JORDAN FISCAL REFORM PROJECT II

FINDINGS AND RECOMMENDED AREAS OF FOCUS FOR JORDAN FRP II'S RESULTS-ORIENTED GOVERNMENT PROGRAM

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GENERAL RECOMMENDATIONS:

1. *To achieve significant reform, yielding improvement in performance, Jordan must keep its leaders in place for longer periods of time.*

It takes a minimum of five years minimum to make significant performance improvements in most large organizations. If Cabinet members leave every two years, little of lasting impact will be possible. This is particularly true for the minister who drives the reform process, the Minister of Public Development. That position must remain stable for at least five years.

This problem is exacerbated by rapid movement of Director Generals and Secretary Generals. Like Cabinet members, they must remain in place longer than two years to produce significant change.

2. *The Public Sector Development Committee, made up of a group of ministers, could be used to drive the reform process.*

The Minister of Finance needs to be added to this committee, and his ministry must become engaged in the process of creating Results-Oriented Government. Finance Ministries have so much power over spending that they are usually obstacles to change, unless they are involved in driving the change process.

3. *Ministers will not be able to get better performance out of their ministries by commanding that it happen.*

They will not even be able to achieve it by *inspiring* improvement. To be successful, Jordan's leaders must create powerful incentives, so that every manager and employee feels it is in their self interest to improve their organization's performance. Second, leaders must change the distribution of authority within government organization, so employees feel they have the authority to change the way their organization works. And third, leaders must equip employees to make those changes, through empowerment, training, and professional development.

MORE SPECIFIC RECOMMENDATIONS:

4. *Results-Oriented Budgeting:*

Jordan is currently using a fairly traditional approach to performance budgeting, in which performance goals and data are included in the budget document. Unfortunately, experience around the world shows that simply putting performance information into the budget document does not ensure that anyone uses that information to make budget decisions. To give Results-Oriented Budgeting the power to change the way Jordan spends its money, its leaders need to adopt the latest innovation in this field, called Budgeting for Outcomes.

Jordan has already taken some steps in this direction. In 2005, it launched a National Agenda, a 10-year strategic plan for the nation, which sets long-term goals, subgoals, strategies, and key performance indicators (KPIs). Unfortunately, the National Agenda doesn't drive the budget process.

This is more the norm than the exception, worldwide. Too often, public organizations develop strategic plans that lay out where the organization needs to go, but the budget does not follow. Strategic planning is about rethinking an organization's strategies; done well, it can lead to quantum leaps in strategy and effectiveness. But traditional budgeting is incremental; it funds some version of what was done last year and the year before that. Because it is difficult to get new strategies into budgets, particularly in times of fiscal constraint, much of the strategic plan is never put into action. And when strategies are funded, no one checks to see whether they are producing the results intended. Hence the organization remains stuck with the strategies it has funded, until the next round of strategic planning.

These problems can be solved. Public organizations can link strategic planning with budgeting through a process called Budgeting for Outcomes, then build a performance management system to assess results and make corrections.

In traditional budgeting, leaders start with last year's costs, then add or subtract. In Budgeting for Outcomes, they start with the results citizens' value. This approach clears away all the games departments play—padding costs and hiding excess, to protect themselves against the inevitable cuts. It focuses squarely on the real issue: producing results citizens' value at a price they are willing to pay. In addition, it helps *clear the decks*, because low value spending programs are systematically driven out of the budget. (For more detail about this Budgeting for Outcomes process, see David Osborne and Peter Hutchinson, *The Price of Government* (New York: Basic Books, 2004.)) The process involves these basic steps:

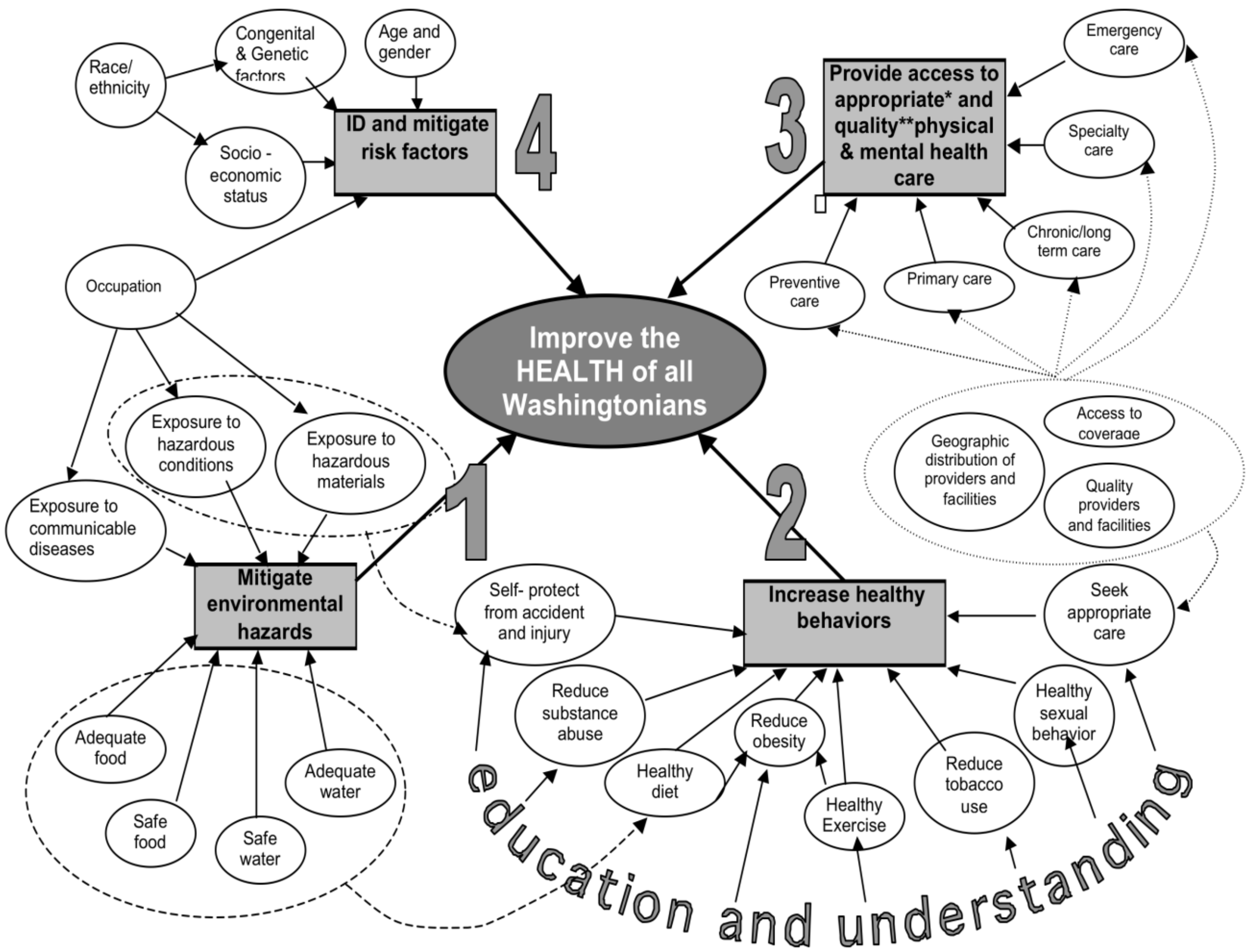
1. ***Set the price of government***: Decide up front how much you want to spend. Get political agreement on a revenue forecast and any tax or fee increases.

2. ***Set the priorities of government***: Define the outcomes that matter most to citizens, along with indicators to measure progress. By outcomes I mean long-term results, such as improved education levels, better health, and lower crime rates. (Jordan already has 13 national goals, but close to half are not outcomes.)

3. ***Set the price of each priority***: Divide your projected spending among the priority outcomes. This is a value judgment: How important is each of your outcome goals? How much of your money should be invested in achieving each one?

4. ***Develop a purchasing plan for each priority***: Every organization has a set of strategies, some of which are explicit, others of which may be implicit. But the most effective approach is not to start by reviewing existing strategies. Instead, the process should begin with an analysis of what factors have the most impact on the desired outcomes. To do this work, leaders should charter a "results team" for each outcome goal: a small group (5-8) of strategic thinkers, made up of internal and external consultants, policy, research, and budget staff, and program staff. (Given the nature of the budget staff in Jordan, it is important to recruit strategic thinkers from other parts of government and build very strong results teams.)

   These teams would begin by using fairly intensive research to define the factors that most impact their desired outcome. Then they would develop a cause-and-effect map of those factors, to understand their interrelationships. As an illustration, this is a cause-and-effect map of the strategies that impact health in one American state:



   These cause-and-effect maps help identify what factors have the most power to achieve the desired outcome. With that information, results teams can then discuss what strategies might be most effective. Some factors may be out of the organization's reach; hence they would not lead to strategies. But in most cases, the organization will discover that it can impact most of the factors, whether directly or indirectly. With this fresh look at the question, the team would come up with a set of strategies it believes the organization should pursue.

The team would then compare them to the strategies already in place. (Some strategies would involve only one program; others would involve multiple programs.) At this point, they could map the possible strategies along with existing strategies, to see how they interact with one another. This exercise, again backed by research, will help the team understand which strategies have the most power, which may not have enough power to be worth funding, and where there are still gaps that may require strategies they have not conceived of yet.

5. ***Solicit offers to deliver the desired results.*** The results teams would then develop documents called "Requests for Results"—one for each outcome goal. These would take the place of the traditional budget instructions. They would define the desired outcome, present the three indicators that would be used to measure it, then define the strategies to be pursued, the indicators used to measure them, and how much money would be available for each outcome goal and, perhaps, each strategy. In addition to the strategies they had chosen earlier, they could also define more generic criteria, such as, "We would like to see collaborative initiatives between different programs and offices," or, "We would like to see offers that leverage private sector activity and resources as well as public." This would encourage program managers to get out of their silos and look for partners who could help make their programs more effective.

   The Requests for Results would go out to all managers, contractors, and other recipients of funds, as an invitation to submit innovative requests for funding. (In subsequent years, Jordan might consider letting other organizations, such as non-governmental organizations and even for-profit businesses, submit offers. By doing so, it would sharpen the competition and heighten the innovation.) Any manager, contractor, or other entity funded by the organization would be able to prepare "offers" for funding. These offers would define the program to be funded, the price, the results it would produce, and data from the past (or from another source, such as a similar program or a study) that supported its assertion about results.

   The organization would be wise to use internal and/or external consultants to train program managers about the offer process and to help them look for innovations that could make their programs more cost-effective. The more support managers receive, the more creative their offers will be.

6. ***Rank the offers, from most cost-effective to least.*** When the offers came in, the results teams would analyze them and group them into three categories: most cost-effective, least cost-effective, and those in the middle. Within each group, they would rank offers from most cost-effective to least cost-effective, until they had all programs ranked. They would "buy" from the top of the list until the money ran out, then draw a line.

7. ***Send the rankings out, to spur better offers.*** At this point the results teams would send their rankings out to all those who had made offers, along with any specific feedback they had. For instance, they might ask for more information or data about results. They might suggest that some managers investigate particular innovations. They might ask still others to explore collaborations with other offerers. Finally, they might ask some to "scale" their offers—indicating what results they could produce with more money or less money.

   Seeing their offers ranked below the line or near the line—and thus at risk, in case offers below the line were improved enough to leapfrog theirs—those making offers would get serious about innovation. To ensure that their programs survived, they would be motivated to search for best practices that could make their offers more cost-effective.

8. ***Do final rankings of the second offers, and forward those to the leadership team for decisions.*** When the final offers came in, the results teams would again engage in dialogue with some offerers, looking for more information, specific improvements in offers, and so on. (The more interaction, the more creative and effective the offers would become.) Once the offers were final, the teams would again rank them, buy from the top, and draw a line. They would forward their rankings to the leadership, which would use the recommendations to put together their budget, making any changes they thought necessary.

9. ***Negotiate performance agreements with the chosen providers.*** These should spell out the expected outputs and outcomes, how they will be measured, the consequences for performance, and the flexibilities granted to help the provider maximize performance.

5. Performance Measurement and Management

In addition to doing Budgeting for Outcomes, the government of Jordan must monitor and learn from the results of its strategies and programs, so it can continuously improve them. To do this, its leaders should create at least five major pieces of a performance management system.

First, the prime minister should develop three year performance agreements with his cabinet members, spelling out the results desired, the rewards to be earned, and the support to be provided and management flexibilities to be granted to make the results possible. These agreements would ensure clarity about the most important results to be achieved, incentives for the ministers, director generals and secretary generals to achieve them, and the management powers they would need to make the necessary changes. Typical flexibilities in such agreements include freedom from limits on the number of employees, authority to waive certain personnel and procurement rules, freedom to move money between certain accounts without asking permission, and authority to keep some percentage of money not spent in a fiscal year and use it in the next year. (For more about such "flexible performance agreements," see chapter 3 of *The Reinventor's Fieldbook,* by David Osborne and Peter Plastrik.)

Second, the prime minister or his designee should meet every quarter with each of these executives, to assess progress in achieving performance goals, discuss which strategies are working, which are not, and why, and make changes necessary to ensure success. (For shorthand, let us call this a "Stat" process, since it has been called "CompStat" in American police departments, where it originated, "CitiStat" in cities, and "StateStat" in states.) Other executives doing related work should be present at these sessions, so that problems could be solved. For instance, when an agency head says, "We can't achieve those results because the procurement rules make it impossible to hire the right contractors," the procurement chief should be in the room and ready to work out a solution. (For more about Stat systems, see *The Price of Government,* chapter 8.)

Third, the departments should negotiate performance contracts with all their contractors, spelling out the results expected, how they will be measured, and the rewards if goals are exceeded and sanctions if results are poor—including loss of the contract if performance falls below a set level. Quarterly reviews should be done with contractors as well.

Fourth, the organization should develop balanced scorecards of performance goals for each program, office, work team and other funded entity (such as contractors and lower level governments). Balanced scorecards include indicators that reflect at least four factors: success at achieving mission goals, customer satisfaction, employee engagement, and sound financial management.

As it does this, the organization should roll out the Stat process at every level, not just at the very top. Results team members and internal consultants should be heavily involved in these Stat meetings. As they learn more and more about what works, what doesn't, and why, they would become more intelligent buyers in subsequent rounds of Budgeting for Outcomes. Meanwhile, the budget office should be reorganized around the outcome goals, so that several budget office staff becomes permanent members of each results team. This would help the budget office become better purchasers of results every year.

Finally, when these systems are in place and people throughout the organization are relatively comfortable that they have usable, valuable performance goals, indicators, and data, leaders should develop a system of incentives to reward executives, divisions, offices, and work teams for achieving their goals. The entire performance evaluation process should be redesigned, to focus on achievement by teams of objective performance goals laid out in balanced scorecards, not on subjective ratings of performance by supervisors. (For more on incentives and objective performance evaluation, see *The Reinvent or's Fieldbook,* chapters 6 and 7.)

Obviously, all that I have described above will require a substantial investment in the development of good indicators and accurate measurement. For most organizations, it takes at last three annual iterations before decent indicators are the norm. The more help Jordan can bring in from consultants with expertise in performance measurement, the better. In addition, Jordan's leaders need to sort out who is responsible for making sure performance measurement moves ahead. I was told that when the Government Performance Director started doing monitoring and evaluation, the Planning Ministry said, "Wait, that's our responsibility," and created a unit to do it. This conflict needs to be sorted out.

It should be obvious by now that effective strategic and performance management requires a great deal of work. But it is *exactly* the work necessary to make dramatic improvements in cost-effectiveness. The investments demanded—of time, people, and money—yield enormous returns. Organizations using strategic and performance management systems like these have achieved 5-8 percent annual gains in productivity, year after year.

Because strategic and performance management are so labor intensive, however, it is important not to repeat the basic processes too often. Budgeting for Outcomes only needs to be done every two years: a biennial budget cycle works best, and even if an organization has to use an annual cycle, it might be wise to only do the full BFO process every two years. Similarly, the full strategic planning process of re-examining outcome goals and strategies would not be necessary in every round of budgeting; it should perhaps be used once every four years.

To sum up, one could look at this strategic management system as a three-legged stool. A strategic plan helps an organization understand where it needs to go and the strategies necessary to get there; a strategic budgeting system lines the money up behind those outcome goals and strategies; and a performance management system measures progress, helps everyone learn what adjustments they need to make along the way, and ensures that they make those adjustments. All of these are valuable activities. But without all three legs, no one would want to sit on the stool.

6. *Civil Service reform*

According to participants in my workshops, the Civil Service system in Jordan creates big problems, as it does in most governments. As one person said, "The good people are leaving, and the one's who aren't so useful are staying."

Because civil service systems are so outdated, many governments have modernized them in recent decades. (See *The Reinventor's Fieldbook,* pp. 411-415 for a thorough discussion of the topic.) Most of the reforms boil down into three big categories:

c. ***Let the Managers Manage.*** Most public managers don't control their employees' hiring, firing, promotions, or pay. Is it any wonder they have trouble achieving results? Traditional civil service systems give most control over hiring to central personnel offices. The process typically takes six months or more, so the best applicants find jobs elsewhere. They also dictate how much managers can pay their people. In contrast, countries like New Zealand and Great Britain have decentralized power over hiring, firing, promotion, and pay to their departments and agencies. They have turned personnel offices into support functions, rather than control functions.

   Traditional personnel systems are also divided into many grades and steps, which employees move through based on their longevity. Most governments also have at least a thousand different job classifications. Human Resource departments spend thousands upon thousands of useless hours deciding whether specific jobs should be classified as GS 12 or GS 13, telling managers they can't pay the salary they want to pay because the classification doesn't allow it, and blocking their efforts to reclassify people. Creative managers spend thousands of hours, in turn, out-maneuvering HR departments so they can keep their best people. They rename jobs, invent new classifications, move people into consulting positions -- whatever it takes.

   Virtually every organization that has studied personnel issues in recent decades has recommended radical simplification of the classification system. Jordan should shift from narrow to broad job classifications, to give agencies flexibility in organizing work, and reduce the number of job classifications dramatically—down to a few dozen if possible. This will give managers more flexibility to move people to new positions within the same broad classification, as needs change.

   If possible, Jordan should couple this with a "broadband" pay system, with only three to five broad pay ranges within each job classification. Broadband systems, which have proven themselves in many places by now, allow managers to set salaries at levels required to recruit and keep the talent they need.

b. ***Link compensation to performance.*** Traditionally, public employees make more money simply by staying in their jobs -- regardless of their performance. In a stable world, rife with patronage abuses, this may have made sense. But in today's rapidly-changing world, with increased demands for performance, it gets in the way.

Jordan should eliminate automatic pay increases based on longevity. Set salaries at levels required to recruit and keep the talent you need, in your labor market, and reward performance with bonuses, awards, gainsharing, and other performance management tools. Allow for variable compensation rates (permanent or temporary) based on particularly challenging assignments, such as leading teams on complex projects. Let managers link salary increases to the acquisition of new skills, such as operating new kinds of equipment or cross training to handle varied work assignments, as an incentive for lifelong learning and a way to offer mobility to those in low-level jobs. And reinforce the role of teams in delivering results by employing team-based rewards, such as team-based bonuses, gainsharing, and performance awards.

If Jordan allows employees with seniority to "bump" those with less seniority during lay-offs, it should also change this policy. During lay-offs, high-performers, not those with seniority, should be kept on. Jordan should also streamline procedures for firing non-performers.

c. ***Invest in building the skills and capacities of employees.*** From what I heard during the workshops, Jordan needs significant investment in training, education, and leadership development. It could also use job rotation to enhance opportunities for employees to learn, grow, and contribute to success.

7. Decentralize step by step

As I emphasized in my speech and workshop, to transform government bureaucracies into high-performing organizations, managers and employees must be empowered to make more decisions. Authority must be decentralized, so leadership occurs throughout the organization.

In a country like Jordan, where corruption and patronage hiring are still problems, this can be problematic. Leaders must decentralize control with great care. First, they need to concentrate on establishing some basics: the rule of law, firing based on merit, and financial controls, audits, and transparency. Then, as they begin to loosen the old systems of control, they should construct new systems in their place—management information systems, performance management systems that impose consequences, and auditing systems. Finally, they can grant flexibilities, as organizations prove they can handle them.

Using this approach, they would grant an agency freedom from overly centralized controls only after the agency had proved its capacity to detect and control corruption, patronage, and political manipulation of employees. The freedoms could even be granted in stages, as agencies gradually strengthened and demonstrated the effectiveness of their new control systems. This could be done through the negotiation of three-year performance agreements, as discussed above, under Performance Management.