1974, OMB asked the 21 MBO agencies to identify selected objectives in the letters transmitting their budget requests to OMB; these objectives were to be discussed in depth in the budget justifications. Agencies were told to "be prepared to provide" output estimates and "preliminary" schedules of

milestones upon request, but were not required to include action plans. In August 1974, President Nixon resigned and, shortly after taking office, President Ford endorsed agencies' proposed 1975 Presidential objectives. These were the last presidential objectives requested under MBO.

Results

Although certainly affected by President Nixon's resignation, the MBO initiative suffered from its initial separation from existing budget formulation processes and from problems in identifying and measuring objectives. Efforts in the second year to tie the MBO initiative to the budget's priority setting processes were quickly overwhelmed by its early demise. The President's request that agencies focus on results and express those results in measurable terms did not make the practice of performance measurement any easier. For various reasons agencies found this difficult to do. Not surprisingly, as initially submitted to OMB, agencies' objectives were often vaguely worded (e.g., "the abolition of crime in society" or "to make the U. S. Merchant Marine the most competitive in the world") and not easily measurable. In addition, agency objectives often dealt with matters not achievable within a single year (such as finding a cure for cancer) or were beyond the control of agency managers (such as improving water quality), making accountability problematic.

Despite these issues and its brief life as a formal initiative, proponents believe that MBO had positive results in both the short and long term. For the administration that proposed it, the MBO initiative enhanced its ability to explain the President's agenda to the public—for example, the emphasis on transferring more federal power to cities and states. Some OMB staff and agency officials found MBO valuable as an internal agency management process, helping to clarify goals and associated activities. To some extent, the basic concepts of MBO—negotiating goals and holding subordinates accountable for achieving them—have survived in federal management practices. In addition, the potential of MBO as a tool for articulating presidential agendas and



linking them with the budget was later confirmed by a similar initiative under President Bush; this initiative included publishing presidentially approved objectives, the resources needed to achieve them, and relevant accomplishments in the President's Budget. And issues raised during MBO concerning the difficulties inherent in identifying and measuring federal outcomes would remain for later initiatives to address.

ZERO-BASE BUDGETING (ZBB)

Context

In the mid 1970s, the annual deficit was a matter of public debate. By 1977 the annual deficit had been above \$50 billion for 2 years, reaching a post-World War II high of \$73.8 billion for fiscal 1976. A general sense existed that federal spending was out of control, with much of it no longer subject to annual appropriations but driven by permanent entitlement programs and multiyear budgetary authority.

During 1976, the Congress and Candidate Jimmy Carter had responded to the new budget situation. Beginning in the spring the Congress held hearings on proposals for so-called "sunset" legislation that would have required periodic zero-base reviews of all federal programs by their congressional authorizing committees. Sunset proposals, however, did not become law. While campaigning for the presidency, Jimmy Carter promised to balance the budget within his first term and to reform the federal budgeting system, which he characterized as "inefficient, chaotic, and virtually uncontrollable by either the President or the Congress." To these ends he had promised to introduce zero-base budgeting (ZBB), which he had used as Governor of Georgia and which also had been discussed in sunset hearings. In fall 1976, congressional appropriations committees asked selected independent agencies to pilot test the applicability of ZBB concepts to legislative decision-making.

Used in private industry as well as in some state and local governments, ZBB in theory required expenditure proposals to compete for funding on an equal—starting from "zero"—basis. ZBB

prepares a detailed identification and evaluation of all activities together with alternatives, and spending necessary to achieve desired plans and goals. Where federal budgeting in recent years had made incremental changes to an accepted base of past spending, ZBB in contrast sought to look below the base, evaluating the efficiency and effectiveness of current operations and comparing the needs of one program against the needs of other programs that might be of higher priority. ZBB also looked to a greater involvement of program managers in budgeting as a way to identify new efficiencies and to incorporate better analysis into budget decision-making.

Implementation Approaches

On February 14, 1977, shortly after his inauguration, President Carter issued a memorandum to the heads of executive departments and agencies mandating use of zero-base budgeting for all fiscal year 1979 agency budget requests. The memorandum mandated that a new ZBB budget process would replace—not simply accompany or link to—the existing executive branch budget formulation process for all budget proposals in the immediately upcoming budget cycle. Consistent with an emphasis in ZBB theory on a close link between planning with budgeting, federal planning and budgeting under ZBB were to be done at the same time, in a single process. In contrast to its implementation of PPBS and MBO, OMB did not add or create a special staff for ZBB. Federal managers and budgeteers were expected to implement the new initiative. ZBB would not affect budget materials provided to congressional appropriations or authorizing committees, nor would it change the form of the President's Budget.

Formal implementation steps were taken within 2 months of the memorandum. On March 21, 1977, OMB sent agencies draft ZBB guidelines for comment, issuing final guidance on April 19 as Bulletin 77-9. In effect, agencies were given a lead time of about 6 months before final budget submissions were due to OMB. Agencies were to set up their own ZBB systems using the steps outlined in the Bulletin as a framework.



Among other new requirements, agencies were asked to identify the “decision units” for which budget requests would be made. A decision unit was to be

- “at an organizational or program level at which the manager makes major decisions on the amount of spending and the scope, direction, or quality of work to be performed.”
- “not so low in the structure as to result in excessive paperwork and review . . . [nor] so high as to mask important considerations and prevent meaningful review of the work being performed.”
- “normally . . . included within a single account, be classified in only one budget subfunction, and to the extent possible, reflect existing program and organizational structures that have accounting support.”

In all cases, the guidance stated, the identification of the decision units was to be determined by the information needs of top management. Budget requests for each decision unit were to be prepared by their managers, who would (1) identify alternative approaches to achieving the unit’s objectives, (2) identify several alternative funding levels, including a “minimum” level normally below current funding, (3) prepare “decision packages” according to a prescribed format for each unit, including budget and performance information, and (4) rank the decision packages against each other in a series of steps, beginning with program managers and proceeding up the hierarchy. The results of the ZBB process would be agency budget justifications and rankings, with the latter required to be submitted to OMB but not to the Congress. With OMB’s approval, agencies could consolidate decision units as a means to minimize paperwork and the review burden on top management.

The guidance also required agencies to set objectives and performance indicators at the beginning of their ZBB process. Top and program managers were to set objectives as “explicit statements of intended output, clearly related to the basic need for which the program or organization exists.” Concurrently they were to identify the key indicators to be used in measuring performance and results. These should

be “measures of effectiveness, efficiency, and workload for each decision unit. These measures can often be obtained from existing evaluation and workload measurement systems.” Indirect or proxy indicators could be used if these systems did not exist or were under development. A “lack of precise identification and quantification of such objectives,” however, would “not preclude the development and implementation of zero-base budgeting procedures.”

Despite considerable variation in how agencies implemented ZBB, some patterns can be discerned. Some agencies tended to associate their decision units with their account structure or, within their account structure, with their program activities. Some agencies did not identify minimums below current funding, and many identified minimums as an arbitrary percentage of current funding, generally between 75 and 90 percent. Agencies also made use of the option to consolidate decision units and often set initial decision units at high organizational levels (e.g., the division level or higher). Lastly, one study of several agencies found that fewer than half the decision packages examined had quantifiable accomplishments, workload, or unit cost information.

The next year, in May 5, 1978, OMB issued Circular A-115, which revised some aspects of the ZBB process. Addressing problems with objectives and performance information, OMB now urged agencies to use the results of their performance evaluations in analyzing alternative methods of accomplishing objectives and in analyzing anticipated accomplishments identified with each level of performance. The circular also strengthened language dealing with the objective-setting requirement. The guidance on selecting decision units, preparing rankings, and consolidation was clarified. A requirement to train staff before they participated in the ZBB process was also added. In other respects, however, ZBB requirements were unchanged. For example, no provision was made for a separate planning phase, and the requirement to prepare decision packages for all budget requests, including those for mandatory programs, remained.

The budget that resulted from agencies’ and OMB’s first year of ZBB efforts disappointed



some observers. Few significant budgetary actions were identified as resulting from ZBB, and some questioned the utility of the many hours spent by program managers, budgeteers, and top managers on ZBB. In the following year, agency budget justifications to OMB continued to be prepared using ZBB, but agency budget justifications to the Congress continued to be prepared as in the past, largely without reference to agencies' ZBB information.

As the Carter presidency proceeded, less and less attention was devoted in the Budget Message to the role and claimed achievements of ZBB. On August 7, 1981, in the first year of the succeeding administration, OMB rescinded circular A-115 requiring agencies to have ZBB systems. Some ZBB requirements, however, survived beyond the formal life of the initiative. Requirements for agencies to identify "decision units" and prepare consolidated rankings remained until May 1986. A requirement to identify three funding levels lasted even longer, remaining until 1994, as did an OMB option to request that the agency present a "consolidated" ranking of "program elements and related funding levels."

Results

In one sense, ZBB was successfully implemented: all agencies submitted the required paperwork on time. By the end of ZBB's first budget year, agencies had prepared about 25,000 internal decision packages and submitted about 10,000 of these to OMB. But in essential ways federal ZBB had not been an exercise in zero-basing a budget. The widespread use of arbitrarily chosen percentages to identify alternative funding levels, rather than analysis based on program knowledge and performance information, precluded genuine zero-basing, as did consolidation and selection of initial decision units at high levels in the organization.

From the beginning, paperwork burden for federal managers constituted a significant implementation problem. One study estimated that paperwork increased, on average, 229 percent in ZBB's first year. In addition to the ZBB packages, agencies had to prepare separate

budget materials, often using different categories, for OMB, appropriations, and authorizing committees. Preparing crosswalks between these added to agency burden.

Agencies believed that inadequate time had been allowed to implement the new initiative. The requirement to compress planning and budgeting functions within the timeframes of the budget cycle had proven especially difficult, affecting program managers' ability to identify alternative approaches to accomplishing agency objectives. Some agency officials also believed that the performance information needed for ZBB analysis was lacking. Available information concerned processes and activities, not how well these processes and activities performed. Agencies also questioned the need to prepare and rank decision packages for programs whose spending levels were outside their control. For example, the Department of Health, Education, and Welfare did not identify minimum levels for social security and other programs where it believed spending was uncontrollable; Treasury stated it saw little use in ranking decision packages for interest on the debt since the interest would have to be paid in any case. Paperwork and other burden and technical difficulties were compounded by agency perceptions that OMB had not used the results of agencies' ZBB efforts in its budget decision-making.

In Congress, the results of the congressionally requested ZBB pilots, made public in June 1977 cast doubts on ZBB's suitability as a potential tool for congressional decision-making. One major thrust of the pilots had been to see whether ZBB rankings—comparing priorities of "decision packages" against one another—could be used by appropriators to identify the impact of budget cuts. The results of the pilots were not encouraging. In one pilot, the agency had failed to set minimums below current funding for over one-third of its decision units and refused to rank its decision packages because the process-oriented program activity structure of the agency's budget was too interdependent to permit meaningful ranking. The lack of cost accounting information needed to identify alternative funding levels was also cited as a technical problem. Finally, the level of burden



and paperwork was a problem for both for agencies and appropriators. In one typical case, 362 pages were needed for an agency's ZBB-based budget justification versus 72 pages for its non-ZBB justification.

The results of the congressional pilots were largely consistent with later agency experiences. No mechanism existed, however, to incorporate lessons learned from the congressional pilots into executive branch ZBB implementation. By the time OMB sent agencies a survey in October 11, 1977, seeking their views on implementation problems and proposed solutions, the gaps between ZBB's initial promise and its first year results were becoming apparent.

Despite implementation problems and the relatively short time span in which all its elements were required, federal ZBB has been credited with some positive results. Some participants in the budget process as well as other observers attributed certain program efficiencies, arising from the consideration of alternatives, to ZBB. Interestingly, ZBB established within federal budgeting a requirement to present alternative levels of funding linked to alternative results—a requirement that lasted until 1994.

OVERVIEW OF THE GOVERNMENT PERFORMANCE AND RESULTS ACT

GPRA seeks to promote greater public confidence in the institutions of government through a better reporting and accounting for the outcomes of federal programs. As stated in the act, the goals of GPRA are to

- (1) improve the confidence of the American people in the capability of the Federal Government, by systematically holding Federal agencies accountable for achieving program results;
- (2) initiate program performance reform with a series of pilot projects in setting program goals, measuring program performance against those goals, and reporting publicly on their progress;
- (3) improve Federal program effectiveness

and public accountability by promoting a new focus on results, service quality, and customer satisfaction;

- (4) help Federal managers improve service delivery, by requiring that they plan for meeting program objectives and by providing them with information about program results and service quality;
- (5) improve congressional decisionmaking by providing more objective information on achieving statutory objectives, and on the relative effectiveness and efficiency of Federal programs and spending; and
- (6) improve internal management of the Federal Government.”⁸

From these broad purposes, a system of interrelated plans and reports provides the basis for linking federal resources and results, with requirements and new concepts piloted before governmentwide application.

Strategic Plans

GPRA requires each agency to develop strategic plans covering a period of at least 5 years. Agencies' strategic plans must include the agency's mission statement; identify long-term general goals, including outcome-related goals and objectives; and describe how the agency intends to achieve these goals through its activities and through its human, capital, information, and other resources. Under GPRA, agency strategic plans are the starting point for agencies to set annual program goals and to measure program performance in achieving those goals. To this end, strategic plans are to include a description of how long-term general goals will be related to annual performance goals as well as a description of the program evaluations used in establishing goals. As part of the strategic planning process, agencies are required to consult with the Congress as well as solicit the views of other stakeholders. Agencies' first strategic plans are to be submitted to the Director of OMB and the Congress by the end of fiscal year 1997. Strategic plans must be updated at least every 3 years.

⁸P.L. 103-62, sec. 2.



Annual Performance Plans

GPRA also requires each agency to prepare an annual performance plan that includes the performance indicators that will be used to measure “the relevant outputs, service levels, and outcomes of each program activity” in an agency’s budget. The annual performance plan is to provide the direct link between strategic goals outlined in the agency’s strategic plan and what managers and employees do day-to-day. When an agency believes it is not possible to express a measurable goal for a program activity, the agency may ask OMB’s authorization to use a nonquantifiable goal. In addition, GPRA allows agencies to aggregate, disaggregate, or consolidate program activities for purposes of performance planning. These plans are also to be used by OMB to develop an overall federal performance plan for the federal budget, which is to be submitted each year to the Congress with the President’s budget. The first annual performance plans are to be submitted to OMB in the fall of 1997, with the first overall federal performance plan due for fiscal year 1999.

Annual Performance Reports

Ultimately, GPRA will require that each agency prepare an annual report on program performance for the previous fiscal year. In each report, agencies are to review and discuss performance compared with the performance goals established in annual performance plans. When a goal is not met, agencies are to explain the reasons the goal was not met; plans and schedules for meeting the goal; and, if the goal was impractical or not feasible, the reasons for that and the actions recommended. Actions needed to accomplish a goal could include legislative, regulatory, or other actions or, when the agency found a goal to be impractical or infeasible, a discussion of whether the goal ought to be modified. The report is also to include the summary findings of program evaluations completed during the fiscal year covered by the report. Agencies’ first performance reports for fiscal year 1999 are due to the President and the Congress no later than March 31, 2000.²

Managerial Flexibility

In crafting GPRA, the Congress also recognized that managerial accountability for results is linked to managers having sufficient flexibility, discretion, and authority to accomplish desired results. GPRA authorizes agencies to apply for managerial flexibility waivers in their annual performance plans beginning with fiscal year 1999. The authority of agencies to request waivers of administrative procedural requirements and controls is intended to provide federal managers with more flexibility to structure agency systems to better support program goals. The nonstatutory requirements that OMB can waive under GPRA generally involve the allocation and use of resources, such as restrictions on shifting funds among items within a budget account. Agencies must report in their annual performance reports on the use and effectiveness of any GPRA managerial flexibility waivers that they receive.

Implementation Approach: Phasing-in and Piloting of Requirements

GPRA calls for phased implementation, as described above, beginning with selected pilot projects in performance goals and managerial flexibility in fiscal years 1994 through 1996. These pilots are expected to develop experience with GPRA processes and concepts before implementation begins governmentwide in 1997. As of March 1997, 68 pilot projects for performance planning and performance reporting were under way in 28 agencies. OMB also is required to select at least five agencies from among the initial pilot agencies to pilot managerial accountability and flexibility for fiscal years 1995 and 1996; however, OMB did not do so. GAO is required to report on governmentwide readiness for implementation by June 1, 1997; OMB is required to report on the costs, benefits, and usefulness of the performance planning and measurement pilots by May 1, 1997, identifying any recommended changes in GPRA requirements.

GPRA also requires OMB to select at least five agencies, at least three of which have had experience developing performance plans



during the initial GPRA pilot phase, to test performance budgeting for fiscal years 1998 and 1999. Performance budgets to be prepared by the pilot agencies are intended to provide the Congress with information on the direct relationship between proposed program spending and expected program results and the anticipated effects of varying spending levels on results. OMB is required to report on these pilots by March 31, 2001. OMB's report is to assess the feasibility of performance budgeting, recommend whether legislation requiring performance budgets should be proposed, and identify any other recommended changes to GPRA requirements.

Abbreviations

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| BAPA | Budget and Accounting Procedures Act |
| BOB | Bureau of the Budget |
| DOD | Department of Defense |
| GDP | gross domestic product |
| GPRA | Government Performance and Results Act |
| MBO | Management by Objectives |
| NAPA | National Academy of Public Administration |
| OMB | Office of Management and Budget |
| PFP | Program and Financial Plan |
| PM | Program Memoranda |
| PPBS | Planning-Programming-Budgeting-System |
| ZBB | Zero-Base Budgeting |