H.R. 2883, THE GOVERNMENT PERFORMANCE AND RESULTS ACT TECHNICAL AMENDMENTS OF 1997

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

ON

H.R. 2883

TO AMEND PROVISIONS OF LAW ENACTED BY THE GOVERNMENT PERFORMANCE AND RESULTS ACT OF 1993 TO IMPROVE FEDERAL AGENCY STRATEGIC PLANS AND PERFORMANCE REPORTS

FEBRUARY 12, 1998

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H.R. 2883, THE GOVERNMENT PERFORMANCE AND RESULTS ACT TECHNICAL AMENDMENTS OF 1997

THURSDAY, FEBRUARY 12, 1998

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:58 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Sessions, and Maloney.

Staff present: J. Russell George, staff director and chief counsel; Robert Alloway, professional staff member; and Matthew Ebert, clerk.

Mr. HORN. A quorum being present, the Subcommittee on Government Management, Information, and Technology will come to order.

We are continuing our series of oversight hearings on the Government Performance and Results Act of 1993, known as the Results Act. As we have learned in the previous hearings, the Results Act has enormous potential to improve agency performance. It will help match agency objectives with legislative intent. It will help eliminate ineffective and overlapping programs. It will improve measurable program results. The work product of an agency will be better managed. The Results Act will enable both Congress and the agencies to engage in more effective oversight and to achieve more appropriations for needed programs.

Our focus today is on the adequacy of the agency's Strategic Plans submitted September 30, 1997. There is widespread dissatisfaction with the quality of these plans. These Strategic Plans are supposed to be the solid foundation on which the next 3 years of over $5 trillion of all Federal Government programs are based.

There may be some argument as to whether these Strategic Plans are bad or really bad, but they certainly are not great or even good. Should we really base the next 3 years of the entire Federal Government on an inadequate foundation?

There are some, admittedly, who argue that these Strategic Plans are sufficient, not great or even good but adequate. The Office of Management and Budget, represented here this morning by Acting Deputy Director for Management, Mr. Edward DeSeve, takes that position. I disagree with that position.

I strongly recommend that these Strategic Plans be revised and resubmitted in September 1998. The Office of Management and Budget will apparently go on record defending the quality of these plans. I, for one, look forward to proof that these plans are good.

Although large corporations and many universities have been doing annual strategic planning for over three decades, this is the first time for the Federal Government. Consequently, when Congress passed the Results Act in 1993, it provided a 5-year period for the General Accounting Office, the Office of Management and Budget, and the agencies to get up to speed. Further, Congress provided pilot tests for all to learn how to do strategic planning. We did not expect the first Strategic Plans to be great, but neither did we expect them to be this bad after a 5-year learning period.

The informal feedback received from agency planners is that they have learned a tremendous amount from three sources: the experience of preparing the current Strategic Plans; the experience of preparing the recently submitted Performance Plans; and agency-specific reports on each Strategic Plan from the General Accounting Office.

With this experience in hand, they know they can deliver much improved Strategic Plans in September 1998. The bill before us today simply requires them to do what they, and everybody else, knows is the right thing: to try again.

I am concerned about the catch–22 we find ourselves in if we do not require the agencies to revise these inadequate Strategic Plans. The agencies must deliver performance reports in 2 years, March 31, 2000.

We have a choice. One, Congress can force the agencies to match their Performance Reports to their inadequate Strategic Plans—this, of course, makes the Performance Reports less than useful—or, two, Congress can signal the agencies to ignore their inadequate Strategic Plans and, quote, do the right thing, unquote, in their Performance Reports. This would admit the Strategic Plans are a worthless paperwork exercise. And we have had such exercises with program planning, budgeting, and all the rest of it in the 1970's and the 1980's, so forth, regardless of administration. This would admit the Strategic Plans are that worthless paperwork exercise that we have gone through too many times and effectively repeal the Results Act legislation, which was passed in the 103d Congress on an overwhelmingly bipartisan basis.

But we do not need to make this choice. I would select a third alternative, the only way out of this catch–22, and require the agencies to resubmit their Strategic Plans so they will be in synchronization with Performance Reports.

Some contend that forcing the agencies to re-do their Strategic Plans places an undue burden on them. Not so. Those portions of their Strategic Plans that are good do not need to be changed. The only work that must be done is to revise the inadequate portions. That work clearly must be done if the Results Act plans are to be a solid foundation for all future Government policy, programs, and regulations.

If Congress does not make real the Results Act now, right now, this year, the promised benefits of results-oriented planning and measurement advances to see that a particular program is effective in reaching its goals will be lost. Revising Strategic Plans in the year 2000, as currently scheduled, is simply too late.

Because of business on the floor which involves legislation I am responsible for, I am going to have to leave this hearing. And I'm delighted to turn it over to a very distinguished colleague, Mr. Pete Sessions, a gentleman from Texas, who is also the head of the Results Caucus in the House of Representatives and has become deeply immersed in this matter. And I'm delighted that we can have one of his leadership and knowledge in this area preside at this hearing.

So, Mr. Sessions, it is all yours. And I now yield to the ranking member. And after you may swear the witnesses in, et cetera.

[The text of H.R. 2883 follows:]

105TH CONGRESS
1ST SESSION

H. R. 2883

To amend provisions of law enacted by the Government Performance and Results Act of 1993 to improve Federal agency strategic plans and performance reports.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 7, 1997

MR. BURTON of Indiana (for himself, Mr. ARMEY, Mr. HORN, and Mr. SESSIONS) introduced the following bill; which was referred to the Committee on Government Reform and Oversight

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A BILL

To amend provisions of law enacted by the Government Performance and Results Act of 1993 to improve Federal agency strategic plans and performance reports.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Government Performance and Results Act Technical Amendments of 1997".

SEC. 2. AMENDMENTS RELATING TO STRATEGIC PLANS.

(a) CONTENT OF STRATEGIC PLANS.—Section 306(a) of title 5, United States Code, is amended—

(1) in paragraph (1), by inserting before the semicolon ", that is explicitly linked to the statutory authorities";

(2) in paragraph (2), by inserting before the semicolon ", that are explicitly linked to the statutory authorities of the agency"; and

(3) by striking "and" at the end of paragraph (5), by striking the period at the end of paragraph (6) and inserting a semicolon, and by adding at the end the following new paragraphs:

"(7) a specific identification of any agency functions and programs that are similar to those of more than one component of the agency or those of other agencies, and an explanation of coordination and other efforts the agency has undertaken within the agency or with other agencies to ensure that such similar functions and programs are subject to complementary goals, strategies, and performance measures;

"(8) a description of any major management problems (including but not limited to programs and activities at high risk for waste, abuse, or mismanagement) affecting the agency that have been documented by the inspector general of the agency (or a comparable official, if the agency has no inspector general), the General Accounting Office, and others, and specific goals, strategies, and performance measures to resolve those problems; and

"(9) an assessment by the head of the agency, together with a separate assessment by the agency's inspector general of the agency (or a comparable official, if the agency has no inspector general), of the adequacy and reliability of the data sources and information and accounting systems of the agency to support its strategic plans under this section and performance plans and reports under sections 1115 and 1116 (respectively) of title 31, and, to the extent that material data or system inadequacies exist, an explanation of how the agency will resolve them.".

(b) RESUBMISSION OF AGENCY STRATEGIC PLANS.—Section 306 of title 5, United States Code, is amended—

(1) in subsection (b), by striking "submitted," and all that follows through the end of the subsection and inserting the following: "submitted. The strategic plan shall be updated, revised, and resubmitted to the Director of the Office of Management and Budget and the Congress by not later than September 30 of 1998 and of every third year thereafter."; and

(2) in subsection (d), by inserting "and updating" after "developing", and by adding at the end thereof: "The agency head shall provide promptly to any committee or subcommittee of the Congress any draft versions of a plan or other information pertinent to a plan that the committee or subcommittee requests.".

(c) FORMAT FOR STRATEGIC PLANS.—Section 306 of title 5, United States Code, is amended by redesignating subsection (f) as subsection (g), and by inserting after subsection (e) the following new subsection:

"(f)(1) The strategic plan shall be a single document that covers the agency as a whole and addresses each of the elements required by this section on an agency-wide basis. The head of an agency shall format the strategic plans of the agency in a manner that clearly demonstrates the linkages among the elements of the plan.

"(2)(A) The head of each executive department shall submit with the departmentwide strategic plan a separate component strategic plan for each of the major mission-related components of the department. Such a component strategic plan shall address each of the elements required by this section.

"(B) The head of an agency that is not an executive department shall submit separate component plans in accordance with subparagraph (A) to the extent that doing so would, in the judgment of the head of the agency, materially enhance the usefulness of the strategic plan of the agency.".

SEC. 3. AMENDMENTS RELATING TO PERFORMANCE REPORTS.

(a) INSPECTOR GENERAL AUDITS OF PERFORMANCE REPORTS.—Section 1116(b) of title 31, United States Code, is amended by adding at the end the following new paragraph:

"(3) The inspector general of the agency (or a comparable official, if the agency has no inspector general) shall audit each program performance report under this section, and shall report to the Congress on the results of each such audit no later than 45 days after submission of the performance report.".

(b) GOVERNMENTWIDE PROGRAM PERFORMANCE REPORTS.—Section 1116 of title 31, United States Code, is amended—

(1) by redesignating subsection (f) as subsection (g); and

(2) by inserting after subsection (e) the following new subsection:

"(f)(1) No later than March 31, 2000, and no later than March 31 of each year thereafter, the Director of the Office of Management and Budget shall prepare and submit to the Congress an integrated Federal Government performance report for the previous fiscal year.

"(2) In addition to such other content as the Director determines to be appropriate, each report shall include actual results and accomplishments under the Federal Government performance plan required by section 1105(a)(29) of this title for the fiscal year covered by the report.".

Mrs. MALONEY. Thank you, Mr. Chairman. And welcome to our witnesses.

Today, we will consider H.R. 2883, the "Government Performance and Results Act Technical Amendments of 1997." This bill was introduced by Chairman Burton and is cosponsored by Chairman Horn, Representative Sessions, as well as Majority Leader Representative Armey.

Clearly this level of interest by the Republican leadership indicates that this bill is a high priority for them, but I am concerned that we are rushing this bill through the legislative process without proper consideration.

Quite frankly, before I came to this hearing, I was told that there would be a markup on this bill, that they were going to move it out of the committee today. And, of course, I objected and others because we do need time to look at what's proposed and have a thoughtful consideration. I compliment the chairman for having put off the markup so that more time and attention can be put into this matter.

The authors of the Government Performance and Results Act devoted significant time and attention to its content, and we should not lightly change current law. I might add that it was the first bill that I managed on the floor of the House of Representatives, and it has been a success in my opinion so far.

These process questions are especially troubling in light of the existing record on implementation of this bill. The Office of Management and Budget has correctly noted that over 90 percent of the 100 Federal agencies required to submit Strategic Plans did so in a timely and compliant manner.

Both the OMB and the General Accounting Office are on record as opposing statutory changes to the bill at this time. And the GAO has further noted that the Strategic Plans provide a workable framework for the next steps of GPRA. So the basic premise of this bill that the Strategic Plans were so universally poor in quality that they must be done over has not been demonstrated.

If the basic premise and approach of this legislation are doubtful, when one turns to the specifics of the legislation, even more questions arise. H.R. 2883 requires the resubmission of Strategic Plans by September 30, 1998. Even if the Senate were to act with record speed, that would give the agencies only 4 or 5 months to re-do their plans. Is this enough time, especially with the additional elements which would be required for the agencies to act?

The bill provides no additional funding for this timeconsuming and burdensome process. Is that reasonable, especially when it's going to keep them from other work that they have to do? Is the resubmission of plans 6 months after they were originally done at all consistent with GPRA's goals of reducing, reducing, duplication and waste at all the agencies or will this merely be a paperwork exercise needlessly consuming hours and hours of agency personnel and hours and dollars of their resources?

As I mentioned, H.R. 2883 would require additional information and Strategic Plans. Part of this new information is a requirement on agency Inspector Generals to analyze the data collected by the plans. Does this make sense?

In a letter to Chairman Burton dated yesterday, Eleanor Hill on behalf of the Inspector General community on behalf of all of the agencies, all the Inspector General agencies, wrote, and I quote, This requirement could entail a massive effort, so overwhelming the audit resources of many members of the IG community, end quote.

Do we really want our IGs spending all of their time looking at Strategic Plans, instead of looking at waste in Government? Is there true intent, in which they have really don't such a magnificent job? Is that something we really want to do, Mr. Chairman? I would like to submit this letter at the proper point in the record at the conclusion of my statements from the IG community.

The bill further requires an assessment of an agency's major management problems. This is duplicative of other existing reporting requirements, including the IG Act of 1978 and the Federal Managers Financial Integrity Act of 1982. Why do we want Federal managers wasting their time with duplicative reporting requirements? Wasn't the purpose of GPRA to reduce paperwork?

The bill also requires agencies to analyze programs similar to ones within the agency and at other agencies. Is it really fair to ask the Interior Department to analyze programs at Commerce or Justice? And isn't that function to some degree more properly one for Congress? Again, won't that sap the energy and resources of our agencies with duplication of work?

The bill would also require that the Strategic Plans explicitly link their mission statements and major goals and objectives to statutory authority. Does that mean each goal would have to cite U.S. Code references? What about Executive orders, court orders, and regulation? If such statutory references for each goal were not included, could they be challenged in court?

This bill makes major changes to the annual performance reports required by GPRA, which the IGs are also very concerned with. The first of these reports is not due until March 31, 2000. How on Earth can we judge a report we won't even see for over 2 years? Please.

Finally, Mr. Chairman, if we're going to amend the Government Performance and Results Act, there may be other ideas worth considering. Democratic members of the committee have raised the issue of applying GPRA to Congress. After all, some planning and results-oriented management are applicable to all governmental organizations, not only just those in the executive branch.

Application of GPRA to Congress would help focus the institution on the core functions of the legislative branch and how to achieve them. In addition, application of GPRA to Congress would undoubtedly give us better insight into strategic planning and performance-based management helping Congress to write better laws.

As the proponents of the Congressional Accountability Act so accurately noted, Congress writes better laws when it has to live by the laws it imposes on the executive branch and private sector. Application of GPRA to Congress, we're provided with the opportunity to learn by doing, not just by reviewing the work of others.

These are only some of the questions raised by H.R. 2883. Other Members undoubtedly have more. I have an open mind, but, as I said at the beginning of my statement, the timing of the markup is not favorable for bipartisan action on this bill.

I am very pleased that the markup has been put off. I am, likewise, working on my own bill to have GPRA applied to Congress so that we can live under the same rules that the agencies are so that we will understand the same burden that is being put on them and we will also have to cite the U.S. Code in everything that this bill is proposing.

I thank the chairman for recognizing me. I must note that I have not only a conflict—we both, Mr. Sessions, have to run and vote, but I have a conflict with the Banking Committee. And I have a number of constituents who are testifying. So I will be in and out of the committee.

Thank you very much. I yield back my time.

[The prepared statement of Hon. Carolyn B. Maloney and the letter from Ms. Hill follow:]

PRESIDENT'S COUNCIL on INTEGRITY & EFFICIENCY

FEB 1 1 1998

Honorable Dan Burton
Chairman
Committee on Government Reform
  and Oversight
House of Representatives
Washington, DC 20515-6143

Dear Mr. Chairman:

I am writing on behalf of the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency regarding H.R. 2883, "Government Performance and Results Act Technical Amendments." The Inspector General (IG) community is committed to effective implementation of the Government Performance and Results Act and agrees that we need to play a role in assessing agency performance pursuant to the Results Act. However, we have several major concerns with the legislation and would like to work with the Committee to develop a better approach.

Most Inspectors General object to the assessment required in Section 2(a)(9), particularly in agencies with literally dozens of performance goals and hundreds of performance measures. Conducting a separate assessment on the systems and procedures used to collect and report performance information for an agency's performance report could entail a massive effort, overwhelming the audit resources of many members of the IG community. Some of the performance information will be provided by international organizations, other countries, states and the private sector. This prospectively large number of various data sources outside the Federal Government will greatly complicate such a task. This comes at a time when some Inspectors General are suffering from increased demands and constrained resources, and would limit their ability to address "high risk" areas within their agencies.

Section 3(a), Inspector General Audits of Performance Reports, mandates audits of all agency performance reports, to be completed within 45 days of submission of the agency reports. As you know, conducting an audit is no small undertaking, requiring in depth examination and documentation. In some agencies, audits would have to reach into information systems and processes of state and local governments, as well as those of the Federal Government. In the Department of Defense, the overall performance report would be a composite of several hundred individual organizational performance reports, each relying on different data sources and aggregated at several stages before they are reported at the Department level. This new audit requirement would necessitate reducing work in other high priority areas, and is not realistic in light of the complexity of the tasks involved and the limited audit resources available to the IG Community. We believe an approach that would allow each Inspector General to rely on their annual planning process incorporating risk based judgments would more effectively address the concerns that underlie this section of the bill.

We are also concerned that Section 2(a)(8) of the bill would require strategic plans to duplicate information in existing statutory reports to the Congress, including the semiannual reports to Congress required by the Inspector General Act of 1978, as amended.

In addition, we note that the first annual performance plans will not appear until February 1998, and the first annual performance reports are not due until March 2000. Thus, it may be appropriate to defer action on additional reporting requirements until Results Act implementation progresses further.

The IG community is an active participant in the Results Act process; however, as now drafted, this bill would create work load requirements that would cause many Inspectors General to fall short on other important tasks. Therefore, we would appreciate the opportunity to work with the Committee to develop a modified yet still effective approach for assessing the impact of the Results Act.

Should you need additional information, please contact me or Mr. Stephen Whitlock, of my staff, at (703) 604-9791.

Sincerely,

Eleanor Hill

Eleanor Hill
Vice Chair
and
Inspector General,
Department of Defense

cc: Honorable Henry Waxman
Ranking Minority Member

Opening Statement -- Rep. Carolyn Maloney
Hearing on H.R. 2883, the "Government Performance and Results Act
Technical Amendments Act of 1997"

Thank you Mr. Chairman, and welcome to our witnesses. Today we will consider H.R. 2883, the "Government Performance and Results Act Technical Amendments of 1997." This bill was introduced by Chairman Burton and is cosponsored by Chairman Horn and Rep. Sessions, as well as the Majority Leader, Rep. Armey.

Clearly, this level of interest by the Republican leadership indicates that this bill is a high priority for them. But I am concerned that we are rushing this bill through the legislative process without proper consideration.

Quite frankly, I do not understand the urgency which has required Chairman Horn to schedule a mark-up of this bill immediately following this hearing. This timing does not give the members of this Subcommittee sufficient time to digest the testimony we will receive today, or to craft thoughtful changes to the bill, but perhaps that is intended.

I am saddened if that is so. The authors of the Government Performance and Results Act devoted significant time and attention to its content, and we should not lightly change current law.

These process questions are especially troubling in light of the existing record on implementation of this bill. The Office of Management and Budget has correctly noted that over 90% of the 100 federal agencies required to submit strategic plans did so in a timely and compliant manner.

Both the OMB and the General Accounting Office are on record as opposing statutory changes to the bill at this time. And the GAO has further noted that the strategic plans provide a workable framework for the next steps of GPRA.

So the basic premise of this bill -- that the strategic plans were so universally poor in quality that they must all be done over -- has yet to be demonstrated.

If the basic premise and approach of this legislation is doubtful, when one turns to the specifics of the legislation, even more questions arise.

H.R. 2883 requires the resubmission of strategic plans by September 30, 1998. Even if the Senate were to act with record speed, that would give the agencies only 4 or 5 months to redo their plans.

Is this enough time, especially with the addition elements which would be required, for the agencies to act? The bill provides no additional funding for this time consuming and burdensome process. Is that reasonable?

Is the resubmission of plans six months after they were originally done at all consistent with GPRA's goals of reducing duplication and waste at the agencies, or will this merely be a paperwork exercise needlessly consuming agency personnel are resources?

As I mentioned, H.R. 2883 would require additional information in strategic plans. Part of this new information is a requirement on agency Inspectors General to analyze the data collected by the plans.

In a letter to Chairman Burton dated yesterday, Eleanor Hill, on behalf of the Inspector General community writes that this requirement "could entail a massive effort, overwhelming the audit resources of many members of the IG community."

Is that something we really want to do? Mr. Chairman, I would like to submit this letter at the proper point in the record.

The bill further requires an assessment of an agencies major management problems. This is duplicative of other existing reporting requirements, including the Inspector General Act of 1978 and the Federal Managers' Financial Integrity Act of 1982. Why do we want federal managers wasting their time with duplicative reporting requirements?

The bill also requires agencies to analyze programs similar to ones within the agency and at other agencies. Is it really fair to ask the Interior Department to analyze programs at Commerce or Justice? And isn't that function to some degree more properly one for Congress?

The bill would also require that the strategic plans "explicitly link" their mission statements, and major goals and objectives to "statutory authority." Does that mean each goal would have to cite US Code references? What about executive orders, court orders and regulation? If such statutory references for each goal were not included, could they be challenged in court?

This bill makes major changes to the annual performance reports required by GPRA, which the IGs are also very concerned with. The first of these reports is not due until March 31, 2000. How on earth can we judge a report we won't even see for over two years?

Finally, Mr. Chairman, if we are going to amend the Government Performance and Results Act, there may be other ideas worth considering. Democratic Members of the committee have raised the issue of applying GPRA to the Congress. After all, sound planning and results oriented management are applicable to all governmental organizations, not only those in the executive branch.

Application of GPRA to Congress would help focus the institution on the core functions of the legislative branch and how to achieve them. In addition, application of GPRA to Congress would undoubtedly give us better insight into strategic planning and performance-based management, helping Congress to write better law.

As the proponents of the Congressional Accountability Act so accurately noted, Congress writes better laws when it has to live by the laws it imposes on the executive branch and private sector. Application of GPRA to Congress would provide it with the opportunity to learn by doing, not just by reviewing the work of others.

These are only some of the questions raised by H.R. 2883. Other members undoubtedly have more. I have an open mind, but as I said at the beginning of my statement, the timing of the markup is not favorable for bipartisan action on this bill.

Mr. SESSIONS [presiding]. Thank you, Mrs. Maloney. The ranking member has been very careful in her words, and I appreciate her comments. They will be taken into consideration. Thank you.

I would now like to ask that we be in recess at the discretion of the Chair. I intend to go vote and come back, and it should take me approximately 10 minutes. We will be in recess until then.

[Recess.]

Mr. SESSIONS. The House Subcommittee on Government Management, Information, and Technology will now come to order. Thank you for allowing me the opportunity to go vote. It is my understanding that floor activity will not require a vote for approximately an hour and 15 minutes. So, I hope that that will allow us the opportunity to proceed without stopping for floor action or votes.

I would now like to make an opening statement.

Since the very first day I came to Washington, I had been excited by the prospect that agencies would have to plan their work and to set their goals.

When I worked in the private sector, we had a plan far in advance. We had to justify our budgets, and we had to perform our work as we had stated based upon our goals and our written plans, Strategic Plans. And that's the way I think and I want the Federal Government to work.

In March 1997, after being elected to Congress, I wrote to every agency head and every Inspector General telling them, "I hope you share my view that GPRA provides us with a historic opportunity to bring good management practices to the Federal Government." And I will tell you today that my commitment is just as strong, and I do not want to see this opportunity slip away.

We have graded the final Strategic Plans submitted to Congress. And, frankly, the quality of the plans was not good. As Majority Leader Armey wrote in his report on the final Strategic Plans, "Few plans meet the quality standards envisioned by the Results Act."

Because what we are talking about today is whether to go back to the drawing board on agencies' Strategic Plans, I think it's instructive to look at the plans that were received by Congress.

There are some positive things to say, for which we should commend the executive branch. Transportation and the Education plans are technically compliant with the legislation and the grading system agreed upon by the Congress and the executive branch. And there are certain areas where the agencies are strong, such as mission statements.

In our grading, the Defense Department, the Department of Education, the Department of Health and Human Services, and the Social Security Administration all rate a 10 for the clarity of their mission statements. On the other side, which is the down side, other factors are lacking. And let me talk about one of these areas where it deals with the information provided in the Strategic Plan, that of data capacity.

Chairman Horn, as we all know, has done a great deal of work in this area. And I think his work is to be commended. But from the Strategic Plans, I don't know if it is the Federal agencies that are getting the message.

We all know that most Federal agencies will face major problems of obtaining and processing the data they need to meet basic accounting standards, not just to mention the Results Act. That is why this legislation is so important, and it is simple. In it, we ask agencies to go back to the drawing board to better address, among other things, crosscutting functions, major management problems, and data capacity.

Before we get too far in the process of analyzing Performance Plans, we need to ensure that those Strategic Plans on which Performance Plans must necessarily be based are of the quality that the American public expect, deserve, and demand.

I support this legislation, and I would like to ask unanimous consent to submit for the record Congressman Armey's November 1997 report, "Toward a Smaller, Smarter Common Sense Government The Results Act: It's the Law" and a report that the GAO prepared at my request, "The High-Risk Program: Information on Selected High-Risk Areas," which hopefully can give agencies some guidance on what the Congress deems management problems that exist.

Hearing no objection, I will allow these to be submitted into the record.

[NOTE.—The GAO report entitled, "Agencies Annual Performance Plans Under the Results Act," GAO/GGD/AIMD–10.1.18 may be found in subcommittee files.]

[The report from Mr. Armey follows:]

Towards a Smaller, Smarter, Common Sense Government

RESULTS ACT: It's the Law

November, 1997

Issued by:

House Majority Leader Dick Armey
Senator Larry Craig, Chairman, Senate Republican Policy Committee
Chairman Dan Burton, House Government Reform and Oversight Committee
Chaiman Bob Livingston, House Appropriations Committee
Chairman John Kasich, House Budget Committee

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For more information on the Results Act:
http://www.armey.house.gov

PART ONE: INTRODUCTION

As Washington maintains its commitment to a balanced budget, lower taxes and a smaller, smarter, common sense government, we must focus on implementing new systems to make government work better for less. Every dollar the government spends is a dollar that someone else has earned. Consider the worker making $25,000 a year, with two children. Can we justify taking his or her tax dollars while allowing the waste, fraud, duplication and mismanagement that now plague our federal government? No. we can't. That's why government should spend every dollar needed, but not a dollar more.

If Washington is to regain the public's trust and confidence, we must reform bloated, unresponsive and inefficient programs and agencies, and achieve a smaller, smarter, common sense government. Before we can intelligently evaluate whether a given policy is wise or misguided, whether an agency's budgetary needs justify taking more from low income mothers and children, we must have reliable, detailed information about how that money will be spent. We must demand tangible, measurable goals, and then follow up to ensure that those targets are reached.

In a democratic society, there will always be disagreements, both ideological and otherwise, about the desirability of many policies and programs. We will always seek common ground and principled compromise. But there is one thing on which there can be no compromise: Before the true policy debate can begin, we must have reliable, honest information about where our tax dollars are going. We can no longer afford to give federal agencies carte blanche. The purpose of the Results Act is to make the federal government accountable.

COMMITTEE RESULTS HEARINGS 105TH CONGRESS

Feb 12	House Committee on Government Reform and Oversight, Chairman Dan Burton
March 10	House Government Reform Subcommittee on Government Management, Chairman Steve Horn
March 13	House Government Reform Subcommittee on Government Management, Chairman Steve Horn
May 14	House Veterans' Affairs Subcommittee on Benefits, Chairman Jack Quinn
June 3	House Government Reform Subcommittee on Government Management, Chairman Steve Horn
June 5	House Veterans' Affairs Subcommittee on Benefits, Chairman Jack Quinn
June 24	Joint Senate Committee on Governmental Affairs, Chairman Fred Thompson and Senate Committee on Appropriations, Chairman Ted Stevens
July 17	House Resources Subcommittee on Water and Power, Chairman John Doolittle
July 24	House Government Reform and Oversight Subcommittee on Human Resources, Chairman Chris Shays
July 24	Senate Committee on Commerce, Science, and Transportation, Chairman John McCain
July 29	House Committee on Banking and Financial Services, Chairman Jim Leach
July 30	House Committee on Science, Chairman Jim Sensenbrenner
July 30	House Resources Subcommittee on Forests and Forest Health, Chairwoman Helen Chenoweth
Sept 18	House Veterans' Affairs Subcommittee on Oversight and Investigations, Chairman Terry Everett
Sept 30	House Committee on Judiciary, Chairman Henry Hyde
Oct 1	House Agriculture Subcommittee on Department Operations, Nutrition and Foreign Agriculture, Chairman Bob Goodlatte
Oct 6	House Government Reform Subcommittee on Government Management, Chairman Steve Horn
Oct 8	House Government Reform Subcommittee on Government Management, Chairman Steve Horn
Oct 9	House Commerce Subcommittee on Oversight and Investigations, Chairman Joe Barton
Oct 16	House Government Reform Subcommittee on Government Management, Chairman Steve Horn
Oct 29	House Committee on Small Business, Chairman Jim Talent
Oct 29	House Agriculture Subcommittee on Risk Management and Speciality Crops, Chairman Tom Ewing
Oct 30	House Committee on Government Reform and Oversight, Chairman Dan Burton

Old Way: Good Intentions, Never Mind Results

Government agencies and those who lead them are not held accountable for what matters most: results. While programs and program advocates have become adept at using *good intentions* to justify their continued existence, Washington has rarely asked them to produce real evidence that their objectives have been successfully accomplished. In fact, as long as funds are spent and agencies remain active, programs are rewarded year after year. The 105th Congress wants to change this culture, to one in which decisions are made based on performance and based on results. To Washington, this is new. To the rest of the nation, this is just common sense.

New Way: Results Count

With the 1993 ***Government Performance and Results Act (Results Act)*** and a series of other new management laws now being implemented across the federal government, Congress has the tools to create a smaller, smarter, common sense government. These laws[1] are not ends in themselves; rather, they are a means to obtain systematic, credible information about the operations of the federal government, while holding government accountable to the taxpayers.

Congress expects accountability

Accountability means having clear goals and objectives for government programs and employees, measuring how they perform, and holding them responsible for the results. But we must start by establishing the right goals and measures. The recent congressional hearings about IRS's abuse of ordinary taxpayers confirmed the old axiom: "you get what you measure."

Contrary to law and common sense, IRS agents were rewarded on the basis of how much additional revenue they squeezed out of taxpayers and how many penalties they imposed. The IRS is not alone. According to recently submitted documents, the Labor Department has now proposed to measure the success of one of its programs by the number of people indicted. The EPA is planning to measure the success of its wetlands program by a goal of increasing the confiscation of land by 100,000 acres a year by 2005.

The wrong goals and measures will yield the wrong

> ***"While the Results Act is not a name that generates immediate excitement, it will, if properly administered and enforced by Congress, deliver the most significant level of accountability of the use of our tax dollars in American history."*** - Tom Schatz, President of the Council for Citizens Against Government Waste, September, 1997.

results. The Results Act is all about establishing proper goals and measurements. As its name indicates, the Act focuses on actual results that matter to our citizens – reducing crime, increasing health and safety — not bureaucratic processes such as numbers of enforcement actions, new regulations issued, increased lawsuits or convictions.

Significance of the Required Strategic Plans

As mentioned, the Results Act is designed to provide policy-makers and the public with systematic, reliable information about where federal programs and activities are going, how they will get there, and how we will know when they have arrived. In the process of complying with this new law, agency documents should indicate what is working, what is wasted, what needs to be improved, and what needs to be rethought.

The first major step in Results Act implementation occurred with the initial round of agency five-year strategic plans that were submitted on September 30, 1997. The basic purpose of the strategic plans is to explain, in results-oriented terms, what the agency is trying to accomplish and why that matters.

Because the strategic plans are key policy documents and lay the foundation for all that follows, the Results Act mandated agencies to "consult" with Congress in developing these plans.

In September we issued an Interim Report evaluating draft strategic plans submitted by agencies as part of congressional consultations. As described in the Interim Report[2], almost all the draft strategic plans submitted for Congressional consultations were incomplete and inadequate for substantive review[3]. For example, 17 of the 24 drafts simply ignored one or more of the six elements for strategic plans specifically required by the Act. Half the drafts omitted two or more statutorily required elements.

In short, hardly any of the draft plans provided a basis to answer the core questions posed above. Most agencies submitted draft plans to Congress that failed to identify the results of their programs, lacked justification for their strategies, and contained no plans to reduce overlap and duplication among similar programs. As the GAO put it, based on an early look at the strategic planning process:

> *"many agencies did not appear to be well positioned to provide in 1997 a results-oriented answer to the fundamental Results Act question: What are we accomplishing"?*[4]

Since the draft plans were so deficient, Congress had to divert its consultations with the Clinton Administration from the substantive policy reviews envisioned by the Act to a massive effort to ensure technical compliance with the Results Act.

Compliance Is NOT Necessarily Good Policy

Getting honest answers to make smarter decisions in Washington all begins with Congress knowing where an agency is headed through the submission of their strategic plans. As indicated, the grades provided in this Report are compliance grades, not policy grades that would show whether or not we agree with the goals laid out in the agency plans.

If the Results Act works as expected, the strategic plans would lay the foundation for a more informed policy debate about whether these are the right goals, being done in the right way. For now, we can't grasp in all instances whether the goals are right or wrong, or whether the measures of achievement will be credible or not. In other words, Washington has a long way to go before Congress can get honest information to make smarter decisions.

A clear and complete strategic plan can answer fundamental policy questions such as:

- Is it clear where the agency is headed in the next 5 years?
- Is the agency headed in the right direction?
- Are its goals and measurements credible, results- oriented, and do they make sense?
- Do they fulfill important federal responsibilities, or are they more appropriate for other levels of government or could the private sector deliver the services more efficiently?

Integrating Results into other Congressional Business

When Congress considers program reauthorizations, we need to ask what concrete results have the programs achieved? Are they worthwhile and cost-effective? Is there a better way to provide this service?

When Congress considers appropriations, we need to ask whether the agency's budget requests are sufficiently tied to the results of its programs, and what funding levels those results merit.

When considering proposals to create new programs, we need to ask how those proposals relate to existing programs and resources dedicated to the same or similar goals, and why existing programs can't be restructured or improved to produce the new desired outcome without layering new programs on old ones.

Finally, we need to integrate Results Act information into our oversight activities as we hold agencies accountable. Among the most important features of the Results Act and the program information it generates are to identify redundancy in federal programs and operations, and to ferret out waste, fraud, error and mismanagement.

February 1998

The next step in implementing the Results Act will be the initial round of government-wide and agency-specific annual performance plans due with President Clinton's budget submission next February. These plans are to translate the agency's strategic goals and objectives into specific performance goals and measures to achieve during the upcoming fiscal year 1999.

"With full implementation of the Results Act, agencies can make policy, budget and management decisions on the basis of performance and results. This could be a watershed change and an important benefit. To realize it, goals, plans and measures must be firmly oriented to results and address key obstacles in solving national problems and tracking the performance of programs." - Pat McGinnis, President and CEO, The Council for Excellence in Government, August, 1997.

Summary of This Report

This Report by the Congress provides another snapshot (see Interim Report) of the efforts to date to see that tl centerpiece of our integrated statutory framework to achieve a smaller, smarter common sense government, the Results Act, is being implemented effectively in Washington.

This Report on agencies' "final" strategic plans shows while some progress has been made, there is much room for improvement. Because of the improvement shown in plans such as the Transportation Department's, we are confident that more agencies can show greater improvement. Congress must insist that efforts to implement more meaningful strategic planning be continued.

PART TWO: WHERE WE ARE TODAY, FINAL STRATEGIC PLAN GRADES

The Good News

The good news from our evaluations of the final plans i that congressional pressure to ensure substantia improvements over the draft plans and to ensure compliance with the requirements of the Results Act were largely successful:

- The principle of getting more of what you measure was played out as Congress told agencies how we were going to grade their strategic plans, and improvement was seen based on our grading criteria.

- Almost 100 federal agencies delivered plans to Congress. The top 24 departments and agencies, which were being specifically monitored through leadership and committee-led oversight, showed substantial efforts to comply.

- As described in more detail below, almost all of the top 24 agency final plans improved over the draft versions. The average score was up by over 50% from the draft plans.

- All of these final plans are minimally compliant with the Results Act, although some just barely comply.

- Most of these plans at least mention program duplication, major management problems, and data capacity issues, although they just scratch the surface in these areas.

- Because of Congress's and the Clinton Administration's efforts, more understanding and use of Results Act principles is occurring throughout Washington.

The Bad News

The bad news is that few plans meet the quality standards envisioned by the Results Act. They can be a starting point for substantive policy discussions, but few are acceptable as final strategic plans. At best, most of the final plans are where the initial drafts should have been at the outset of consultations.

- The final plans still do not provide clear answers to core Results Act questions mentioned previously, such as where the agency is going, how it will get there, and whether it is headed in the right direction.

- They do not lay a solid foundation for the upcoming performance plans.

- Because the poor state of the drafts severely limited our ability to conduct substantive consultations, the final plans generally do not reflect policy input or agreement on the part of the Congress.

- It is clear that most agencies have major data problems that will severely limit their capacity to implement their plans. Unless and until these problems are resolved, the agencies won't provide credible, honest information to Congress and to taxpayers.

- Few agencies are comfortable coordinating their programs with other agencies engaged in similar work. There has been little leadership from the Clinton Administration to support and ensure that similar programs are coordinated and will use consistent goals and performance measures.

- Our final grades indicate that strategic planning skills are still uneven and generally poor.

- The grades also make plain that public officials at the top are not fully committed to this process. Agency plans are too often left to staff segregated in budgeting or planning offices, rather than being fully integrated with program offices and management staff across the entire agency.

Grading System

We applied the same evaluation factors to the final plans that we used for the drafts. Our grades employ a scale of 0 to 100 points, spanning 10 evaluation factors that are equally weighted at 10 points each. These evaluation factors are, in turn, based on criteria taken from the law itself along with OMB and GAO guidance.

Our grading system is based on the ideal for a strategic plan; we recognize that progress toward this ideal will be incremental. Nevertheless, in the spirit of the Results Act, we believe the American public has a right to expect us to set a high goal for the agencies and hold them accountable for achieving it. Clearly, Congress also must assume responsibility to work with the agencies through consultations, oversight, and other means to ensure that the goal is met. In this spirit, the grades are a performance measure for all of us to assess our progress to date and gauge how far we have to go.

The Graders

As with the drafts, the final plans were graded by Congressional staff teams representing the House committees of jurisdiction, as well as the Appropriations and Budget Committees. Minority staff were invited, and they participated in many grading sessions. Senate committee staff members also participated.

Overview of the Final Plan Grades

The grades for most final plans are significantly higher than the interim grades for the draft plans[3]. The average grade for the final plans is 46.6 out of 100. This represents a 56 percent increase over the average grade of 29.9 for the drafts. Much of this improvement is attributable to agency compliance with the letter of the law. Unlike the drafts, all of the final plans have some content addressing each of the six statutorily required elements for strategic plans.

We are encouraged that most agencies also included some content addressing our other scoring criteria: their cross-cutting activities, major management problems, and data capacity, although these areas need far more immediate attention. As indicated in the interim report, no strategic plan is complete without covering these common sense areas.

As the grades demonstrate, however, very few of the final plans are acceptable in terms of quality. Only two of the 24 agencies, Transportation and Education, submitted final plans that can be considered adequate from a technical quality (although not necessarily a policy) viewpoint. We commend these two agencies for their efforts. In particular, Transportation made outstanding progress from its draft plan. Nevertheless, if we converted our numerical grades to letter grades, the two best plans still would rate only a "C." At most, four other plans could be given a passing grade in the range of "C minus" to "D minus." The rest clearly would fail.

Grades by Evaluation Factor

The following summaries highlight our findings and grades for each of the 10 evaluation factors, and identify the better and weaker plans under each factor. The complete evaluation form we used and detailed information on the individual agency grades can be found at **www.armey.house.gov** GAO reports on agency draft strategic plans and an upcoming GAO overview report on the final plans (scheduled for issuance in mid-November) can be found at **www.gao.gov**

Factor 1: Mission statement **Average grade:** 7.8 out of 10. **Better plans:** Defense, Education, HHS, and SSA (all with grades of 10). **Weaker plans:** Interior (3.5) and HUD (4.5).

This is the strongest area of the plans, but there are still some problems. Labor's mission statement asserts that the department "works to strengthen free collective bargaining." What this has to do with Labor's statutory mission is a mystery that the plan does nothing to explain. HUD's stated mission to "empower communities and their residents" is very broad and appears to overlap the roles of other agencies. At the other extreme, Interior's mission statement ignores several of its core functions, in particular, resource management. These problems illustrate the importance of explicitly anchoring agency mission statements to their statutory authorities, as recommended in OMB guidance. We commend the many agencies that included explicit statutory linkages in their final plans; we urge the rest to do so.

Grading Criteria

Our scoring was based on the Results Act itself, the Act's legislative history, OMB Circular A-11 Part 2, and the May 1997 GAO review guide for strategic plans. They consist of the following 10 evaluation factors, which were endorsed by OMB:

Mission Statement: Does it cover the agency's major functions, reflect its statutory authority, and bring the agency into focus in a results-oriented way?

General (strategic) goals and objectives: Are they comprehensive, consistent with statutory authority, results-oriented, measurable, and realistic?

Strategies to achieve goals: Do they explain specifically and clearly how the agency will accomplish its goals?

Relationship between general goals and annual performance goals: Does the agency demonstrate that it will be accountable for its accomplishments through tangible, outcome-oriented performance measures?

Key external factors: Has the agency identified factors beyond its control that could impede attainment of its goals and taken steps to mitigate their impact?

Program evaluations: Has the agency explained what program evaluations were used in developing its plan and how it will use them in the future?

Treatment of crosscutting functions: Does the plan describe agency functions and programs that are similar to those of other agencies and how it has coordinated them?

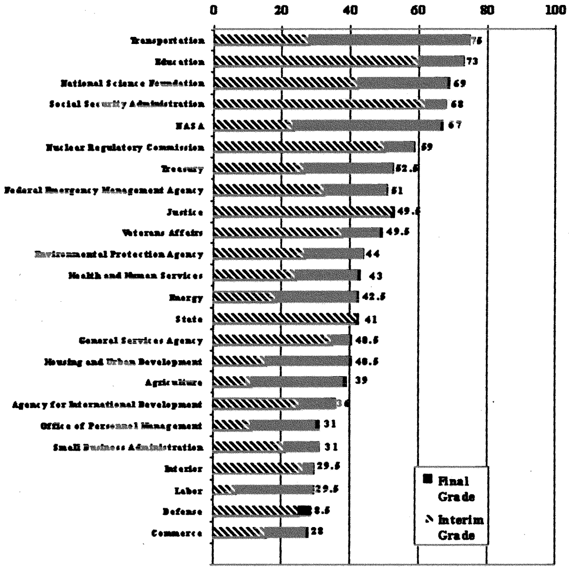
Treatment of major management problems: Does the plan address major problems of fraud, waste and error affecting the agency and its programs and demonstrate a firm commitment to resolve them?

Data capacity: Does the agency have adequate data and information and accounting systems to implement its plan, and if not, does it acknowledge weaknesses and explain how it will deal with them?

Congressional and stakeholder consultations: Was the agency timely, open-minded, and constructive in soliciting and responding to feedback on its plan from Congress and other "stakeholders"?

Factor 2: Long-term (strategic) goals
Average grade: 6.5 out of 10. Better plans: Transportation (9.5), FEMA, and NASA (both 8.5). Weaker plans: OPM (2.5), Interior (4), HUD, and Labor (both 4.5).

Final Grades for Departments and Agencies



Agencies generally did a good job of setting goals that cover their major functions, comply with their statutory authorities, and further their missions. However, there are exceptions. For example, Education's plan, while otherwise technically quite good, raises many substantive and policy issues. For example, Education proposes that 25 percent of students participate in national math and reading tests by the Spring of 1999. These national tests do not now exist and have not been authorized by Congress. SBA has a "welfare-to-work" goal that focuses more on finding jobs for welfare recipients than meeting small business workforce needs from all available sources. One of EPA's many "priorities" is achieving healthier indoor environments by such means as reducing public exposure to "environmental tobacco smoke and other indoor air pollutants." EPA has extremely limited jurisdiction over tobacco, causing one to wonder whether this goal is more an expression of political will than statutory reality. These examples further illustrate the importance of clear linkages to statutory authorities and missions.

A widespread problem in the area of strategic goals is that many agency goals focus on process rather than results or lack clear measures of achievement. Several SBA goals emphasize levels of federal assistance provided, rather than what this assistance accomplishes. OPM's goals are vague and largely devoid of concrete, measurable outcomes. One such goal is to "establish OPM as a leader in creating and maintaining a sound, diverse and cooperative work environment." HUD's goals, particularly those relating to the "empowerment" of individuals and communities, lack specifics as to the actual outcomes to be achieved and how they will be measured.

Many agencies have management goals aimed at ensuring positive work environments for employees and providing quality or even "world class" customer service. Enhancing government workplaces, processes, and service delivery are laudable objectives. However, they must not substitute for, or divert attention from, the more substantive Results Act questions of what ultimate outcomes those processes and services achieve.

Contrast the above examples with the following goals from Transportation's plan, each of which is accompanied by specific performance measures and data sources:

"1) Reduce the number of transportation-related deaths.

"2) Reduce the number and severity of transportation-related injuries.

"3) Reduce the rate of transportation-related fatalities per passenger-mile-traveled and per ton-mile of total freight shipped (or vehicle miles traveled).

"4) Reduce the rate and severity of transportation-related injuries per passenger-mile-traveled and per ton-mile (or vehicle miles traveled)."

These are real, measurable goals.

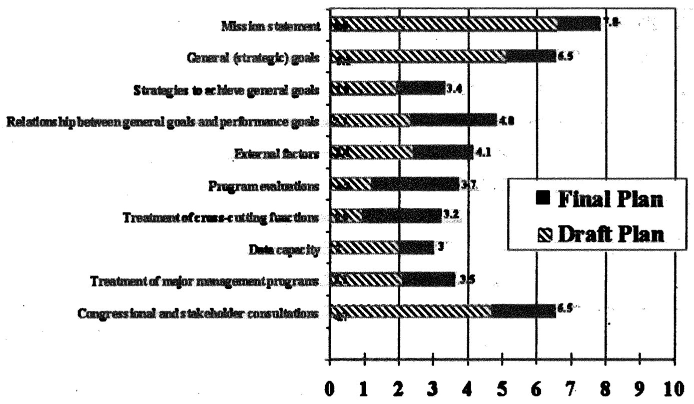
Some agency goals are simply misguided. Components of the Labor Department and SBA measure their success in achieving compliance with the law by how many people they can prosecute.

Some agencies opted for "low-ball" goals. The ultimate low-ball goal is Agriculture's commitment to resolve the Year 2000 computer problem by the year 2002.

Factor 3: Strategies **Average grade:** 3.4 out of 10. **Better plans:** Only NASA (7.5). **Weaker plans:** The rest; the weakest being Commerce (0.5), Interior, Labor (both 1), and Energy (1.5).

This is the weakest area of the statutory elements, but one of the most important. Most agencies fail to explain in any detail how their goals link to their day-to-day operations i.e., how the agency proposes to get "from here to there." Many agency plans fail to provide information called for by the Results Act on resources needed to accomplish their goals. The strategies portion of some plans amounts to little more than a general description of the agency's organizational units and programs.. Few agencies prioritize among their many programs and activities. Hardly any show an interest in "thinking outside the box" by proposing changes in their current programs and activities.

Average Scores for Each Evaluation Factor



On the positive side, the NASA strategic plan includes a "Strategic Management System Roadmap" and a description of links to other agency management documents. These presentations are a good start at showing how the various elements of the plan fit together, and how strategic goals will be translated into operational and program actions.

<u>Factor 4: Relationship between strategic goals and annual performance goals</u> Average grade: 4.8 out of 10. **Better plans:** Transportation (8.5), Education, and NASA (both 8). **Weaker plans:** State, SBA (both 0.5), Interior (1), and Defense (2).

This area improved considerably from the draft plans, mainly because many draft plans omitted it entirely. However, much work remains to be done to ensure that performance goals will be tangible, results-oriented, measurable, and linked to the agency's budget structure. The general weakness in agency strategies, combined with the weaknesses in this area, provides further evidence that agencies are struggling to make the connection between their strategic goals and their day-to-day operations. We commend the Transportation and Education plans as models in this area. The Education plan does a particularly good job of linking its goals to individual programs and to budget resources. Few plans describe whether or how annual performance goals will reduce the negative effects of agency programs, such as regulatory costs and burdens.

<u>Factor 5: External factors</u> Average grade: 4.1 out of 10. **Better plans:** Education (10) and Transportation (9). **Weaker plans:** Commerce (0.5), EPA (1), HHS, and Labor (both 2).

The final plans do much better than the drafts in <u>identifying</u> factors beyond the agency's control that could significantly affect achievement of its goals. On the other hand, they continue to do a poor job of explaining <u>how</u> the external factors could affect their goals and <u>what</u> they will do to monitor external factors and attempt to mitigate their effects. Many plans simply allude to external factors at a high level of generality (e.g., "economic conditions") without relating them to specific goals. Some seem resigned to letting "external factors" defeat their goals. Thus, HUD says of its goal to "empower" low income persons that "realistically, relatively few people who have reached their 30s with little education, with families, and little work history, will achieve great success in this economy."

<u>Factor 6: Program evaluations</u> Average grade: 3.7 out of 10. **Better plans:** Education (10), NRC (8), and Transportation (7.5). **Weaker plans:** Defense, State (both 0.5), and Labor (1).

This is another area that many draft plans omitted altogether. Program evaluations are objective assessments of program performance through systematic measurement and analyses. Program evaluations are a key to agency accountability. Without them, it is hard for agencies and Congress to assess how programs are being implemented and how well they are achieving their purposes.

The importance of program evaluations is underscored by the fact that the seven agency plans with the highest overall grades did well above average in this factor.

On the positive side, the final plans at least begin to deal with the subject. Another positive development is that most plans take a broader view of program evaluations than they did before, acknowledging the relevance of GAO and inspector general reviews. Still, the substance of the program evaluation portion of plans generally leaves much to be desired. For example, the State Department's discussion of this topic is essentially an explanation of why program evaluations are largely irrelevant to it. Many plans lack the schedule for future evaluations specifically called for by the Results Act.

<u>Factor 7: Treatment/coordination of cross-cutting functions</u> Average grade: 3.2 out of 10. **Better plans:** Very few; the highest grades were NRC (7) and SSA (6.5), two agencies with relatively discrete functions. **Weaker plans:** Most; particularly Defense (0), Commerce, and Energy (both 0.5).

This was another area largely ignored by the draft plans. Duplication of programs and activities is pervasive throughout the federal government. The interim report highlighted just a few of the many examples that could be cited. For the most part, coordination between agencies or even within the same agency is given lip service at best. Identifying and rationalizing cross-cutting functions lie at the heart of what the Results Act was designed to achieve.

Most final plans at least attempt to identify their programs and activities that are similar to those of other agencies, although with widely varying degrees of thoroughness. The EPA plan includes a useful matrix listing other agencies that intersect with each of its goals. The SSA and Transportation plans contain detailed descriptions of their cross-cuts. On the other hand, Commerce's plan is silent on several obvious cross-cutting functions. For example, both State and Agriculture identify Commerce as a "partner" in activities designed to promote exports, but Commerce makes no mention of them.

We commend agencies for stepping up to the plate in this key area. However, the first phase will not be complete until all plans thoroughly and consistently describe all significant cross-cuts. Next, they should demonstrate joint planning and coordination of these similar programs and the implementation of similar performance measures. The ultimate objective, of course, is for agencies to coordinate cross-cutting activities with a view toward ensuring that their goals, strategies, and measures are complementary rather than redundant or inconsistent. The initial strategic plans provide little evidence of such efforts. Indeed, there is more evidence that these efforts are <u>not</u> occurring.

For example, Commerce and Energy both have science and technology research programs. However, neither agency's plan refers to the other in connection with the goals and strategies for these programs. The Justice plan acknowledges the importance of coordinating cross-cutting law-enforcement functions by including a goal on this. However, the plan does not describe how the goal will be implemented.

Some agencies even have difficulty coordinating with themselves. Labor has a department-wide goal on safe, healthy, and equal opportunity workplaces. Several of Labor's component organizations have their own separate goals on the same subjects. Rather than operating in this "stovepipe" fashion, why not have one cohesive departmental goal toward which the components could contribute through complementary performance goals and measures?

Treasury has law enforcement objectives to reduce counterfeiting, money laundering, and drug smuggling. According to Treasury's plan, IRS has a role in each of these areas. However, the IRS component plan has no strategies related to any of them.

<u>Factor 8: Data capacity</u> **Average grade:** 3 out of 10. **Better plans:** Only SSA (8.5). **Weaker plans:** Almost all; the worst being Defense (0), Agriculture, HUD, Interior, and State (all 1).

Overall and virtually across the board, this is the weakest of the 10 evaluation factors. It is abundantly clear from the work of inspectors general and GAO that most of the CFO Act agencies will face major problems obtaining and processing the data they need to measure their performance in the Results Act environment. Unfortunately, the plans provide little encouragement that agencies are coming to grips with these problems. GAO pointed out that Energy and State, among many other agencies, ignored major data capacity problems that threaten their ability to implement their Results Act plans. The worst example is the AID plan, which states that the agency "has made considerable progress" and has "successfully completed" many of its goals to implement a new information management system. In fact, AID's new system has suffered what GAO describes as "major setbacks."

This approach of glossing over, or even covering up, major data problems must stop. Clearly, data capacity problems pose one of the most serious barriers to effective implementation of the Results Act. It is particularly important that agencies candidly surface these problems as soon as possible since remedying them tends to be difficult, costly, and protracted. The reluctance or inability of agencies to do so may signal a need for intervention by the Administration, OMB, or the Congress.

Factor 9: Major management problems Average grade: 3.5 out of 10. Better plans: Only NSF (9), which seems to be the one CFO Act agency with few if any major management problems. Weaker plans: Many; of which the weakest are AID (0), Energy (0), Defense, Interior, and State (all 1).

This is one more area where the final plans at least scratch the surface, but need to do much more. Most of the CFO Act agencies are beset by major and recurring management deficiencies that have been documented repeatedly by their own inspectors general, GAO, and others. The most severe of these problems are the 25 "high-risk" areas identified by GAO as being particularly vulnerable to fraud, waste, and error. For example, the IRS can't pass an audit, and it has wasted billions on failed computer systems. An astounding $23 billion, or over 14% of the nation's health care budget, is lost each year to Medicare fraud, waste, and error.

The Defense Department, which has one of the weakest plans in this area, has some of the most severe management problems. Among other things, Defense continues to spend billions of dollars on new computers without achieving the benefits of automation; it still has approximately $35 billion in excess inventory; and it could save $11.8 billion right now simply by improving how it manages its overhead.

We are gratified that most agency plans at least acknowledge their serious management problems. This is an important first step. We regret that the goals, measures, and strategies embodied in the plans generally do not reflect a firm commitment to resolve these problems. This failure can be symptomatic of other problems. For example, a major barrier to resolving the Justice-Customs Service high-risk area of forfeited asset management is the unwillingness of these two agencies to cooperate in managing their separate forfeited asset programs. This does not bode well for their ability to work together on far more complex law-enforcement activities.

Factor 10: Consultations Average grade: 6.5 out of 10. Better plans: Veterans Administration, NASA, and NSF (all 10). Weaker plans: Commerce, Defense (both 1), and Agriculture (1.5).

Most agencies conducted consultations in an open-minded and good faith manner. Most did a good job of describing their consultations, indicating how they responded to consultation comments, and disclosing outstanding "contrary views" as required by OMB guidance. Particularly good examples of responding to consultation comments are VA and Transportation. However, some agencies failed to acknowledge areas where they did not accept substantive comments offered by Congressional committees, and even stated that there were no outstanding "contrary views." Examples are Justice, Commerce, and OPM.

PART THREE: OBSERVATIONS ON THE FINAL GRADES AND NEXT STEPS

Our goal is to change decision-making behavior in Washington. We need to move from a culture that allocates resources based excessively on politics to one that is increasingly based on what's working. No one expects perfection; but we can certainly make better use of the resources under our control if we have better information.

Agencies have a long way to go in developing fully acceptable strategic plans. The lack of more progress to date is particularly disappointing since agencies have now had over four years since enactment of the Results Act to develop their strategic plans.

Next Steps: Linking Agency Plans to Legislative Decisions

The poor state of the strategic plans makes it even more important that agencies and OMB produce high quality performance plans next February. The premise of the Results Act was that strategic plans would lay a good foundation for the annual performance plans to follow. Unfortunately, this has not yet happened. We hope that next year's performance plans can at least partially compensate for the deficiencies in the strategic plans and get Results Act implementation back on track.

- For example, it will be particularly important for the agency performance plans to: flesh out goals and strategies; adopt specific goals and measures to resolve major management problems and data capacity problems; and address cross-cutting activities. It will be particularly important for the federal government performance plan to address and reconcile, among other things, interagency cross-cutting activities that agencies can't resolve and government-wide major management problems.

- Washington should consider authorizing and funding "time outs" on new programs to first determine if a proposed program is already in existence in some form, and if so, whether existing programs are working or not, whether existing resources could be restructured to accomplish new goals, or how strategic plans could be modified to accommodate new priorities by the President or the Congress.

- Congress should anticipate using the government-wide performance plan and the individual agency performance plans to hold federal officials more accountable for the direction and outcome of federal government programs.

- Over the coming year, we also expect to conduct the substantive, policy-based evaluations of the strategic plans that we did not have the opportunity to accomplish in this year's consultations.

- We expect agencies to submit another round of strategic plans by September 30 of next year that reflect substantive input from the Congress as well as substantial quality enhancements.

<u>The Link to the Budget</u>

The current budgeting process is generally a short term, cash-based spending plan focussing on the short to medium term cash implications of government obligations and fiscal decisions. Prior to the Results Act being implemented, budget decisions included very little information on what programs were attempting to achieve and whether or not they were having success.

A critical stage of implementation of the Results Act occurs in February, 1998, when the Administration submits the government-wide performance plan as well as the individual performance plans for each agency. This is where "the rubber meets the road" regarding agency performance and funding requests.

The performance plans must reflect specific, measurable activities that support each agency's strategic plan. In addition, the budget submission of each agency must reflect the priorities of their strategic plans — through clearly delineated annual performance measures. The two documents must have an explicit, clearly understood link between the agency's goals and objectives, the performance measures, and the dollars requested for each program.

"The extent to which the performance plans successfully link performance goals and activities to the budget will be critical to the Congress' ability to meaningfully evaluate the Administration's budget request for FY 1999 and beyond, as intended by Congress through the Results Act." Chairman John Kasich, House Budget Committee

Recommendations

<u>The Clinton Administration, through OMB, should:</u>

- take immediate steps to resolve the critical gaps in agency data capabilities. Reliable data must undergird any serious effort to assess government programs based on performance.

- ensure that all programs engaged in similar activities, and crossing agency jurisdictions are coordinating and using similar performance measures as expeditiously as possible.

- reinstate the identification of high risk management problems in each year's budget submission to Congress.

- aggressively monitor and report to Congress agency actions to resolve high risk management problems identified by OMB and GAO and ensure that agency data and information systems effectively support the Results Act.

- be responsible for addressing cross-cutting issues in the government-wide performance plan to ensure that similar functions have similar performance measures, among other things.

- ensure quality compliance with submissions of agency performance plans that is consistent with the letter and the spirit of the Results Act.

Congress should:

- view the submission of inadequate strategic plans by agencies as an invitation to clarify that agency's mission and goals through reauthorizations, funding and legislative efforts.

- now engage in a committee-by-committee effort to determine whether the identified goals are the appropriate function of that agency, or of the federal government generally.

- focus on some priority areas to seek improvements as expeditiously as possible, i.e. fighting a more effective war on illegal drugs, reforming the IRS, addressing the 25 GAO high risk areas for programs most apt to be vulnerable to waste, fraud and abuse, entitlement fraud, education reform, improving the coordination involved with fighting terrorism, and other priority areas.

- insert increasing numbers of performance-based measurements in their legislative efforts.

EXAMPLE OF CONGRESS BUILDING PERFORMANCE MEASURES INTO LAW

House passage of a Drug Czar Reauthorization bill in October is an example of how Congress is increasingly incorporating Results Act principles into its daily business. The legislation provides increased flexibility while holding the Office of National Drug Control Policy responsible for meeting six clear performance goals, including reducing the availability of heroin and cocaine by 80% and reducing drug related crimes by 50%. Congress not only legislated policy, we insisted on measurable results.

Other Recent Congressional inspired Performance-Based efforts:

The Balanced Budget Act of 1997: Medicare and Choice program and Medicare Enrollment Demonstration Project - requirement to establish performance standards. State Children's Health Initiative - requirement that state child health plans develop performance goals and measures.

The Federal Acquisition Streamlining Act established requirement for measuring performance of major acquisition programs in the federal government.

The Clinger-Cohen Act established requirement for measuring performance of information technology investments.

- Anticipate upcoming financial audit reports as required by the Chief Financial Officers Act of 1990 (CFO Act) and be prepared to actively demand better performance from agencies that fail their financial audits.

AGENCIES THAT CAN'T PASS AN AUDIT NOW

Agriculture
Commerce
Defense
Education
HHS
HUD
Interior
Justice
Labor
State
Transportation
Treasury
Veterans' Affairs
Agency for International Development
Environmental Protection Agency
Federal Emergency Management Agency
National Science Foundation
Office of Personnel Management

Source: OMB and CFO Council, The 1997 Federal Financial Management Status Report and Five Year Plan, June 1997

Concerned Citizens and Organizations should:

- report to Congress when federal programs are inefficiently and ineffectively conducting their day to day business.

- report to Congress when you believe a federal program would more appropriately be performed by a state or local entity, or whether a federal function or service should be a candidate for privatization, consolidation or elimination.

State and Local Officials should:

- evaluate the appropriateness of their inclusion in agency strategic plans and demand continued consultations until agreement is reached.

- report to Congress the imposition of unfunded federal mandates, as well as any suggestions for improving services that originate at the federal level.

Conclusion

The resources of the federal government are finite. No one can justify confiscating income from American families to fund redundant, inefficient or unnecessary projects. The best way for agencies to hold onto the monies they do need to perform their vital, constitutional functions is to demonstrate accountability, professionalism and efficiency. The burden of justification has shifted to federal agencies and programs themselves, and with the implementation of the Results Act, their funding will be based on concrete goals, objective standards and their record of accomplishment, not tradition, good intentions or entitlement.

Most agencies' compliance with the Results Act has not been satisfactory, but we have seen some steps in the right direction. The disappointing work we have seen from most agencies so far will only make production of the February performance plans that much more difficult. But, discipline, planning and accountability will ultimately redound to the benefit of even the most troubled and disorganized federal agencies.

At the very least, Americans deserve a government that can answer the most basic questions about how it is allocating and managing their tax dollars. The Results Act provides a valuable opportunity for agencies to "heal themselves," before outside intervention becomes necessary. It serves as a mechanism for restoring public faith in a federal government that makes sense, knows its limits, is professional and dedicated to pursuing specific and achievable goals. And, it's the law.

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[1]The laws include: the Chief Financial Officers Act, the Clinger-Cohen Act regarding information technology, the Government Management Reform Act, and the Federal Acquisition Streamlining Act. Combined with the Results Act, we hope to use these laws to provide a powerful framework for developing fully integrated information about agencies' missions and strategic priorities, performance data to show the achievement or lack of achievement of goals, the relationship of information technology investments to the achievement of performance goals, and accurate and audited financial information about the costs of achieving mission results.

[2]See September report at http://www.Armey.house.gov. That report provided interim grades for key Departments and agencies which submitted draft strategic plans to the Congress for the consultation required by the statute.

[3]The interim report and this report deal with the strategic plans of the 24 cabinet departments and major independent agencies covered by the Chief Financial Officers (CFO) Act. These so-called CFO Act agencies account for 98% of total federal outlays.

[4]The Government Performance and Results Act: 1997 Government wide Implementation Will Be Uneven, GAO/GGD-97-109 (June 1997), p. 5. A subsequent GAO report on the draft plans confirmed this assessment. See Measuring For Results: Critical Issues for Improving Federal Agencies' Strategic Plans, GAO/GGD-97-180 (September 1997).

[5]The only agencies that didn't show significant improvement were AID, Defense, Interior, and State. While the Justice Department's final grade did not increase, its interim grade already reflected substantial improvements resulting from Congressional consultations.

[6]See High-Risk Series: An Overview, GAO/HR-97-1

House and Senate Departmental Staff Teams

DEPARTMENT	HOUSE CONTACTS	SENATE CONTACTS*
Agriculture	Chrmn. Bob Smith - *Bryce Quick*	*Mary Dietrich* (Agriculture Committee)
Commerce	Chrmn. Tom Bliley - *Marc Wheat* Chrmn Jim Sensenbrenner - *Richard Russell, and Beth Sokul*	*Kevin Sabo* (Commerce Committee)
Defense	Chrmn. Floyd Spence - *Pete Barry*	*Steven Cortese* (Appropriations Committee)
Education	Chrmn. Bill Goodling - *Susan Firth*	*Diann Howland* (Labor Committee)
Energy	Chrmn. Tom Bliley - *Marc Wheat* Chrmn Jim Sensenbrenner - *Harlan Watson, and Beth Sokul*	*Karen Hunsicker* (Energy Committee)
HHS	Chrmn. Bill Goodling - *Susan Firth* Chrmn. Bill Archer/Thomas - *Dean Rosen*	*Alexander Vachon* (Finance Committee)
HUD	Chrmn. Jim Leach/Lazio - *Joe Ventrone*	*Howard Menell* (Banking Committee)
Interior	Chrmn. Don Young - *Aloysius Hogan* Chrmn Ralph Regula - *Debbie Weatherly*	*Kelly Johnson* (Energy Committee) *Bruce Evans* (Appropriations Committee)
Justice	Chrmn. Henry Hyde - *Diana Schacht*	*Paul Larkin* (Judiciary Committee)
Labor	Chrmn. Bill Goodling - *Susan Firth*	*Diann Howland* (Labor Committee)
State	Chrmn. Ben Gilman - *Kristen Gilley*	*Garrett Grigsby* (Foreign Relations)
Transportation	Chrmn. Bud Shuster - *Paul Rosenzweig*	*Kevin Sabo* (Commerce Committee)
Treasury	Chrmn. Bill Archer - *Chuck Parkinson*	*Tom Roesser* (Finance Committee)
Veterans Affairs	Chrmn. Bob Stump - *Kingston Smith*	*Bill Turk* (Veterans' Committee)
EPA	Chrmn. Tom Bliley - *Marc Wheat*, Chrmn. Don Young - *Aloysius Hogan*, Chrmn. Bud Shuster - *Paul Rosenzweig*, Chrmn. Jim Sensenbrenner - *Harlan Watson*	*Paul Noe* (Government Affairs)
Social Security Adm.	Chrmn. Bill Archer/Bunning - *Kim Hildred*	*Alexander Vachon* (Finance Committee)
Small Business Adm.	Chrmn. Jim Talent - *Emily Murphy*	*Mark Warren* (Small Business Committee)
OPM	Chrmn. Dan Burton/Mica - *Edward Lynch*	*Bill Greenwalt* (Government Affairs)
NSF	Chrmn. Jim Sensenbrenner - *Tom Weimer*	*John Kamarck* (Appropriations Committee) *Floyd DesChamps* (Commerce Committee)
NASA	Chrmn. Jim Sensenbrenner - *Shana Dale and Bill Buckey*	*Kevin Sabo* (Commerce Committee)
AID	Chrmn. Ben Gilman - *Mark Kirk*	*Garrett Grigsby* (Foreign Relations)
FEMA	Chrmn. Bud Shuster - *Paul Rosenzweig*	*Bill Greenwalt* (Government Affairs)
GSA	Chairman Bud Shuster - *Paul Rosenzweig* Chrmn. Dan Burton/Horn - *Mark Brasher*	*Bill Greenwalt* (Government Affairs)

Mr. SESSIONS. Today, we have an opportunity to have four people on a panel before us who will give testimony. They include: Chris Mihm, Associate Director, Federal Management and Workforce Issues of the General Government Division, U.S. General Accounting Office; Professor Robert M. Grant, School of Business Administration, Georgetown University; the honorable Maurice P. McTigue, distinguished visiting scholar, Center for Market Processes, George Mason University; and the honorable G. Edward DeSeve, Acting Deputy Director, Office of Management and Budget.

I would ask these witnesses who are to give testimony today to please rise to be sworn. And if you will please raise your right hands? Do you solemnly swear that the testimony you will give before this subcommittee will be the truth, the whole truth, and nothing but the truth?

Mr. MIHM. I do.

Mr. GRANT. I do.

Mr. MCTIGUE. I do.

Mr. DESEVE. I do.

Mr. SESSIONS. Thank you. You may be seated.

Please let the record reflect that the witnesses answered in the affirmative.

I would ask that our first witness be Chris Mihm. You will be allocated 5 minutes. And, as is usual, any written statement that you have will be inserted into the record. Mr. Mihm.

STATEMENTS OF J. CHRISTOPHER MIHM, ASSOCIATE DIRECTOR, FEDERAL MANAGEMENT AND WORKFORCE ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY DONNA BYERS AND LISA SHAMES, GENERAL ACCOUNTING OFFICE; ROBERT M. GRANT, PROFESSOR, SCHOOL OF BUSINESS ADMINISTRATION, GEORGETOWN UNIVERSITY; MAURICE P. McTIGUE, DISTINGUISHED VISITING SCHOLAR, CENTER FOR MARKET PROCESSES, GEORGE MASON UNIVERSITY; AND G. EDWARD DeSEVE, ACTING DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. MIHM. Thank you, Mr. Sessions.

Mr. Sessions and members of the subcommittee, it's an honor to be here today to discuss our assessment of the Strategic Plans that agencies produced last September.

I'm very fortunate to be joined by two of my colleagues who have been most instrumental to our work on the Results Act. On my left behind me is Donna Byers, who has led our assessments of agencies draft and September Strategic Plans, including the report that is being released today on the September Strategic Plans. And then on the right is Lisa Shames, who led the development of our congressional guide on annual Performance Plans and an earlier executive guide we did for agencies on implementing the Results Act.

After having reviewed both agencies' draft and September Strategic Plans, it is clear that the active engagement of Members of Congress and congressional staff unquestionably contributed to the quality of those plans. Much of this contribution was due to the congressional consultations that took place last spring and summer.

The congressional majority, as you mentioned in your opening statement, sir, issued a report on its review of the plans that were provided for consultation and a separate report on the September 30, Strategic Plans. My overall message today, in that because of the active congressional involvement in agency efforts, the Strategic Plans that agencies produced in September in our view provide a workable foundation for continuing efforts to implement the Results Act.

Nevertheless, Federal strategic planning and Results Act implementation in general is still very, very much a work in progress. Some critical planning issues remain before the type of performance-based management and accountability that you mentioned is routine in the private sector and was envisioned by the Results Act becomes the way of doing business here in the Federal Government.

As Results Act implementation proceeds, agencies and Congress undoubtedly will identify specific opportunities to revisit and improve upon strategic planning efforts, as they did when we were going through the draft and the initial set of plans. This morning I'd like to cover three major points that are discussed in much greater detail in the report and the guide that we are making available today.

First, on the extent to which agencies' Strategic Plans included statutory elements, the Results Act requires that Strategic Plans include six broad elements basically designed to bring the basic discipline that's routine in private sector strategic planning into the Government, such things as mission statements, goals and objectives, and strategies.

All of the September plans we reviewed contained at least some discussion of each element required in the act. And in that regard, the Strategic Plans that agencies submitted in September represent a significant improvement over the draft plans we reviewed in the summer, before the congressional consultation process began.

Second, although agency plans include the basic legislative requirements, I think there can be little argument that substantive challenges remain. In our view, among the most pressing challenges are: first, the need to better articulate a strategic direction; second, improve the coordination of crosscutting program efforts; and, third, build reliable data systems and analytic capacity. I'll discuss briefly each one of these in turn.

First, we found that the Strategic Plans often lacked clear articulations of agencies' strategic directions; in short, a sense of what the agencies were trying to achieve and how they proposed to do it. Many agency goals were not results-oriented. The plans often did not show clear linkages among planning elements, such as goals and strategies. And, furthermore, the plans frequently had incomplete and underdeveloped strategies.

A particular issue I know of concern of this subcommittee has been information technology. All too often, the plans in our view did not give adequate attention to how technology has been used or could be used to help the agency meet its strategic goals.

A second critical planning challenge is the need to improve the coordination of crosscutting programs. A focus on results, as envisioned by the Results Act, implies that Federal programs that contribute to a same or similar result should be coordinated to ensure that we're making the best use of taxpayers' dollars.

Agencies' September Strategic Plans, in our view better describe crosscutting programs than the draft plans did. Some of those September plans we reviewed contained references to other agencies that shared responsibilities in the crosscutting program areas. These presentations in our view were a good step but only a good first step. They laid the groundwork for the much more difficult work that now must be done, undertaking the substantive coordination that is needed to ensure that crosscutting programs are effectively managed.

The absence of sound program performance and cost data and the capacity to use that data to improve performance is a third critical challenge that agencies must confront. Agencies must have reliable information during their planning efforts to set realistic goals and later to assess whether or not goals are being met. Unfortunately, efforts under the CFO Act have shown that most agencies still have a substantial amount of work to do before they are able to routinely generate reliable and timely financial program cost and program performance information.

Overall, therefore, much work remains to be done in setting agencies' strategic direction, coordinating crosscutting programs, and ensuring data are available to assess progress and improve performance.

My third key topic is that the guide on annual Performance Plans that we developed at the request of the Speaker, the Majority Leader, and other Members of the House and the Senate can help Congress assess the extent to which agency annual Performance Plans are showing progress and addressing those critical challenges that I've just discussed and, more broadly, whether or not those plans overall provide congressional decisionmakers with information needs.

Mr. Sessions, I believe you and other members of the committee have a copy of the trifold. As you can see, the guide is organized around the three core questions that correspond to the Results Act requirements for Performance Plans. For each core question, we list a series of issues that we believe would, if addressed, help make those plans useful to congressional decisionmakers.

In summary, Mr. Sessions, while the Strategic Plans that the agencies issued in September provide a workable foundation for continuing efforts to implement the Results Act, we still have a very long way to go. We are pleased that Congress has turned to us to assist in the implementation of the Results Act. We supported Congress during the consultation process through a variety of efforts, most prominently by issuing assessments of the draft Strategic Plans. We also reviewed the September 30 plans and, at the request of Congress, are beginning assessments of the annual Performance Plans.

We look forward to continuing to support the subcommittee's and Congress' efforts to better inform its decisionmaking, improve the management of the Federal Government, and strengthening the accountability.

This concludes my statement. My colleagues and I would be pleased to respond to any questions you may have, sir.

[The prepared statement of Mr. Mihm follows:]

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our assessment of the strategic plans that executive agencies produced last September under the Government Performance and Results Act of 1993 (Results Act) and the current stage of Results Act implementation–annual performance planning and measurement.

The approach to performance-based management and accountability envisioned by the Results Act is a dynamic and iterative process in which one stage builds on and reinforces the progress made at earlier stages. As you know, under the Results Act, agencies first are to prepare long-term strategic plans that set the general direction for their efforts. They submitted the first cycle of their strategic plans to Congress and the Office of Management and Budget (OMB) in September 1997. Agencies then are to use these plans to prepare annual performance plans that lay out how the day-to-day activities of managers and staff are to achieve long-term strategic goals.

Agencies' first annual performance plans are due to Congress after the submission of the President's fiscal year 1999 budget. A number of agencies already have provided their annual performance plans to Congress, and the rest are generally expected to do so before the end of the month. OMB also is to prepare a federal government performance plan, which is based on agencies' plans and which OMB is to submit to Congress with the President's budget. That first federal government performance plan was provided to Congress on February 2. Finally, the Act requires that each agency report annually on the extent to which it is meeting annual performance goals and the actions needed to achieve or modify those goals that have not been met.

In the report that is being released today, we conclude that the strategic plans that agencies produced in September 1997 provide a workable foundation for Congress to use in helping to fulfill its appropriations, budget, authorization, and oversight responsibilities and for agencies to use in setting a general direction for their efforts.[1] After having reviewed both agencies' draft and September strategic plans, it was clear to us that the active engagement of Members and congressional staff contributed significantly to the progress agencies made in their strategic plans. Much of this contribution was due to the congressional consultations that the Act requires as agencies develop their strategic plans, which--for the first cycle of strategic plans--took place last spring and summer.

My comments are based on our large body of work in recent years on the Results Act, in particular our assessment of the draft and September 30, 1997, strategic plans of the 24 agencies covered by the Chief Financial Officers (CFO) Act; our recently issued congressional guide;[2] and our continuing work with congressional committees on Results Act issues. On the basis of that work, my statement will focus on (1) the extent to which agencies' strategic plans met statutory requirements, (2) critical planning challenges that

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[1]Managing for Results: Agencies' Annual Performance Plans Can Help Address Strategic Planning Challenges (GAO/GGD-98-44, Jan. 30, 1998).

[2]Agencies' Annual Performance Plans Under the Results Act: An Assessment Guide to Facilitate Congressional Decisionmaking, Version 1 (GAO/GGD/AIMD-10.1.18, Feb. 1998).

remain to be addressed, and (3) a discussion of how our recent congressional guide for agencies' annual performance plans can facilitate congressional use of those plans and thereby advance the implementation of the Results Act.

AGENCIES' STRATEGIC PLANS GENERALLY MET STATUTORY REQUIREMENTS

The Results Act requires that strategic plans include six broad elements–mission statements, general goals and objectives, approaches (or strategies) for achieving goals, a description of the relationship between general goals and annual performance goals, key external factors, and a description of the actual use and planned use of program evaluations. In that regard, the strategic plans that agencies submitted in September represent a significant improvement over the draft plans we reviewed last summer. For example, we found that all but six of the draft plans were missing at least one element required by the Results Act and about a third were missing two of the six required elements. In contrast, all 24 of the September plans we reviewed contained at least some discussion of each element required by the Act. And in many cases, those elements that had been included in the draft plans were substantially improved. For example,

– the Department of Transportation explained more clearly how its mission statement is linked to its authorizing legislation;

- the Small Business Administration clarified how it would assess progress toward its strategic goals by stating when it would meet specific performance objectives;

- the Nuclear Regulatory Commission better explained the scope of its crosscutting functions by identifying major crosscutting functions and interagency programs and its coordination with agencies, such as the Department of Energy and the Environmental Protection Agency; and

- the Agency for International Development improved its discussion of external factors, such as political unrest and natural disasters, that could affect its achievement of strategic goals and that are beyond its control by describing those factors and the way they can be offset by agency field missions.

CRITICAL PLANNING CHALLENGES REMAIN TO BE ADDRESSED

Although all of the strategic plans that we reviewed contained at least some discussion of each element required by the Results Act, we found that critical planning challenges remain. Among these planning challenges are the need to demonstrate (1) a clearly articulated strategic direction, (2) the coordination of crosscutting program efforts, and (3) reliable data systems and analytic capacity.

A Clearly Articulated Strategic Direction

We found that the strategic plans often lacked clear articulation of the agencies' strategic direction, a sense of what they were trying to achieve, and how they would achieve it. For example, we found that the goals and objectives in many agencies' strategic plans could be more results oriented and stated in a way to better enable the agency to make a future assessment of whether goals and objectives were being achieved. In addition, the plans often did not establish linkages among planning elements, such as goals, objectives, and strategies for achieving those goals and objectives.

Another weakness of agencies' strategic plans was incomplete and underdeveloped strategies for achieving long-term strategic goals and objectives. Specifically, we found that agencies did not always provide an adequate discussion of the resources needed to achieve goals. In particular, the role that information technology played, or can play, in achieving agencies' long-term strategic goals and objectives was generally neglected in agencies' strategic plans. For example, most of the Department of Defense's (DOD) goals and objectives rely on the effective use of information technology to obtain a given goal as well as to measure progress toward its achievement. DOD's strategic plan would be significantly enhanced if it more explicitly linked its strategic goals to a strategy for improving management and oversight of information technology resources. In addition, DOD's strategic plan--as well as the plans of other agencies--did not fully recognize the dramatic impact the Year 2000 problem will likely have on DOD's operations.[3]

The Department of State's strategic plan also does not specifically address the serious deficiencies in its information and financial accounting systems. Rather, the plan notes, in more general terms, that it will take several years for State to develop performance measures and related databases in order to provide sufficient information on the achievement of its long-term goals. We believe that information technology issues deserve attention in strategic plans so as to provide assurance that agencies are (1) addressing the federal government's long-standing information technology problems and (2) better ensuring that technology acquisition and use are targeted squarely on program results.

Agencies can continue to address the critical planning challenges associated with setting a strategic direction as they develop their annual performance plans. Building on the decisions made as part of the strategic planning process, the Results Act requires executive agencies to develop annual performance plans covering each program activity set forth in the agencies' budgets.[4] Each plan is to contain an agency's annual

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[3]On January 1, 2000, many computer systems, if not adequately modified, will either fail to run or malfunction simply because the equipment and software were not designed to accommodate the change of the date to the new millennium.

[4]The term "program activity" refers to the listings of projects and activities in the appendix portion of the Budget of the United States Government. Program activity structures are intended to provide a meaningful representation of the operations financed

performance goals and associated measures. If successfully developed, those annual performance goals can function as a bridge between long-term strategic planning and day-to-day operations, thereby assisting agencies in establishing better linkages among planning elements. For example, agencies can use performance goals to show clear and direct relationships in two directions–to the goals in the strategic plans and to operations and activities within the agency.

By establishing those relationships, agencies can (1) provide straightforward road maps that show managers and staff how their daily activities can contribute to attaining agencywide strategic goals, (2) hold managers and staff accountable for contributing to the achievement of those goals, and (3) provide decisionmakers with information on their annual progress in meeting the goals. As agencies gain experience in developing these annual performance goals, they likely will become better at identifying and correcting misalignment among strategic goals, objectives, and strategies within both their strategic and annual plans.

Coordinated Crosscutting Program Efforts

A focus on results, as envisioned by the Results Act, implies that federal programs that contribute to the same or similar results should be closely coordinated to ensure that

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by a specific budget account.

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goals are consistent and, as appropriate, program efforts are mutually reinforcing.[5] We have found that uncoordinated program efforts can waste scarce funds, confuse and frustrate program customers, and limit the overall effectiveness of the federal effort.[6] This suggests that federal agencies are to look beyond their organizational boundaries and coordinate with other agencies to ensure that their efforts are aligned and complementary.

Agencies' strategic plans better described crosscutting programs and coordination efforts than their draft plans did. Some of the strategic plans we reviewed contained references to other agencies that shared responsibilities in a crosscutting program area or discussed the need to coordinate their programs with other agencies. These presentations provide a foundation for the much more difficult work that lies ahead–undertaking the substantive coordination that is needed to ensure that those programs are effectively managed. However, although agencies have begun to recognize the importance of coordinating crosscutting programs, it is important that they undertake the substantive coordination that is needed for the effective management of those programs. For example, in an improvement over its draft plan, the Department of Labor's plan refers to a few other agencies with responsibilities in the area of job training programs and notes that the agency plans to work with them. But the plan contains no discussion of what specific

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[5]Managing for Results: Using the Results Act to Address Mission Fragmentation and Program Overlap (GAO/AIMD-97-146, Aug. 29, 1997).

[6]The Government Performance and Results Act: 1997 Governmentwide Implementation Will Be Uneven (GAO/GGD-97-109, June 2, 1997).

coordination mechanism Labor will use to realize efficiencies and implement possible strategies to consolidate job training programs to achieve a more effective job training system.

Our work has shown that the performance planning and measurement stage of the Results Act's implementation will offer a structured framework to address crosscutting issues.[7] For example, the Act's emphasis on results-based performance measures as part of the annual performance planning process should lead agencies to more explicit discussions concerning the contributions and accomplishments of crosscutting programs. Furthermore, if agencies and OMB use the annual planning process to highlight crosscutting program efforts and provide evidence of joint planning and coordination of those efforts, the individual agency performance plans and the governmentwide performance plan should help provide Congress with the information needed to identify agencies and programs addressing similar missions.

Once these programs are identified, Congress can consider the associated policy, management, and performance implications of crosscutting program efforts and whether individual programs make a sufficiently distinguishable contribution to a crosscutting national issue. This information should also help identify the performance and cost consequences of program fragmentation and the implications of alternative policy and

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[7]GAO/AIMD-97-146, August 29, 1997.

service delivery options. These options, in turn, can lead to decisions concerning department and agency missions and the allocation of resources among those missions.[8]

Reliable Data Systems and Analytic Capacity

Our previous work has shown that for agencies to set realistic goals, they need to have reliable data during their planning efforts. They also need reliable data, later, as they gauge the progress they are making toward achieving those goals.[9] To provide such reliable data, agencies need a strong performance measurement system. In addition, to provide feedback on how well activities and programs contributed to achieving goals and to identify ways to improve performance, agencies need a strong program evaluation capacity.[10] However, our work has found serious shortcomings in agencies' ability to generate reliable and timely data to measure their progress in achieving goals and to provide the analytic capacity to use those data.

The absence of both sound program performance and cost data and the capacity to use those data to improve performance is a critical challenge that agencies must confront if they are to effectively implement the Results Act. Efforts under the CFO Act have shown that most agencies still have a substantial amount of work to do before they are able to

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[8]GAO/AIMD-97-146, August 29, 1997.

[9]GAO/GGD-97-109, June 2, 1997.

[10]Managing for Results: Analytic Challenges in Measuring Performance (GAO/HEHS/GGD-97-138, May 30, 1997).

generate the reliable, useful, relevant, and timely financial information that is urgently needed to make our government fiscally responsible. The widespread lack of available program performance information is equally troubling. For example, in our June report on the implementation of the Results Act, we included the results of a survey of managers in the largest federal agencies. Our survey results indicated that fewer than one-third of those managers said that results-oriented performance measures existed to a great or very great extent for their programs.[11]

Moreover, our work has shown that in agency after agency, efforts to generate reliable data for measuring cost and results have been disappointing.[12] As this Subcommittee is well aware, the federal government has had chronic problems harnessing the full potential of its vast expenditures in information technology. Further complicating efforts to collect reliable performance information is that many agencies must rely on data collected by parties outside the federal government. In a recent report, we noted that the fact that data were largely collected by others was the most frequent explanation offered by agency officials for why determining the accuracy and quality of performance data was a challenge.[13]

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[11]GAO/GGD-97-109, June 2, 1997.

[12]High-Risk Series: Information Management and Technology (GAO/HR-97-9, Feb. 1997).

[13]GAO/HEHS/GGD-97-138, May 30, 1997.

Under the Results Act, strategic plans are to contain discussions of how agencies used and planned to use program evaluations that are to provide feedback on how well an agency's activities and programs contributed to the achievement of its goals and to assess the reasonableness and appropriateness of those goals. Although all of the strategic plans we reviewed included some discussion of program evaluations, we found weaknesses in those discussions. For example, many agencies did not discuss how they planned to use evaluations in the future to assess progress or did not offer a schedule for future evaluation as required by the Results Act. In contrast, the National Science Foundation's strategic plan represents a noteworthy exception. The plan discusses how the agency used evaluations to develop key investment strategies, action plans, and its annual performance plan. It also discusses plans for future evaluations and provides a general schedule for their implementation.

Agencies are also to discuss in their annual performance plans how they will verify and validate the performance information that they plan to use to show whether goals are being met. Verified and validated performance information, in conjunction with augmented program evaluation efforts, will help ensure that agencies are able to report progress in meeting goals and identify specific strategies for improving performance.

OUR GUIDE IS INTENDED TO ASSIST CONGRESS IN USING AGENCY PERFORMANCE PLANS

At the request of the Chairmen of the House Committees on Government Reform and Oversight, Appropriations, and the Budget, in May 1997, we developed a guide to assist the congressional consultations on the development of agencies' strategic plans.[14] As we entered the annual performance planning and measurement stage of the Act, those Chairmen, the Speaker of the House, the House Majority Leader, the Chairman of the House Committee on Science, and the Chairmen of the Senate Committees on the Budget and Governmental Affairs asked us to develop a guide to help congressional decisionmakers both elicit the information that Congress needs from agencies' annual performance plans and assess the quality of those plans. That guide was issued last week.[15]

Our guide to facilitate congressional decisionmakers' use of agencies' performance plans is organized around three core questions that correspond to the Act's requirements for performance plans. For each core question, we identify issues that need to be addressed and present key assessment questions that can help congressional users elicit the cost

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[14]Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review, Version 1 (GAO/GGD-10.1.16, May 1997).

[15]GAO/GGD/AIMD-10.1.18, February 1998.

and performance information that is relevant to their decisionmaking from agencies' performance plans:

- The first core question is–To what extent does the agency's performance plan provide a clear picture of intended performance across the agency? This question has three related issues: defining expected performance; connecting mission, goals, and activities; and recognizing crosscutting efforts.

- The second core question is–How well does the performance plan discuss the strategies and resources the agency will use to achieve its performance goals? This question has two related issues: connecting strategies to results and connecting resources to strategies.

- The third core question is–To what extent does the agency's performance plan provide confidence that its performance information will be credible? This question also has two related issues: verifying and validating performance and recognizing data limitations identified in the plan.

The answers to the questions are intended to facilitate a complete assessment of agencies' performance plans and address concerns that are likely to be common across a variety of congressional users.

In summary, Mr. Chairman, although agencies have generally met the statutory requirements of the Results Act in their first cycle of strategic planning, federal strategic planning–and Results Act implementation in general–is still very much a work in progress. Some critical planning challenges remain before the type of performance-based management and accountability envisioned by the Results Act becomes the routine way of doing business in the federal government. As they develop their annual performance plans, agencies will likely need to revisit and improve upon their strategic planning efforts. The annual performance plans offer the opportunity for Congress and the agencies together to sustain the momentum of the implementation of the Results Act and of performance-based management.

We are pleased that Congress has turned to us to assist in the implementation of the Results Act. Over the last few years, we have issued a number of products on the key steps and practices needed to improve the management of the federal government.[16] These key steps and practices are based on best practices in private sector and public sector organizations. We look forward to continuing to support Congress' efforts to

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[16]See, for example, Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 1996); Financial Management: Momentum Must Be Sustained to Achieve the Reform Goals of the Chief Financial Officers Act (GAO/T-AIMD-95-204, July 25, 1995); and Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology (GAO/AIMD-94-115, May 1994).

better inform its decisionmaking, improve the management of the federal government, and strengthen accountability.

This concludes my prepared statement. I would be pleased to respond to any questions you or other Members of the Subcommittee may have.

RELATED GAO PRODUCTS

Agencies' Annual Performance Plans Under the Results Act: An Assessment Guide to Facilitate Congressional Decisionmaking, Version 1 (GAO/GGD/AIMD-10.1.18, Feb. 1998).

Managing for Results: Agencies' Annual Performance Plans Can Help Address Strategic Planning Challenges (GAO/GGD-98-44, Jan. 30, 1998).

Managing for Results: The Statutory Framework for Performance-Based Management and Accountability (GAO/GGD/AIMD-98-52, Jan. 28, 1998).

Managing for Results: Building on Agencies' Strategic Plans to Improve Federal Management (GAO/T-GGD/AIMD-98-29, Oct. 30, 1997).

Managing for Results: Critical Issues for Improving Federal Agencies' Strategic Plans (GAO/GGD-97-180, Sept. 16, 1997).

Managing for Results: Using the Results Act to Address Mission Fragmentation and Program Overlap (GAO/AIMD-97-146, Aug. 29, 1997).

Managing for Results: The Statutory Framework for Improving Federal Management and Effectiveness (GAO/T-GGD/AIMD-97-144, June 24, 1997).

The Government Performance and Results Act: 1997 Governmentwide Implementation Will Be Uneven (GAO/GGD-97-109, June 2, 1997).

Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review, Version 1 (GAO/GGD-10.1.16, May 1997).

Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation (GAO/AIMD-97-46, Mar. 27, 1997).

Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 1996).

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Mr. SESSIONS. Thank you, Mr. Mihm. If you will please know that the process we're going to follow is that all four members of the panel will give their testimony, and then this subcommittee will begin the question period. So thank you.

Mr. Grant.

Mr. GRANT. Good morning.

Mr. GRANT. I've been asked to make some comments on strategic planning in the private sector. And I'd like to first point out that all business enterprises have strategies in terms of some concept of what they're trying to achieve and some guidelines of how they are going to get where they wish to go, but not all business enterprises do, in fact, undertake strategic planning.

Small owner proprietorships, family businesses, many other small businesses do not have any formalized process of strategic planning. Virtually all large businesses and every business that I am aware of, every corporation with sales of over $200 million a year undertakes a formalized process of strategic planning. And all of those that I'm familiar with do it on an annual basis.

What do I mean by strategic planning? What I mean is a regular and formalized process by which the organization establishes its mission, its statement of its rationale for existence, by which it sets goals and objectives and it establishes how these goals and objectives are going to be achieved, and also involves some allocation of resources toward the achievement of those goals and resources.

Now, why do firms engage in strategic planning? They don't do it for the purpose of creating Strategic Plans. As General Dwight Eisenhower remarked, "Plans are nothing. Planning is everything." The reason why companies do it is in order to improve the quality of their decisionmaking and, through that, to enhance their performance.

How does strategic planning enhance companies' performance? It does it in several ways. First of all, it is through establishing a consensus within the organization as to what its medium and long-term goals are and guidelines as to how these goals are to be achieved.

It also, by having a process, forces top management to turn away from the pressing day-to-day operational issues that occupy most of their time to focusing upon long-term performance. It also creates a dialog within the organization between different members of the top management team and between people at different levels of the organization, between the departments and divisions and the top management group. And, finally, it establishes a structure within which objectives can be agreed and which performance can be reviewed in terms of the extent to which these objectives are achieved.

Now, does strategic planning actually work in terms of enhancing performance? The evidence is somewhat sparse on that. There's been a number of studies which have linked the engagement in strategic planning by companies with having a positive impact on their performance. But what seems to emerge in my reading is that the key feature is the quality of that strategic planning process.

What it is possible to identify is some companies that do have strategic planning processes which are particularly effective. And the characteristics of those strategic planning processes tend to be ones in which top management is intimately involved and committed to strategic planning as a process, a process of strategic planning which closely integrates strategic planning with performance planning and the review of performance and also companies whose strategic planning processes emphasize strategic planning as a process of dialog of the process being one which permits communication and pooling of knowledge within the organization.

What are the current trends in strategic planning? Well, strategic planning in the private sector has undergone many, many changes since companies first started doing it in the late 1950's and early 1960's. This process of learning has, of course, been absolutely critical in this.

Among some of the sort of key trends that I would point out, I think the first is that as the business environment has become more turbulent and unpredictable, then Strategic Plans have become focused less upon detailed decisions about resource allocation and much more upon establishing the overall direction of the business and upon establishing clear performance targets.

The other aspect of that close emphasis upon linking strategic planning with performance targets has been that financial planning has become much more closely integrated within the strategic planning process.

Another trend I would say is much, much greater involvement of top management in this process and recognition that the key role of top management is providing strategic direction to the corporation and that recognition that the responsibility for strategic management lies with top management has meant that what we see in most companies has been a shrinking of their strategic planning groups. Typically most companies have a corporate planning group at all levels.

And, finally, I think we've seen emphasis much more upon using less precise forecasting and much more views of the future in terms of multiple scenario planning.

Thank you.

[The prepared statement of Mr. Grant follows:]

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February 10, 1998

TO: House SubCommittee on Government Management, Information, and Technology
Attention: Robert Alloway

Statement: Strategic Planning Practices in the Private Sector

"Plans are nothing. Planning is everything."
----General Dwight Eisenhower

What is strategic planning?

Strategy planning (in a business context) is the "*determination of the long term goals and objectives of an enterprise and the courses of action and allocation of resources necessary for carrying out these goals.*" (Alfred Chandler). All organizations have a strategy, even if that strategy is inconsistent, and unstable. Strategic planning is a process whereby strategy formulation in an organization becomes explicit and is undertaken in a systematic manner. Since the mid 1960s virtually all larger U.S. enterprises have engaged in strategic planning as a regular (normally annual) process. The strategic plan of a corporation typically comprises a statement of the overall direction of the company in terms of what it seeks to become and to achieve (often referred to as a *mission statement*); a set of *goals* which are refined into more specific *objectives*; an indication of how these goals and objectives are to be achieved in terms of activities such as cost reduction, new product development, new market entry, quality enhancement, and the like; and planned resource allocation, especially with regard to capital and research expenditures.

Since the mid-1960s, virtually all large U.S. corporations have established regular (usually annual) strategic planning processes, in most cases coordinated by a corporate planning unit.

The purpose of strategic planning

Companies engage in strategic planning in order to improve their performance through enhancing the quality of their decision making. The following benefits of strategic planning have been observed:

- Achieving consensus within the organization as to the medium and long-term goals of the organization and the guidelines as to how these goals are to be achieved.
- Establishing a process that requires that senior management turns its attention from pressing operational and short-term issues to consider the longer-term development of the organization.
- Providing a dialogue within the organization not just among the top management team but also between top management and divisional/departmental management and between line managers and staff specialists which allows different types of expertise and different perspectives to be brought to bear on strategic decisions.
- Establishing a structure within which objectives can be agreed and the performance achieved can be reviewed in relation to these objectives.

Several academic studies during the 1970s and 1980s found strategic planning by companies was associated with superior performance. The absence of recent studies may be attributed to the fact that the ubiquity of strategic planning among large companies means that it is difficult to isolate its impact. The critical factor is likely to be not whether a company undertakes strategic planning, but how well it is done. Companies, which are regarded as possessing the most effective strategic planning processes (e.g. General Electric and Exxon), tend to achieve above average performance. The strategic planning processes of these companies tend to be characterized by:

- Top management's' strong commitment to and involvement in the strategic planning process
- Emphasis on the role of communication in strategic planning in terms of bringing together different expertise from different parts of the organization and building consensus and commitment.
- Close linkage between strategic planning and performance management in terms of targets setting and performance evaluation.

Recent trends in strategic planning among large U.S. corporations

During the past ten years, the processes and methods of strategic planning have changed substantially:

- Because the business environment has become more turbulent and unpredictable, strategic planning has focused less on detailed decisions concerning resource allocation, and much more upon establishing the overall direction of the business while focusing upon setting specific performance targets with regard to profitability, growth, and the creation of shareholder value.
- The increased emphasis of strategic planning upon performance targets has meant that strategic planning has become much more closely integrated with financial planning (setting and monitoring operating and capital expenditure budgets) and human resource management (especially establishing individual performance targets and appraising employee performance).
- Responsibility for strategic planning has been more explicitly vested in general management—not just top management but also divisional, business unit and departmental heads. Identification of strategic planning and strategic decision making as the primary task of senior managers and the increased dissemination of strategic planning responsibilities within the organization has meant that most large corporations have downsized their corporate planning departments. For example, in 1995, Amoco Corporation renamed its Executive Committee (comprising the Chairman and CEO and Senior Vice Presidents) the "Strategic Planning Committee," at the same time it reduced its Corporate Planning Department from 60 to 30.
- Strategic planning has become less formalized with less emphasis on documents and more emphasis on the process of dialogue, on agreeing performance targets, and on linking strategic planning with performance reviews. Although almost all companies have an annual planning cycle, most companies emphasize planning as a continuous process within which strategic plans may be revised more frequently when the need arises (e.g. in response to the Asian currency crises).
- Difficulties in forecasting the future have encouraged companies to adopt *multiple scenario planning* in preference to fixed point forecasting when looking four years of more into the future.

Attachments: (1) "Strategic Planning," *Business Week*, August 26, 1998.
(2) Robert M. Grant "Strategic Planning among Large Corporations: Evidence from the Oil and Gas Sector."

STRATEGIC PLANNING AMONG LARGE CORPORATIONS: EVIDENCE FROM THE OIL AND GAS SECTOR

by

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March 1997

CONTENTS

SUMMARY OF FINDINGS

- ***The strategic planning processes of the major oil companies have changed considerably over the past decade***. These changes are being driven by two main factors:
  ----increased focus on profitability and shareholder return
  ----the impossibility of forecasting and the increased need for flexibility

- ***The role of strategic planning system has changed---it is less a mechanism of control and more one of coordination and communication***. As such there has been a shift of emphasis towards *process* rather than *content* and *less formalization*. As a result, strategy has become less a distinct process and more integrated within the overall management system of each company.

- ***The roles of the different participants in the strategy process have changed***. There has been a shift of responsibility from planning staff to line managers, and from corporate to divisional levels. The role of strategy formulation as a process has meant that the key part of this process has been the interaction between the corporate executives committee ad top divisional management. Corporate planning departments are playing a smaller role and their size has shrunk. There is an increasing separation of responsibilities between corporate and divisional management as divisional presidents take responsibility for sector strategies and divisional performance, and corporate management takes responsibility for corporate performance and corporate strategy.

- ***There has been a shift of emphasis towards performance targets and annual planning***. While strategic planning has become more informal, performance management, primarily through annual planning has become quantitative with increased emphasis on performance metrics. Thus, strategy has become more about agreeing ***what*** is to be achieved and less about ***how*** it is to be achieved.

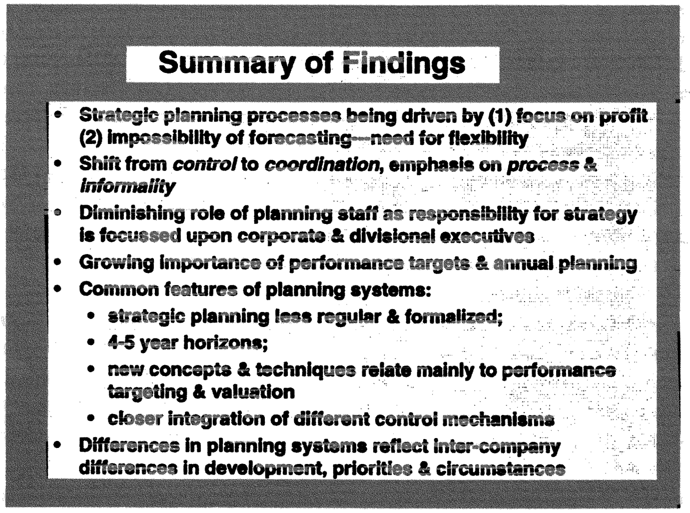
- ***Common features of the strategic planning systems of the companies are***:
  --focus on 4-5 year time horizon, only limited attempts to look longer
  --shift of emphasis from 4-5 year strategic planning to 1 year planning
  --strategic planning coming less a regular annual process
  --limited deployment of recent strategic concepts, techniques and frameworks; major new concepts have been in relation to performance measurement and valuation. However, all companies becoming increasingly orientated towards analysis of competitive advantage.

- ***Differences between the strategic planning sysyems of te comaonies arte the result of differences in the overall state of the development of the companies and differences in the overall strategic goals.*** For example,

  --Among former state-owned oil companies, a key role was the imposition of financial discipline and infusing shareholder value orientation throuighout the corporation;

  --Among comapnies whic had recently undergone radical decentralization, coordiantion was a central role.

- ***Closer integration between strategic planning and other control systems.*** In particular linkage between strategic planning, financial budgeting, project planning and appraisal, and human resource management. The common thread has been focus on profitability and shareholder value.



I. Objectives of the Study

The past decade and a half has been one of unprecedented change for the oil majors. Most of the assumptions upon which these companies designed their strategies, structures and management systems have been undermined by a transformation of the industry's business environment and by the introduction of new management ideas. In the painful processes of organizational change through which the companies have sought to adjust to new business conditions, strategic planning has played a complex role. To some extent it has been the driver of wider organizational changes. In other aspects it has been a follower---the imperatives of the market have forced change upon the companies and the strategic planning function has sought to adapt its role and processes to the new reality. As we shall see, while the formulation and implementation of strategy has become an increasingly important activity, the role and importance of strategic planning departments and the formal planning process have diminished.

The purpose of this report is to describe the processes through which business and corporate strategies are formulated and implemented within the leading international oil and gas majors. The specific objectives are:

- To show how strategic planning by the oil majors has changed in response to restructuring and reorganization;
- To identify the key features of the strategic planning process among the companies;
- To describe the role of corporate planning departments;
- To identify the major concepts and techniques employed in strategic planning;
- To describe the links strategic planning and other control mechanisms, including capital expenditure appraisal and budgeting, financial control, and human resource management;
- To identify differences between the companies with a view to identifying best practices.

Objectives of the Study

- To identify the implications of organizational change for the companies' strategic planning
- To identify the current features of the companies' strategic planning practices
- To describe the role of Corporate Planning Departments
- To show links between the strategic planning process and capital expenditure budgeting, financial control, and HRM
- To identify differences between the majors with a view to identifying best practices

II. Strategic Planning in the Pre-restructuring Era

For the greater part of the 20th century, the international oil majors followed an evolutionary development process which involved them extending their vertical, product, and geographical scope and building structures and systems to coordinate and control these large corporate empires. The structures tended to be hierarchical and the systems for managing them bureaucratic.

Systems of strategic planning played a central role in the management of the majors. The coordination requirements of the companies were massive. Planning began with the supply departments. This corporate function was responsible for coordinating the flows of crude oil from the company's oil fields to tankers and through pipelines to storage tanks, to refineries, and into the distribution network. As the supply departments become increasingly involved in inter-company transactions and exchanges and in dealing on the world crude markets, so these departments developed expertise in the forecasting prices and market trends.

However, the greatest impetus for the establishment of strategic planning was the need to coordinate and control capital expenditures within the company. The oil industry is characterized by projects which are very large in terms of their funding needs and long term in relation to development and pay back. Many upstream projects do not begin to generate revenues until a decade or more after the initiation of the project, and several another decade may pass before playback.

Initially the planning of capital and operating budgets was the responsibility of the controller's department. However, with the increasing vogue for the corporate planning during the 1960s, all the major oil companies created departments of corporate planning at their head offices. Companies establishing planning departments included:

Company	*Date of establishing planning dept.*
Conoco	1953
Standard Oil (Ohio)	1961
Royal Dutch/Shell	1967
British Petroleum	1968
Total	1968
Chevron	1974.

The driving force behind the corporate planning processes of the 1960s and 1970s was *forecasting.* Beginning with the macroeconomic forecasts of national governments, international organizations (such as OECD), and private forecasting organizations, and energy market forecasts from official organizations and independent research bodies, the companies would develop forecasts of demand supply and energy prices. These would produce the basis for company forecasts of outputs, revenues, and profits upon which investment plans could be built.

The corporate planning departments were intermediaries between corporate and divisional management in terms of communicating corporate goals and priorities to the business managers, and aggregating and refining business-level plans for presentation to and approval by top management. At the same time the corporate planning departments were able to exert considerable independent influence over strategy formulation. They were responsible for preparing the forecasts upon which business and corporate plans were based, they took the initiative in advising corporate management on longer-term issues facing the company, they were the "high priests" of the new and increasingly fashionable concepts and techniques of corporate strategy.

Planning became a precise and highly systematized activity involving economic, market and price forecasts, the forecasting of cash flows associated with major projects, projection of financial magnitudes for businesses and regions, and the establishment of capital budgets. While the first oil shock rendered the corporate plans obsolete and created an environment where economic forecasting became an increasingly inexact science, the role of corporate planning continued to grow, In particular, diversification by the oil companies made business portfolio planning an increasingly important activity.

Strategic Planning in the Pre-restructuring Era

- **1950s:** **Operational planning**
- **1950s & 60s:** **Investment planning**
- **1960s & 70s:** **Corporate Planning Departments**

Conoco - 1953	***RD/Shell - 1967***	***Total - 1968***
Sohio - 1961	***BP - 1968***	***Chevron - 1974***

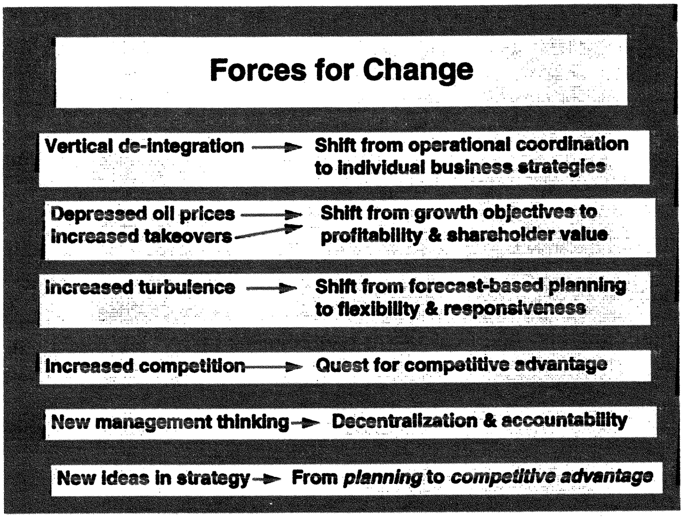
- **Main features of corporate planning:**
  - **driven by forecasts**
  - **formalized, emphasis on written documents**
  - **centered on investment planning**
  - **corporate planning staff play key role**

III. Forces for Change

The factors which caused strategic and organizational transformation over the 1980s and early 1990s were also responsible for undermining the systems of corporate planning and the departments which supported them. Among the key factors were:

Driver of change	*Implication for strategic planning*
The breakdown of vertical integration.	Less emphasis upon operational coordination; increased emphasis on strategy and performance in each business.
Falling profitability Increasingly active market for corporate control.	Less emphasis on growth & stability---more on profitability & shareholder value.
Increasingly turbulent business environment	More emphasis on flexibility and responsiveness, less emphasis on long-term planning in any detailed & quantitative sense.
Increased competition	Rather than pursuing similar strategies and structures, strategy became directed towards the quest for competitive advantage---increased emphasis on exploiting differences in terms of strengths in resources and capabilities.
Increased emphasis on general managers taking responsibility and becoming accountable for performance.	Responsibility for strategy formulation shifts from corporate planners to top management team, and from corporate to divisional and business unit managers. Less emphasis on approval of strategy proposals (*ex ante* control), more on performance targets (*ex post* control);. Linking strategic planning with project appraisal, financial control and human resource systems.

Strategic planning in the oil companies has also been influenced by the development during the 1980s and 1990s of strategic management as a body of concepts, ideas, theories and techniques. The principles underlying the development of corporate planning during the 1960s and 1970s were primarily those of macroeconomic and market forecasting, capital budgeting, and systems theory.



During the 1980s, there was an explosion of interest in strategic management by practicing managers, consultants, and business school academics. Key developments were:

- Industry and competitor analysis, associated with Michael Porter and the Strategic Planning Institute's PIMS database.
- The analysis of the role of market share and its links to experience effects and profit margins associated with the Boston Consulting Group.
- Portfolio analyses of the strategic positioning of business units.
- Analysis of the role of firm resources and capabilities in conferring competitive advantage.

These developments were associated with a major intellectual shift in thinking about corporate and business strategies. During the 1960s, strategies had been thought of in terms of systematic approaches to resource allocation based upon medium and long-term forecasts. During the 1980s and 90s, strategy was concerned less with planning and more about inquiry into and analysis of the sources of profitability within industries and the potential of the firm to appropriate these sources of profitability.

The shift from *strategic planning* to *strategic thinking* was also evident outside the oil industry. Most significant was the major overhaul of strategic planning processes at General Electric. GE had long been an innovator in the development of ideas, techniques and processes of business and corporate planning. Under the chairmanship of

Reg Jones, GE had installed a highly sophisticated system of strategic planning which was much discussed in business schools and much emulated in the corporate world. One of the early changes initiated by the new chairman of GE, Jack Welch, was the dismantling of this formalized and revered system of strategic planning in favor of one which shifted strategy from staff planners to general managers, from corporate to divisional level, and from an emphasis on planning to one based upon direction, flexibility and the quest for profit. The changes at GE provided a pointer to the changing role of strategic planning processes and corporate planning staffs within large industrial corporations.

IV. The Role of Strategic Planning

To appreciate the changes which occurred in the strategic planning processes of the oil majors, it is important to identify the role of strategic planning within the companies. What we shall see is that the changes in strategic planning processes were associated with a re-evaluation of the role of strategic planning within the companies.

- It is mechanism for communication, coordination and control
- It is a mechanism for improving the quality of management decision-making

Strategic planning as a coordinating device

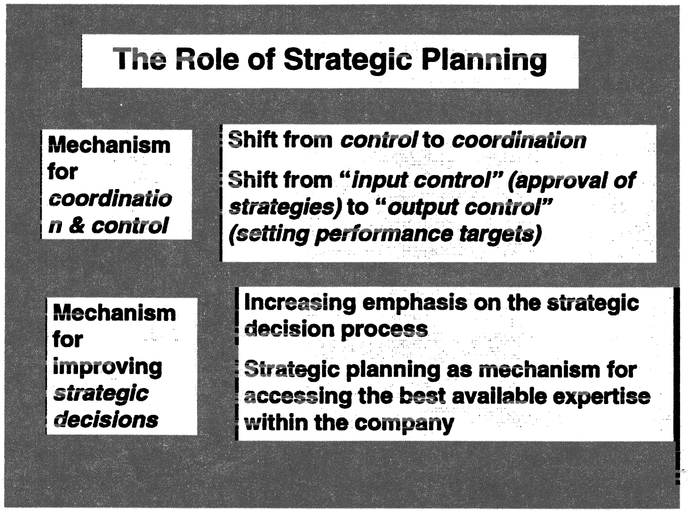
At any point of time an oil major is involved in hundreds if not thousands of different decisions being made by many, many different individuals and groups within the organization. The fundamental task of strategy is to give overall coherence and direction to this multitude of decisions to ensure some consistency to the activities of the firm. If the primary task of strategy is to give direction to the firm, then a key role of the strategy process is a mechanism for communicating that direction and coordinating the large numbers of decisions being made in different parts of the firm.

Under the former management paradigm, strategy achieved coordination through acting as a control mechanism. A primary mechanism through which the corporate headquarters' exercised control over divisional and subsidiaries was through the process of review and approval of business strategies. Thus, the system of strategic planning has traditionally been one where corporate HQ issues directives and targets to the divisions/operating subsidiaries, they formulate their business strategies, these strategies are then discussed, amended and approved by the corporate HQ.

Over time, the role of strategy as a coordinating device has increased as a result of two factors:

- The breakdown of "conventional wisdom" regarding the strategy and structure of the integrated, multinational oil company has increased uncertainty over the identity and form of the oil majors. Companies have questioned the benefits of vertical integration, their appropriate geographical scope, and the role of outsourcing and alliances. Amid greater uncertainty and more numerous alternatives for the future, the role of strategy in providing direction has become increasingly important as a mechanism for managing uncertainty.
- A key direction in strategy has been towards less planning and increased emphasis on short term flexibility and opportunism. This has been matched by the organizational trend towards decentralization and the "empowerment" of divisional and business unit general managers. Amid this climate in which corporate headquarters exerts less and less direct control, so coordination of these large number of decentralized decisions becomes increasingly important.

While increasing the importance of strategy as a coordinating device, these factors have also meant that coordination is exercised less through formal processes of control, and more through informal mechanisms. Increasingly, strategic planning has become less a system through which planning documents are formally ratified, and more a process of dialogue through which consensus is reached. Hence, within the new management paradigm, strategic planning is less a mechanism for *control* and more one for *communication*.



The emphasis on strategy as a mechanism for communicating to the entire organization the goals and direction of the enterprise is evident in the propensity for the oil majors to formulate and propagate *mission statements* outlining their goals and "strategic intent". These were often supported by *vision statements* which outlined the company's aspirations in terms of values and what it type of company it aspired to become. Examples of are given below:

Amoco

> ***Our Mission:*** *Amoco Corporation is a worldwide integrated petroleum and chemical company. We find and develop petroleum resources and provide quality products and services for our customers. We conduct our business responsibly to achieve a superior financial return, balanced with long-term growth, to benefit shareholders and fulfill our commitment to the community and the environment.*
>
> ***Our Vision:*** *Amoco will be a global business enterprise, recognized throughout the world as pre-eminent by employees, customers, competitors, investors and the public. We will be the standard by which other businesses measure their performance. Our hallmarks will be the innovation, initiative and*

teamwork of our people, and our ability to anticipate and efficiently respond to change, and to create opportunity.

(February 1993)

BP

Our Vision: "BP is a family of businesses principally in oil and gas exploration and production, refining and marketing, chemicals and nutrition. In everything we do we are committed to creating wealth, always with integrity, to reward the stakeholders in BP - our shareholders, our employees, our customers and suppliers, and the community.

We believe in continually developing a style and climate which liberates the talents, enthusiasm and commitment of all our people. We can then respond positively to the increasing pace of change in a rapid and flexible way to achieve real competitive advantage. With our bold, innovative strategic agenda BP will be the world's most successful oil company in the 1990s and beyond."

(1990)

Mobil

Our Mission: To be a dynamic company that will continually find and develop opportunities for profitable growth in our core businesses, and that will realize the greatest value from our existing assets while keeping a tight control of our costs.

Our Vision: To be a great, global company. A company, built with pride by all our people, that sets the standard for excellence. A company that brings value to our customers, provides superior returns to our shareholders and respects the quality of life in every one of our communities.

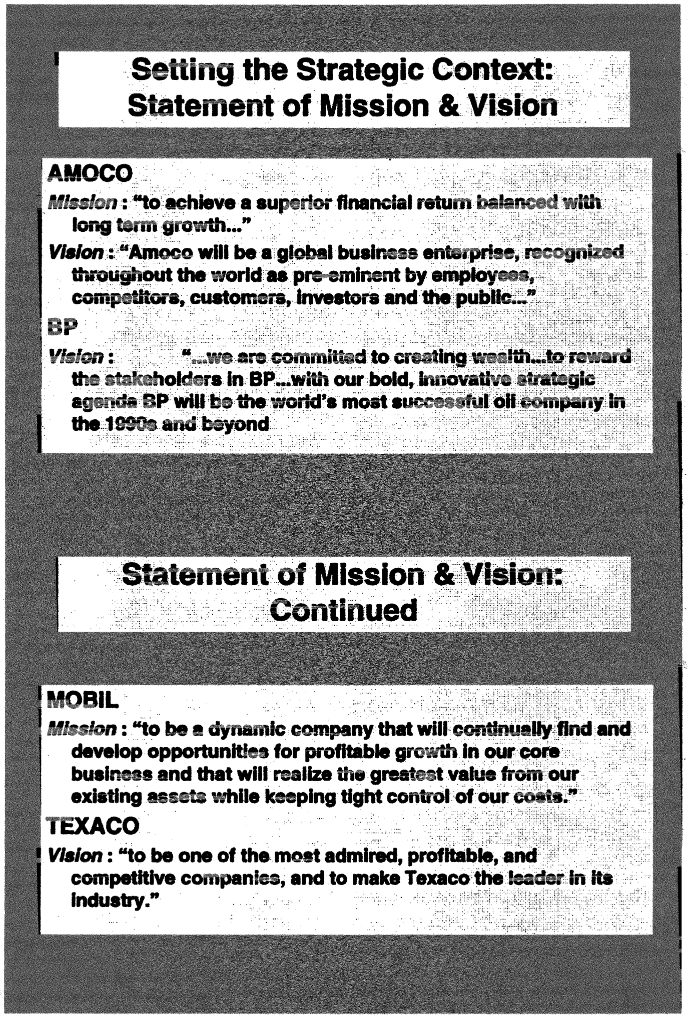
(February 1996)

Texaco

Vision: To be one of the most admired, profitable, and competitive companies, and to make Texaco the leader in its industry.

The Texaco Values-- Business Objectives: To become the leader in our industry we will:

- Concentrate on doing the right things, right first time, on time, throughout the company.
- Discover and produce oil and natural gas effectively and efficiently.
- Refine superior products using the best available technology.
- Market our products, emphasizing outstanding performance and service
- Supply customers with the highest quality, competitively priced products.
- Provide shareholders with an attractive rate of return
- Conduct our affairs as a good corporate citizen, with concern and respect for the individual and the environment.



But strategic planning is not only a process through which top management communicates its goals and vision to the rest of the enterprise. Strategic planning provides a two-way process of the communication through which corporate management is able to communicate and guide the enterprise and business unit and divisional management is capable of communicating up the organization its understanding of the issues facing the particular businesses of the corporations and its preferences as to how to address these problems. As we shall see, the resulting dialogue is a key aspect of how the strategic planning processes improves the quality of decision making through bringing multiple views and knowledge based to bear.

Strategic planning as a system of control

Providing a framework for coordinating the decisions and activities of the many individuals within an organization has always been the fundamental role of strategy. However, the mechanisms through which the strategic planning system achieves such coordination has changed greatly over the past two decades. Under the traditional, bureaucratic model of the organization, coordination is achieved primary through top management *controlling* lower levels in the organization. Within this framework, the strategic planning system together with the financial management system and the human resource management system are the principal mechanisms for achieving control. Thus, the strategic planning system may be viewed as a mechanism through which the strategies proposed by lower levels of the organization are approved by higher levels of the organization. In particular, the business level strategies developed by the divisions are submitted to corporate management and, if acceptable, are approved by corporate management---individually by the CEO and top executives, collectively by the Board of Directors.

For the strategic planning system to be effective as a control mechanism implies that upper management must have some levers to ensure that the approved strategy will in fact be followed by lower level management. There are two principal levers for exercising strategic control:

- The investment budgeting system whereby capital expenditures both on individual projects an in aggregate are approved and authorized, permitting upper level management to check that the projects are consistent with the agreed strategy;
- The performance review process. While this concentrated primarily upon the annual financial performance in relation to performance targets, the review process looks also at the achievement of strategic goals. Since strategic goals are typically long term, these goals are often translated into a series of intermediate targets referred to as "strategic milestones".

The increasing importance of performance review and performance appraisal among the oil companies has been a central aspect of the declining role of strategic planning systems as a control mechanism. Control mechanisms can be categorized according to whether they control *inputs* to the system or *outputs* from the system. Strategic planning systems are primarily a form of *input control* --- top management exercises control over the divisions and business units through approving the strategies which these entities can pursue. The trend over time has been to focus primarily upon *output control* --- to establish targets for the performance which is expected of each division and to evaluate achieved performance against such targets.

Thus, increased emphasis on profitability has resulted in corporate management imposing increasingly stringent profit targets upon divisions matched with increasing freedom for divisional managers to select the strategies needed to achieve these targets.

Such an approach is consistent with the current emphasis on *accountability.* If divisional managers are to be made accountable for the performance of the divisions they mange, then they must be given the freedom to manage those divisions how they think appropriate, if responsibility for selecting strategy is diffused, then this undermines the accountability of divisional top managers.

Improving strategic decision making

A strategy is not an abstract concept, a strategy is a set of decisions concerning the allocation and deployment of a firm's resources so as to define what businesses the firm is in and how it is to compete within these businesses. The strategic planning system improves strategy making in two ways: first, by ensuring consistency and coordination in the strategic decisions made in different parts of the organization, second, in improving the quality of those decisions.

Under the former systems of corporate planning, the chief contribution of planning system to the quality of decision making was the provision of forecasting and the application of techniques such as DCF analysis, sensitivity analysis, portfolio appraisal and so on. Now that long-term forecasting in any detailed or precise sense is no longer possible, what do strategic planning systems contribute to the quality of strategic decisions?

The evidence of the study pointed to strategic planning processes enhancing the quality of strategic decisions making in two principal ways:

- Through providing a medium for communication and the transfer and integration of knowledge. Within a company, expertise resides among different people in different parts of the organization. Strategic decisions require many types of knowledge, the challenge is to access the range of relevant knowledge and assemble it at specific decision points. To take one example: knowledge about the individual business tends is located primarily within individual divisions, while understanding of the corporation's portfolio of businesses and its overall financial position is located primarily at corporate headquarters. A key aspect of the strategic planning process is to communicate and integrate corporate-level and divisional knowledge and understanding. The challenge of this is all the greater because much of the most critical knowledge is *tacit* ---the experiences of managers have become internalized as intuition and judgment which cannot easily be articulated and communicated.
    - ⇒ At Shell particular emphasis is placed upon the need to surface the perceptions, judgments, and "mental maps" of the various decision makers within the strategy process. This role of the strategy process as a means of accessing and integrating knowledge means that becomes a

vehicle for *organizational learning*. Thus, the primary purpose of Shell's scenario analysis is not to forecast the future, but to create a process for thinking about the future which brings together many types of expertise. The construction of scenarios involves drawing upon the specialized inputs of economists, political scientists, technologists and others from both within and outside the Shell Group. The application of these scenarios becomes a vehicle for encouraging managers to extend the timescale of their normal decision horizons and to think systematically about the implications of alternative futures for their businesses and the alternative courses of action which lie open to them.

⇒ At Exxon, the most critical part of the strategy formulation process is the interaction between the divisional president and his contact director on the Management Committee. It is through this continual interaction that strategic plans and project proposals become developed and refined, the critical element being the integration of the divisional level initiative with the corporate perspective.

- Strategic planning systems also provide the means to enhance strategic decision making through introducing concepts and techniques of strategic management into decision processes. During the 1980s and 1990s, strategic decision making was enriched by the application of scenario analysis, industry analysis, the use of PIMS analysis, and concepts of organizational capability and "core competence". How far such techniques have enhanced strategic decision making is debatable. One of the criticisms the formalized planning systems of old was that the use of jargon-laced strategy frameworks and techniques tended to alienate general managers and acted as a barrier to the deployment of experience-based knowledge. Ideally, a strategic planning process should permit the integration of many types of relevant knowledge, including experienced-based knowledge from different parts of the organization (e.g. the corporate level, the business level, the functional level, and the geographical level) and should permit the introduction of concepts, ideas and experiential knowledge from outside the corporation, e.g. the ideas of consultants, academics, and the experiences and innovations from other industrial sectors. Among the companies surveyed, there was not much emphasis on the role of strategic planning systems as vehicles for introducing and disseminating leading-edge management concepts. The principal emphasis of the companies as far as new concepts and techniques were concerned was on *financial appraisal* with particular emphasis on *shareholder value analysis*.

V. Corporate Planning Staffs

The clearest indicator of the changing role of corporate planning staffs is size. Since the early 1980s, departments of corporate planning have been drastically reduced in size. This is the result of three factors:

- The primary technical function of planning professionals was to *forecast.* Thus, during the early 1980s, all the oil companies had planning staffs which included a number of economists whose task was to generate the macroeconomic projections upon which strategic planning would be based. By the 1990s, all the oil companies still made some form of forecast, the difference was that little faith was placed in them as a basis for decisions.
- Outsourcing: many functions, including the monitoring and forecasting of economic growth, energy consumption, exchange rates and commodity prices were increasingly outsourced.
- The growing role of line managers and declining role of corporate staff in the strategy formulation process. As strategic planning has become less concerned with forecasting and planning, and more concerned with direction, flexibility, and the quest for profit, so line managers have emerged as the key players in strategy formulation. Meanwhile, as strategy formulation has become less formal, so corporate and business managers have had less need for staff support.

Corporate Planners: Endangered Species?

Number employed in corporate planning departments:

AMOCO:	1990 1993 1996	**MOBIL:**	1990 1996
	90 60 30		**38 12**
BP:	1990 1994 1996	**RD/Shell:**	1985 1995 1996
	48 6 3		**54 23 17**
ELF:	1993	**TEXACO:**	1990 1996
	15		**40 27**
EXXON:	1986 1995 1996		
	60 20 17		

This declining role of corporate planning departments was also evident in the status of the department heads. In most of the companies we surveyed, the head of the corporate planning department was a vice president. In none was the planning head a senior vice president unlike the heads of some other functional departments (e.g. finance, human relations, legal counsel).

The roles of corporate planning staffs include the following:

- Administering the planning process. All the companies in the survey have some form of annual planning cycle to give coherence and order to the strategy formulation process. In all the companies this was managed by the corporate planning staff.
- Preparing economic and market forecasts, and other analyses of the busienss environment
- Supporting the top management team. In all the companies the main customers for the work of the corporate planning staff were the top management teams. If the primary role of the top management team is to determine the strategy of the corporation, then the principal responsibilities of the corporate planning staff are to support these efforts through supplying appropriate information, data and analysis; exploring the impacts of alternative assumptions and courses of action; and undertaking special inquiries.
- Acting as an intermediary and communication channel between corporate and business level. At several of the companies, the corporate planning unit played an important role in liaising between corporate and divisional management. Thus, in many companies preliminary plans were submitted initially to the corporate planning departments and corporate planners would engage in a conversation with divisional management both on the initial plans and in the later stages of revision. Among some companies, Exxon and BP for example,

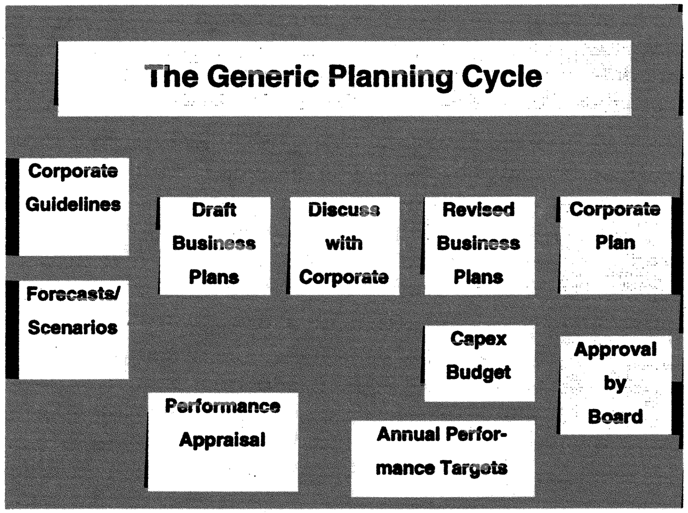
this coordinating role has diminished as the companies had sought to strengthen direct communication between divisional presidents and the top management team, and reinforce the responsibility of divisional and business unit heads for the strategies and performance of their businesses. Among othr companies, particularly those which have undergone major internal reorganizations such as Amoco and ENI, the coordinating role of the corproate planning department has become increasingly prominent. Thus, at Amoco, the strategic planning process has played an importnt role in establishing coordination between the different busienss groups, for example in the creation of "umbrella strategies" for individual countries.

- Internal consulting. The strategic planning departments of several of the companies, Shell most evidently, was viewed a repository of strategic planning expertise and a source of new thinking from the outside world. This led to Shell's planning department taking responsibility or the dissemination of planning techniques and acting in a consulting capacity to improve the quality of strategic decision making in the operating companies. Between 1980 and 1992, Shell's planning department included an internal consulting unit. The unit was disbanded because it was felt that its existence was an impediment to achieving responsibility and accountability for strategic decision making at the operating company level. Similar issues arose at Amoco and Mobil when deciding whether to include strategic planning as part of the corporate center or within their "shared services" organizations. In both companies it was determined that any service role of the strategic planning units to the businesses was subsidiary to its role in supporting the corporate executive team.

As the earlier slide showed the corprate planning departments of the different majors vary in size. Few conclusions can be drawn from these differences. Apart from simple problems of comparability (e.g. inclusion or non-inclusion of secretaries and other support staff) possess, the differences in sizes of planning departments primarily eflects organizational differences betwen the companies. Thus, some corporate planning departments include staff involved in economic and market forecasting. In other comapmnies macroeconomic forecasting is hte responsibility of the treasurer's department and oil price forecasting the responsibiity of the supply department. In other companies both functions are outsourced. Similarly, the diviison of respo sibilities betwen coprroate planning and finance varies between the companies. Conventiaonnly strategy is undertaken by cororoate poanning and budgeting by the controller's department. As strategic planning has become more focussed upon profitability targets, so strategic and financial planning have becoem increasingly integrated.

VI. The Strategic Planning Process

All the companies engage in some form of annual planning process. (The key components of the process are shown in the accompanying exhibit.). The primary strategic planning activity is at the divisional or operating company level. Here formulation of business plans is within the framework provided by (a) corporate guidelines regarding required financial results and corporate-level priorities (b) the forecasts provided by the corporate planning department. Strategic plans are submitted to corporate level, are aggregated by the corporate planning department to show their implications for the corporation as whole, and are discussed with the top management team. This will typically result in some revisions being made. The approved plans are aggregated and formally approved by the Board. Although the budgeting process is normally separate from the strategic planning process, with the controller's department usually administering the process, the processes are closely linked. The annual capital expenditure budget is typically derived from the first year of the strategic plan. The strategic plan also provides the basis for annual performance planning in terms of divisional targets and operating budgets.



Time horizons of strategic plans

There were differences between the companies in terms of the distance into the future that their planning extended. Shell has the longest planning horizon with a process for looking up to 20 years into the future. Shell's strategic plans are primarily qualitative where the primary object is to encourage divisional and operating company managers to look to the long term futures of their businesses in the light of fundamental technological, political and business trends. Texaco also looked forward 20 years in its *strategic views,* though its strategic plans were limited to 5 years.

In terms of planning processes involving strategic decisions and proposals for the commitment of resources , the focus of strategy making processes were on 4 to 5 years into the future, although there was some tendency for planning horizons in E&P to be longer reflecting the time scale of such projects.

With the exception of Shell, all the companies in our sample based their strategic planning on 4 or 5 year periods. And despite Shell's 20 year planning horizon, its primary planning emphasis in terms of resource allocation decisions was on its 5 year "business planning".

Strategic Planning Time Horizons

AMOCO	5 years
BP	Medium term strategic planning - 5 years
ENI	4 years
EXXON	Upstream 14 years, Downstream & Chemicals 4 or 5 years
MOBIL	5 years
RD/SHELL	Strategic plans 20 yrs, Business plans 5 yrs
TEXACO	Strategic plans 5 yrs, Tactical plans 1 yrs

The regularity of the planning cycle

Up until the 1990s, planning tended to follow a regular annual cycle, though the long term strategic planning of Shell and the 15 year "prospective studies" of Elf were periodic events . Although strategic plans were typically 4 or 5 years, these were revised or reformulated annually.

One aspect of less formal strategic planning processes has been a move away from planning as a rigid annual cycle. For example, Amoco has no regular strategic planning cycle. Strategic plans are reformulated by each business group as and when necessary. Typically, the trigger for a new strategic plan is an unexpected fall in performance or some change in the external environment which requires a rethinking of competitive positioning and resource allocation.

By contrast, annual budgetary and performance planning has tended to become more formalized. All the companies have regular annual cycles involving the establishment of budgets and performance targets for the each division and/or operating company for the coming year, and evaluating performance for the past year. It has been the increased emphasis upon and formalization of the annual budgetary and planning process that has been a major factor encouraging strategic planning to become less formalized.

Forecasts and scenarios

Among all the companies, the starting point for strategic planning is a set of forecasts, scenarios, or planning assumptions which are usually developed by the corporate planning department for use by the divisions in their planning efforts.

Seeing into the Future:
Forecasting & Scenario Planning

AMOCO - 5 year forecasts & multiple scenario analysis
BP - Sets "mid-cycle" values as basis for 5 year performance measures.
ELF - 5 year scenario analysis annually; also longer term "prospective studies"
ENI - Single-scenario 4-year forecast of energy market formulated annually by Planning Dept.
EXXON - Each year corporate planning produces Economic Review and Energy Review of 15 year trends. Forecasts band of prices and other variables.
MOBIL - 5 year forecasts of prices and margins. Oil price forecast used by businesses as planning assumption.
RD/SHELL - 15-20 year multiple scenarios developed by planning.
TEXACO - 20 year strategic view produced each year

Historically, forecasts of economic growth rates, hydrocarbon consumption, and prices formed the foundation for planning efforts. Over the past 20 years it has become increasingly apparent that price movements, indeed most major environmental variables, cannot be forecast with any confidence. The oil companies have responded in two ways to this predicament. The first has been to use some form of price projections less as a forecast and more as a consistent *reference point* from which to evaluate performance. As John Browne of BP remarked:

"We gave up trying to forecast what would happen some time ago--we'd just learned from experience that even the most sophisticated models can't predict the

reality of oil prices or any of the other key variables. All you can do is to look at the current reality, and the recent pattern of the economic cycle and from that set yourself some guidelines against which you can judge your own performance."

The second approach is to use systematic approaches to analyzing the future development of the external business environment as a means of developing a deeper understanding of the dynamics of change and encouraging managers to develop strategies which take account of the need for flexibility in the face of uncertain external change. Such an approach is central to the scenario analysis developed by Shell. As Shell repeatedly reminds us, multiple scenario analysis is not so much a forecasting technique as a process to enhance learning.

Although all the comapnies use scenario analysis to a greater or lesser extent, only Shell utilizes scenarios as the foundation and centerpiece of its strategic planning process. Other companies tend to use scenarios as a complement and balane to their forecasting exercises, or to explore particular issues (such as strategies for the Former Soviet Union). The reluctance of other comapnies to use scanarios as a corproate-wide basis for strategy formulation may reflect the heavy costs in terms of maangemenr time which Shell incurs in developing and disseminating its scenarios.

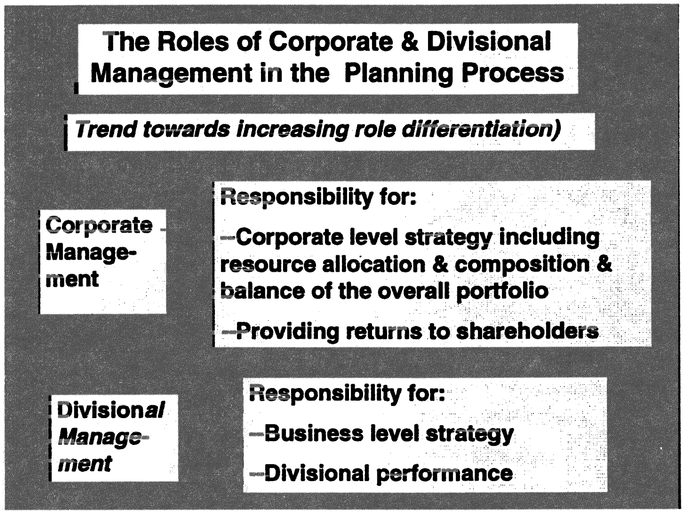
The roles of corporate and divisional management

The declining role of corporate planning staffs in the strategy process has reflected, first, the change in the nature of strategic planning and, second, the increased role played by the top management teams at the corporate and divisional level.

A criticism of strategic planning systems of old was that the heavy reliance upon written documents and formal approval processes tended to limit senior management dialogue, constrain innovation and the consideration of alternatives, and dilute top management's responsibility.

The central theme of the strategic decision processes of the companies today is locating responsibility for the strategic direction of the corporation and its main divisions with its executive officers. Strategic planning has become not so much a forecast of how the corporation might develop over the next 5 years given likely external trends, as a statement of performance objectives for the company and its divisions, an agreement between corporate and divisional management over the direction of development of each of the divisions, and a consensus among the top management team of the identify and development of the corporation as a whole.

The result has been that the strategic planning processes has become less of a distinct process, and more an integral element in the relationship between corporate and divisional management. If the goal of the corporation is to maximize shareholder wealth, then the business strategy for each division represents corporate approval of the broad direction in which divisional management will develop the division, on the basis of which divisional management makes commitments to corporate management of the performance that will be delivered.



This view of strategic planning as a central theme of the relationship between divisional and corporate management and the primary responsibility of the corporate executive team, encourages us to see strategic planning as part of the ongoing relationship between divisional presidents and the corporate executive committee. Exxon's strategic planning system reflects this most clearly. While Exxon continues to have a regular annual planning cycle, the formalized aspects of this are embedded in an ongoing process of strategy formulation which involves a near-continuous dialogue between the divisional and corporate level. This dialogue occurs primarily through the relationship between the divisional president and the member of executive committee (the "contact director) who is responsible for corporate liaison with that division.

Strategic management techniques and concepts

The field of strategic management has developed rapidly over the past decade in terms of new concepts, techniques and theories. Although the strategy processes and methods of the oil majors have been influenced by many of these developments, relatively few have been embodied within the companies' strategic planning processes in any formal sense. The main area where companies have introduced specific concepts and techniques is in performance appraisal and target setting. Thus, in setting performance targets and evaluating past performance, all the companies have given greater consideration to the analysis of shareholder value. In several cases this encouraged a move away from accounting measures of profit towards cash flow measures of profit and the identification of *economic profit* as a surplus of profit over the cost of capital. It had also encouraged the development of new approaches to linking operational goals to broader strategic goals, here the most widely used approach was that of *balanced scorecards* (see below).

In formulating strategic plans, the shift of strategy making away from professional planners and into the hands of corporate and divisional executives tended to lessen its susceptibility to the concepts and techniques emerging from business schools and management consulting companies. In terms of strategy analysis, most interest focused around the determinants of superior profitability. Interest was focused upon two main areas:

- Analysis of the profit prospects of different industries and markets using the techniques of industry and competitive analysis associated with Michael Porter and others;
- Analysis of the potential for competitive advantage through analyzing internal strengths and weaknesses. Such interest was associated with the analysis of organizational capabilities and identification of *"core competencies"* and the use of benchmarking as a means of gaining objective indicators of such strengths and weaknesses. Such analysis related not only to *identifying* internal strengths and weaknesses but also the dissemination of strengths and elimination of weaknesses. "*Best practice*" techniques provides a framework for such efforts.

One of the major areas of strategic decisions during the post-1986 period concerned divestment decisions. During the 1970s and early 1980s, decisions concerned the business portfolio utilized techniques of portfolio analysis developed by Boston Consulting Group, McKinsey & Company, and other consulting organizations. During the later 1980s such crude, qualitative techniques were supplanted by more financially-based approaches to business valuation. The key criterion to be deployed was increasingly not some vague notion of strong strategic positioning, but the more direct evaluation of whether a particular business or asset was worth more to the company than to some other owner. Again, such decisions required the application of tools of shareholder value analysis.

VII. The Annual Planning Process

A consequence of the increased emphasis on profit performance and increased need for short term flexibility, responsiveness and opportunism has been increased importance of the short-term planning process. Under the former system of planning and corporate control, annual planning was concerned with setting operating and capital expenditure budgets. While these were based upon the first year of the business and corporate strategies, it was the controller's department rather than corporate planning which managed the budgeting process.

With increased emphasis on the attainment of profitability and shareholder return goals in the short and medium term, the annual budgeting process has become less a process of financial forecasting and more one of establishing performance targets for divisions and business units. It has also become the focal point of the annual planning cycle in terms of the dominant form of interaction between the divisions and corporate management.

For those companies which maintain an annual strategic planning cycle (all the companies but for Amoco), the annual plan is the first year of the strategic plan. What distinguished the first year of the plan from subsequent years is much greater detail and a heavier emphasis on quantitative financial data.

Annual performance plans typically include:

- Financial targets. These are typically expressed in terms of profit (in some cases *economic profit* --e.g. "EVA"), and profitability ratios such as Return on Capital Employed.
- Operating targets. For upstream these might include production, wells drilled, lease agreements signed, reserves added. For downstream these might include throughput, capacity utilization, inventories.
- Safety and environmental objectives.
- Strategic mileposts. Linkage between longer-term strategic direction and annual targets is achieved through the identification of "strategic mileposts"----intermediate objectives whose achievement indicates that a strategy is on track. For a division, strategic mileposts might relate to entry into specific countries, specific cost reduction targets, new product introductions, and divestments of specified assets.
- A capital expenditure budget for the coming year.

In most of the companies, the annual plan is an integral part of the strategic plan which is proposed by the division and is discussed with corporate management at the same time as the strategic plan. As with the business-level strategic plans, the performance targets for the year ate typically proposed by the division, then approved by corporate management.

A key issue in developing annual performance targets has been the close integration of divisional and corporate goals. This has been especially important for those companies which have explicitly identified their corporate goals in terms of shareholder interests (e.g. maximizing shareholder wealth and return). This goal must be translated into specific financial objectives for individual divisional and businesses. It typically requires defining profit objectives in terms of economic profit (the excess of profits over cost of capital) or discounted cash flow measures of return.

Texaco is notable for the lengths to which it has gone in applying valuation models to its individual businesses in order to test out its strategies by simulating their effects on the value of each business, and upon their aggregate.

Translating corporate performance objectives, first, into divisional objectives and, second, into business unit objectives has been an important area of development for the companies. Among the techniques deployed are the following:

Management by Objectives

The longest established approach to linking broad organizational goals to specific operating objects both for organizational units and individuals is that of management-by-objectives (or MBO). Exxon's "stewardship" process and ENI's annaul sectoral targets both follow a procedure based upon MBO methodology.

Balanced Scorecards

A recent variant of management-by-objectives is the balanced scorecard approach which seeks to link short-term operating targets with longer-term strategic goals and link departmental and business unit objectives to overall corporate goals.

The scorecard approach to setting targets and measuring performance was devised by Robert Kaplan (Harvard Business School) and David Norton (Knoll, Norton & Company). Their *balanced scorecard* comprises a set of internally consistent performance measures which combine the answers to four questions:

- *How do we look to shareholders?* The financial perspective comprises measures such as cash flow, sales and income growth, and ROE.
- *How do customers see us?* The customer perspective comprises measures such as goals for new products, on-time delivery, defect and failure levels.
- *What must we excel at?* The internal business perspective relates to internal business processes such as productivity, employee skills, cycle time, yield rates, quality and cost measures.
- *Can we continue to improve and create value?* The innovation and learning perspective include measures related to new product development cycle times, technological leadership, and rates of improvement.

Such a procedure, argue Kaplan and Norton permits the linking of strategic and financial goals. Thus, at FMC , they report that:

"Strategist came up with 5 and 10 year plans, controllers with one year budgets and near-term forecasts. Little interplay occurred between the 2 groups. But the scorecard now bridges the two. The financial perspective builds on the traditional function performed by controllers. The other three perspectives make the division's long-term strategic objectives measurable." (R. Kaplan & D. Norton, 'Putting the Balanced Scorecard to Work', *Harvard Business Review*, September-October 1993, p. 147.)

Mobil, Texaco and Amoco all use variants of the scorecard approach. Mobil has been the most enthusiastic and has used scorecards to link strategic planning, financial targets and HR assessment. The merit of the scorecard approach has been in translating long terms strategic goals and shorter term financial goals into specific operating objectives tailored to the specific situation on individual businesses and functions. Mobil views its scorecard system as a mechanism for "cascading down" its strategy.

Performance reviews

The annual performance planning system is linked to a set of performance reviews. Performance reviews are the responsibility of the top management team--typically the executive committee of the board of directors. Staff support is provided by the controller's department and by the corporate planning department.

Most companies have a quarterly performance review, for most companies such quarterly reviews comprised the submission of written performance report to corporate together with informal discussion between divisional and corporate management. The major interaction between corporate and divisional management occurs in the annual review.

All the companies operate a formal performance assessment meeting which typically involves divisional top management making a presentation to corporate management on divisional performance during the previous year.

Such meetings are a critical part of the accountability process in which divisional management are answerable for their stewardship of the company's assets.

Although the importance of these review sessions has increased rather than decreased over time, the trend has been for the annual performance review meetings to become shorter and less formal. The reason for this is that much of the information transfer and analysis is undertaken prior to the meeting, and the meetings have increasingly focused upon a dialogue between divisional and corporate management over the key performance issues. For example:

- Exxon's "stewardship reviews" between the Management Committee and each division take the form of a series of meetings each lasting between one hour and half a day in the February of each. Previously, each meeting lasted up to 3 days.

- At Mobil, performance reviews have become similarly become highly-focused interactions between the Business Groups and Executive Committee. The presentation by the business to top management is typically organized around 3 issues: *How we did. What we did. What we didn't do.*

Among the major oil companies, Shell has been distinguished by its comparatively weak emphasis on top management review of annual performance. During 1996 Shell largely disbanded its traditional process of spring reviews which involved representatives of the regions visiting the operating companies to discuss performance in the previous year. The company moved increasingly towards self assessment and use of management information systems to transfer performance results and conduct dialogue.

VIII. Capital Expenditure Planning

The strategic planning system provides a mechanism for coordinating strategic decisions between the business units, divisions, and corporate center of the large energy company, but it does not provide an effective mechanism for corporate management to exert *control* over strategic decisions at the divisional level. The primary mechanism for exerting control over strategic decisions by operating management is by controlling the allocation of funds for capital investment.

There are two mechanisms:

- The approval of individual projects
- The authorization of funds for capital expenditures through annual budgets.

The two mechanisms are linked with one another and with the strategic planning process.

All companies operated systems of project approval and capital expenditure budgeting which were broadly similar. The differences between companies were mainly in the degree of discretion granted to different levels of the corporation, and the procedures used for evaluation of proposals, monitoring of on-going projects, and review of performance.

Appraisal methodology

Each company had a standardized methodology for the appraising capital expenditure proposals which were standard throughout the company. This methodology was contained within project manual which was revised and updated on a regular basis. In most of the companies it was the corporate planning department which was responsible for maintaining, developing and disseminating project appraisal methodology. Standard procedures for capital expenditure proposals usually included a standard format for the presentation of proposals.

Project appraisal techniques primarily involved some form of ***discounted cash flow*** (DCF) analysis with projects being evaluated according to their ***net present value*** (NPV) and/or *internal rate of return* (IRR). Such approached, however, are far from scientific. The critical problem is the forecasting of cash flows over time periods which, in the case of E&P, may extend over 20 years or more. For such projects, cash flow forecasts must make assumptions about likely costs, the probabilities of finding oil and in what quantities, and crude oil prices. The choice of discount rate is also problematic. Different projects have different risk characteristics, should corporate cost of capital be used, or should cost of capital be estimated separately for the business or even the individual project on the basis of its riskiness?

To take account of risk and uncertainty, all the companies test for the sensitivity of DCF results to variations in key assumptions. Some companies, Shell in particular, require that larger projects are evaluated in relation to alternative project scenarios. More generally, sensitivity analysis is performed to test for variations in crude oil prices, refining margins, reserves, investment costs, exchange rates, and other variables.

For upstream projects where risks are greatest a variety of simulation analyses are undertaken. Some form of Monte Carlo simulation is utilized by most of the companies.

In order to gain a better understanding of the impact of different factors on project returns, several companies (including Elf, Chevron, and Conoco) have undertaken regression analysis of the impact of oil process, exchange rates, drilling costs and other factors on project returns.

Most investment project do not involve simple go/no go decisions. Most projects are multistage decisions which offer many choices as to the size and design of the project, and also offer the opportunity of abandonment at a number of different points of time. This is especially the case with upstream project. Such projects are typically modeled as a decision tree or a dynamic programming problem. In the case of a decision tree formulation, by assigning probabilities at the different decision nodes, expected NPV can be calculated.

The problem of such calculations, as several of the companies have noted, is that it is difficult to give appropriate weight to the *option value* of these types of investment. The option value is the right to undertake subsequent stages of the project. These option values are increased by the fact that, for most upstream investments, the alternative to undertaking subsequent stages of the project is not just to abandon the project, but to *wait*, until a later date.

While methodology for appraising risky investment has developed considerably in recent years, there are no generally accepted techniques for extending DCF analysis to take account of risks, project flexibility and the multistage character of many projects. All the companies recognize the problem of accounting for option values in their formal investment appraisal, but the conceptual and mathematical complexity of formally valuing such has options has prevented the integration of modern option pricing techniques with more conventianal DCF analysis. Chevron has made notable progress in adapting decision tree analysis to take account of "wait-an-see" options.

As a result, standardized DCF evaluation of investment projects is supplemented by qualitative, individualized appraisal. A critical element here is the *strategic analysis* of individual projects. At the simplest level this involves considering the extent to which a project is consistent with the agreed strategy of a business, at a more sophisticated level it involves analysis of the attractiveness of the market which the investment is to serve, and the fit between the project an the competitive advantages of the company.

Authorization levels

The relative roles of corporate and divisional management in investment decisions is indicated most simply by authorization levels with the company: at what level of capital expenditure does the business unit head and divisional head need to get seek approval from the next level of management?

The trend has been for levels of authorization to increase. This reflects two factors:

- The shift from "input control" (monitoring and approval of decisions) to "output control" (evaluating performance against targets). Thus, while top management has given greater discretion to divisional management in selecting investment projects, this has been counterbalanced by more rigorous evaluation of investment performance.
- The doctrine of accountability encouraging a separation of corporate and divisional responsibilities. Thus, while divisional management has taken responsibility for managing a particular business sector—including the selection of appropriate investment projects, corporate management has taken responsibility for the total size of the capital expenditure budget, and its allocation between divisions. Hence, the focus of corporate management control has shifted more towards controlling capital expenditure budgets rather than the choice of individual projects.

Capex budgets

Capital expenditure budgets are a key outcome of the strategic planning process. Divisional plans include proposals both individual projects and overall capital expenditure for the each year of the plan. In agreeing the divisional strategic plan, corporate management is giving preliminary approval to projects which have get to be formally outlined and submitted for full consideration, as well as outline approval to the capital budget for the planing period. However, it is not until the annual capital expenditure budget is agreed that funds are actually authorized for divisional investment spending. The annual capital expenditure budget will be determined by the expenditures required for already approved projects, plus some estimate of the expenditure on projects which will be submitted for approval in the coming year and which have been included within the strategic plan.

Post-investment reappraisal

All the companies have some form of system for evaluating investments after funds have been allocated. The purpose of this evaluation is two fold. The first is to enforce accountability--to ensure that the performance achieved is consistent with the performance which was forecast in the capital expenditure proposal. This requires analyzing deviations of actual from expected performance and identification of whether the reasons for the performance gap are unexpected changes in external factors (e.g. unexpected changes in oil prices), deficiencies in the project proposal, or deficiencies in project management. The second is to promote learning that can improve investment decisions and project management in the future.

The companies differ with regard to how long-established and systematic their post-investment review process is. Exxon, BP, Elf Aquitaine and Amoco have well-established processes for evaluating projects after start up. In the case of Exxon, accountability is ensured by making this a key responsibility of the Management Committee. On the other hand, Shell's system of post-investment review is more recent and less formalized.

IX. Conclusion

The 1990s have been a remarkably successful period for the oil companies. Despite the continued turbulence within the industry, increasing competition, and oversupply of oil on the world market, the oil majors have done a remarkable job of adapting their strategies and structures to the new market conditions.

Much of the credit must go to managements' quest for profitability and shareholder value. Driven by these objectives firms have cut costs and restructured asset portfolios. These priorities caused strategic management to become increasingly short-term in its orientation and to play a secondary role behind financial control.

At the same time, all the companies have undertaken bold strategy initiatives over the period. These have involved exits from major busienss areas such as large-scale divestments in the minerals and chemicals, entry into new goegraphical areas (especiually China, the Former Societ Union nad Latin America), the restuructring of downstream busiensses involving the formation of joint ventures (e.g. Texaco's Star Enterprises, and the Mobil and BP's European joint venture). Many of these initiaves were the result of opportunism rather than of carefully laid strategic plans. Again, the evidence suggests that formal strategic planning processes have occupied a supporting rather than a leading role in the development of the majors during the past decade.

While financial control, opportunism, and entrepreneurial initiative have been preeminent influences in recent years, it seems likely that attention will once agaijn shift to the *processes* of strategic decision making. As the end of the decade approaches, the companies appear to be exhausting the opportunities available from basic cost cutting and asset surgery. Over the next decade, the companies will have to look to additional sources of value creation.

Under these conditions, strategy formulation is likely to play an increasingly important role. Until now, superior profitability has been driven primarily by the ability to cut costs, to shed unprofitable assets, and locate within growth markets. Achieving flexibility, "bottom-line focus", entrepreneurial responsiveness, and cost consciousness have taken priority over careful long-term thinking. As growth markets such as south-east Asia, natural gas marketing, and power production become increasingly saturated, so the oil companies will need to look into more sophisticated sources of competitive advantage. The ability to develop and exploit superior capabilities, and to derive value form linkages between businesses are likely to be increasingly important. To the extent that each oil company possesses a unique endowment of resources and capabilities, so we are likely to see increased divergence in the strategies of the major players.

Under these conditions, strategic analysis has the potential to play a new and more central role in guiding the development of each of the majors. As the issues become more complex, so new tools of analysis may become necessary. Although strategic decision makers have tended to eschew formal analysis in favor of intuition and experience-based judgments, it seems likely that the shear complexity of the strategic issues associated with environments such as China and Azerbajian, the emerging shape of downstream markets for natural gas, the sources of synergy across activities and businesses, and the design and management of strategic alliances, will all tend to reinforce the need for incisive strategic analysis.

The challenge is to develop strategic decision making systems to can enhnace both the coordination and the quality of strastegic deciison making. In terms of coordination, the primary need is to balance increased decentralization with mechanisms for exploiting linkages between differnet busiensses. If the integrated oil companies are to survicve against competitoon from independents at every level of the value chain, it will be through their ability to utilize their sciope of activities as a strenght.

In terms of improbing the quality of strategic deciison making, the challenge is to augment the experiential knowledge of the corproate and divisipnal executives who are responsible for strategy formulation, with the power and insight which the concepts and frameworks of strategy analysis can offer---including such topics as organizational capapbilities, appropriability anlaysis, game theory, sustainability analysis, and the like.

Mr. SESSIONS. Thank you, Mr. Grant.

Mr. McTigue, I evidently misstated your name. For the record or for me, you may want to correct it. But, Mr. McTigue, we're glad to have you here today, sir.

Mr. MCTIGUE. Thank you, Mr. Sessions.

I am honored indeed to have been invited to be present here this morning. Having been an elected representative of the Parliament of New Zealand and having spent a period of time as a cabinet minister in the Government of New Zealand, during that time, I was Associate Minister of Finance. Specifically, my role was controlling the spending of government on a day-to-day basis. Consequently, I was very much involved in the type of process that you are going through here.

Can I state to you first out, sir, that the most important tool available to our Parliament in getting on top of government spending was a process that is identical with what you're going through now. Being able to clearly identify what results were being achieved for the taxpayer dollars that were spent was critical in deciding those things that you would fund in the future, those things that you would fund more generously in the future, and those things where it was clearly not viable to continue to fund them at all.

In my view, the major winners out of this type of process are the elected representatives of your Congress and your Senate because it empowers them to understand quite clearly what it is that the Executive is doing and how successfully they are doing those things. And unless you can do that, in my view you cannot exercise the authority that is vested in you to overview on the behalf of the taxpayer the activities of the administration.

I have looked at some of the plans that have been submitted. I have not looked at all of them. The kindest interpretation is that they are varied, but in saying that they are varied, they are varied from being excellent to being bad.

I think that Congress has to be very careful that if it is to accept plans that are not up to standard, then the risk is that you set a precedent by a laissez-faire attitude that will make it acceptable for plans in the future to be submitted that don't meet those standards.

I went through exactly the same experience when our Department of State started to submit their plans. It took about 4 years to get the plans to an acceptable standard.

One of the mechanisms that we used was that we would give departments a grace period in which they should upgrade their plan. In some cases when they were still not satisfactory, we put those departments on what was called a watching brief. That was quite onerous because those departments had to report to me as chairman of the Expenditure Control Committee on a month-to-month basis on the progress that they were making.

Maybe that's too onerous in your case, but a watching brief is a convenient mechanism to make progress while continuing to insist that there should be improvement in what is being achieved.

As I looked at some of the plans that you have before you now, if I were to pick out one criterion that I think needs to be insisted on, that is, that there needs to be a clear definition of what the result is that a given expenditure is meant to achieve.

Generally there was in my view a misunderstanding of that process of determining the result that should be achieved among a number of the plans submitted. It's only when you manage to focus clearly on safety is about saving lives or about diminishing the number of people that are injured that you start to concentrate the resources on the things that are most important.

What will bring down the numbers of fatalities or the number of injuries in, for example, something like occupational safety and health legislation? Once you focus on that, then you find that the culture changes inside the organization. People start to go about their work in a different way.

The next most important thing in my view was that there has to be somebody who is accountable. If there is mixed accountability, then you can't get performance. If it's going to be the deputy secretary of that particular agency, so be it. But unless there is somebody who is clearly accountable, then it's not going to filter down through the management structure that there is a different level of performance now required. In reviewing your legislation, I think that that's an area that you're probably going to have to strengthen accountability over time.

Can I just conclude by making these comments, sir? And I have a number of other comments in my written testimony. I have focused very much on the role of the Congress because the process that you are going through here is that the administration is making its decisions about the things that it wants to fund. Finally, the checkpoint is the Congress, where in its line-by-line appropriations, it makes the decisions about whether or not it is going to fund those in the future.

It seems to me that the function of the Results Act is meant to bring a greater scrutiny to that line-by-line authorization of appropriations ultimately. It's meant to put Congress, the Members of Congress, in a situation where they can make an accurate comparison of this activity against that activity. Once you start to do that, then indeed you can start to deal with the issues of duplication of activity and start to fund those things that produce the best results and those that don't.

That brings accountability both to the Congress and to themselves saying some of these things that while required by legislation, the legislation is now redundant and should be repealed. That brings accountability to the administration in terms of saying we can't continue to fund those things that are not producing good results.

In my view, those who are in control of spending need to frequently consider that their ability to authorize spending is only one side of the deal. The other side is that the spending is funded by the taxpayer through a process that's accepted in democracies, but it really amounts to the compulsory confiscation of private property through that taxation system.

The only way that can be made acceptable is if the way in which the money is spent meets what could reasonably be considered by the taxpayers to fit the criteria of being a worthwhile expenditure of their resources.

If Congressmen and Congresswomen and Members of the Senate do not get the appropriate information to be able to make that value judgment, then they're not abrogating their duty. They're being denied the right to meet that duty.

Thank you, Mr. Chairman.

[The prepared statement of Mr. McTigue follows:]

TESTIMONY:

Mr. Chairman, I am honored to have been invited to give testimony before your committee on the Government Performance and Results Act as it pertains to the successful implementation of performance and accountability measures in government.

Mr. Chairman, it would be inappropriate for me to comment on the merit of the policies that drive the various agencies of the United States Federal Government, especially after having lived in the United States only seven months. However, as an elected member of the Parliament of New Zealand for nine years and as a Cabinet Minister in the Government, my experience with the new accountability measures in government instituted during that period may be of benefit to you in your deliberations. In particular, the experience I had as Associate Minister of Finance and Chairman of the Cabinet's Expenditure Control Committee may be especially appropriate. The function of that committee was to scrutinize all expenditures of all agencies and to see that their performance met acceptable standards according to our newly instituted accountability laws. Some of the lessons learned by members of our Parliament as a result of this experience may be of benefit to you, this Subcommittee, and the Congress as you implement the Results Act.

NEW ZEALAND'S REASONS FOR CHANGING ITS ACCOUNTABILITY LAWS

Our accountability laws proved to be the most powerful tool available to the Government and the Parliament for both controlling spending and improving the quality of spending. When the finances of the New Zealand Government were in dire straits in 1984, much soul-searching was undertaken to try and establish why Government was unable to control its spending. Immediately that analysis identified as a major problem the poor quality of information being provided to decision-makers, i.e., Parliament. Parliament needed to have confidence that the money voted to programs was going to produce measurable, beneficial and tangible results. From the information supplied by departments, it was impossible for Parliament to determine with any accuracy if departmental activity was achieving Government policy objectives.

In the process of government, power ultimately resides in the hands of those who control the purse strings. However, poor quality information diminishes the power of decision-makers by depriving them of the means to make reasonable judgments on the relative worth of programs. In the same way, an inability to acquire timely information also diminishes the power of decision-makers.

WHAT IS AT STAKE HERE?

In New Zealand's case, Government was consuming 44 percent of Gross Domestic Product (GDP). The result was a stagnant economy and declining standards of living. Today, the New Zealand Government's share of GDP is 29 percent, and falling.

In the United States, what is at stake is $350 billion in wasteful expenditure, as identified by the General Accounting Office. If that sum was recovered from government spending and applied to debt reduction, the United States would have zero debt around the year 2011. Alternatively, the $350 billion could be applied to substantial tax reductions or investments in education or health. The point is that the stakes in this process are very high and this potential gain is achievable without eliminating current effective government programs.

WHAT ARE THE ADVANTAGES FOR CONGRESS FROM THIS ACT?

First, the Results Act returns the power of decision-making to where it belongs, i.e., with the people's elected representatives.

Second, the Results Act enables Congress to make value judgments between competing activities, not only on a cost basis but also on what programs expect to achieve.

Third, the Results Act empowers Congress to fulfill an important function for which they are elected— to scrutinize the proposals of the Executive Branch on behalf of the taxpayer and to agree to fund only those activities which are most likely to succeed.

Fourth, the Results Act gives Congress powerful evidence to support its decision when it decides to withhold funding or eliminate an activity that does not produce results.

All of these gains are contingent upon a concerted commitment by Government agencies and Congress to improve the quality of spending by insisting on high levels of accountability.

WHAT IF A PLAN DOES NOT MEET THE QUALITY STANDARD?

Accepting plans that fall short of the standard that Congress might set is a concept that needs serious consideration. Not all departments of state are going to achieve the same level of competence with their first plans. However, to take a *laissez faire* attitude to competence in the beginning would set a very bad precedent for future years. A strategy that might resolve this situation would be a procedure that puts departments "on notice", giving a grace period of perhaps six months in which they would be required to upgrade their plan to an acceptable level. An alternative could be to put "on watch" a department which was not cooperating. Under this policy, the department might be required to report to Congress more frequently.

Another point that needs to be understood is that these plans are meant to be living documents, which are continually updated and improved. As such improvement occurs, Congress is entitled to be informed and given the opportunity to critique changes. In New Zealand, in the worst cases, funding would be withheld until acceptable plans were presented.

HOW DID NEW ZEALAND USE ITS NEW ACCOUNTABILITY LAWS?

In my experience, the best results came from selecting a particular function of a department and commissioning an in-depth study of that activity. In the early stages of instituting accountability requirements for departments, this process was a helpful learning experience, and the lessons learned by the department could be applied elsewhere. The process included: a request for the department to report in detail on that function; a request for the Auditor General (equivalent to your General Accounting Office) to report independently on whether that function would be likely to deliver the predicted outcomes; and commissioning a private sector specialist (usually a large accounting firm) to do the same. The committee evaluating the department and its functions would then possess three streams of advice before making decisions or recommendations. One of the results of applying this process to our Revenue Service was a major reform and simplification of tax laws. This simplification enabled 40 percent of New Zealanders to be relieved of the burden of filing tax returns. In another example, the application of these principles to the Ministry of Works resulted in the entire Ministry being totally dismantled, and all of its activity moved to the private sector. This is not necessarily a reflection on the Government agency concerned but a decision that taxpayer dollars *can* be spent better and therefore *should* be spent better.

REVIEWING STRATEGIC PLANS

These are the kind of questions I would ask if reviewing a strategic plan:

Mission Statement:
- Does the mission statement accurately reflect the reason for the department's existence?
- How will the activities of this department improve the lives of the American people?
- Does this department need to exist?

Goals and Objectives:
- Does the objective have a measurable result? If not, why?
- Are these goals and objectives similar to those of other agencies?
- If so, who does the activity best and who should do it in the future?
- Is the objective already delivered in the private sector?
- If so, why is the agency doing it, and can the agency do it better?

Strategies to Achieve Goals:
- Does the plan prove that the strategy will achieve the goal?

Program Evaluation:
- Does each program have a mission statement?
- Has the program achieved its objectives in the past?
- Will it achieve its objectives in the future?
- Can someone else deliver this program better?

Management:
- Can the department properly control all of its activities?
- Can the department give a fully allocated cost for all of its activities?
- Can the department give information to Congress and to the Administration in an accurate and timely manner?
- Does the strategic plan make a commitment to achieving the above?

Final Accountability:
- Who is responsible when objectives and goals are not achieved?

It is in the area of final accountability that there may be a weakness in the current Results Act. In the New Zealand procedure, the burden of proof lies with the Department, which must establish beyond reasonable doubt that it can achieve the objectives it has set for itself. If it cannot offer such proof, it receives no funding.

MANAGEMENT

Mr. Chairman, I realize that I have been using a considerable number of anecdotes, but they do help demonstrate different important points. A final anecdote from New Zealand concerns our process of fully allocating costs, including department infrastructure, capital, and head office costs. The Conservation Corps was a program designed to help difficult young unemployed people prepare for work. It involved using them in National Parks, recreational areas, and waterways doing conservation and environmental work. Their normal welfare payment was $127 per week, but in this program the payment was increased to about $150 per week. Everyone thought this was a good program until, under the new accountability rules, the department disclosed that the fully allocated cost of that program was $932 per week per participant.

It was because of this type of evidence that committees examining departments' plans gave top priority to requiring high-quality internal management structures that were capable of producing the sophisticated information necessary to fully allocate costs.

Mr. Chairman, once again I thank you for the opportunity to present testimony to this Committee and Congress. Though I have deliberately avoided commenting directly on any plans submitted by an agency of the US Federal Government, I would be happy during questioning to elaborate on how the experience referred to in my testimony might be applied to the examination of specific plans. I would also be very willing to put my experience at your disposal in future should you find it of benefit.

Testimony Prepared by:

M. P. McTigue

Maurice P. McTigue
Distinguished Visiting Scholar
Center for Market Processes

The Honorable Maurice McTigue

Distinguished Visiting Scholar

As a Cabinet Minister and a Member of Parliament, the Honorable Maurice McTigue played an instrumental role in New Zealand's remarkable economic and political reforms of the last decade. During his career, McTigue lead an ambitious and extremely successful effort to restructure New Zealand's inefficient public sector and to revitalize its stagnant economy. McTigue privatized billions of dollars worth of government assets, made dozens of debt-ridden public corporations profitable, and implemented property rights-based solutions to problems ranging from fishery depletion to public land management.

Since joining the Center for Market Processes in June 1997, McTigue has sought to share the lessons of his practical political experience with policymakers in the United States. McTigue is currently working with federal policymakers on forestry policy, taxation, and results-based management, and he has testified before several congressional committees. McTigue has also begun to consult with governors, mayors, and state legislatures on issues including education, taxation, deregulation, and public sector reform.

McTigue entered the New Zealand Parliament in 1985, serving as the National Party's Junior Whip and Spokesman for Works, Irrigation, Transport and Fisheries until 1990. McTigue oversaw the deregulation of the transportation and irrigation industries and refined the creation of property rights and conservation incentives for the fishing industry.

In November 1990, McTigue joined the Cabinet of Prime Minister Bolger as Minister of Employment and as Associate Minister of Finance, holding primary responsibility for spending control, student loans, school funding, public transit, and occupational licensing.

In October 1991, McTigue accepted the positions of Minister of State Owned Enterprises, Minister of Railways, and Minister of Works and Development, and assumed the Chairmanship of the Cabinet's powerful Expenditure Control Committee.

In each Ministry, McTigue helped clarify the organization's mission and prioritize activities accordingly. McTigue restructured and made profitable corporations controlling airlines, electricity, coal, forestry, government property, postal services and public works, and he completed the process of privatizing or eliminating non-priority activities.

In March 1993, McTigue was appointed Minister of Labor and Minister of Immigration, continuing the application of market principles to employment law, occupational safety and health regulations, and immigration.

From April 1994 until joining the Center in June 1997, McTigue represented New Zealand as High Commissioner to Canada and non-residential High Commissioner to Jamaica, Barbados, Trinidad and Tobago, and Guyana.

The Center for Market Processes is a non-partisan, non-profit research and education organization affiliated with George Mason University and dedicated to helping solve society's critical problems.

Mr. SESSIONS. Thank you, Mr. McTigue.

Let me say this. I believe you and Mr. Grant have given me a scholar's view of what I received in college for so long. And I think it's worthy of us to hear your approach because what you say today is what we intended out of this legislation. It was done with great seriousness and great intent. And you being here to shed this light on it reinforces, to me at least, why we went into this endeavor in the first place.

Our next witness is a good friend of mine and a very wonderful servant on behalf of the President, the American people. Mr. DeSeve, if you will please proceed?

Mr. DESEVE. Thank you, Mr. Sessions.

I want to begin by extending an invitation, particularly to Mr. McTigue, to come to the President's Management Council and give them that information as well.

Mr. SESSIONS. I think that would be time well spent.

Mr. DESEVE. I think so, too.

Mr. SESSIONS. Both sides. Thank you.

Mr. DESEVE. We'll get that information out to him formally.

Mr. Chairman, I welcome the opportunity to appear before this committee and discuss the Government Performance and Results Act. We all recognize that this is an important piece of legislation, and we are in the midst of its implementation governmentwide. We appreciate the committee's sustained interest in, and commitment to, bringing about the successful implementation of the Results Act.

The hearing today is centered on H.R. 2883, the "Government Performance and Results Act Technical Amendments of 1997." Let me say at the outset, we oppose this legislation. We did not come to this conclusion lightly, for we believe that both the products and processes of GPRA should be of the highest quality. However, we are convinced this is not the time for this legislation. Indeed, we believe its enactment could impede successful implementation of the Results Act. Let me explain why.

Less than 4½ months ago, 100 agencies sent Strategic Plans to Congress. In its January 1998 report, "Managing for Results," the General Accounting Office characterized these Strategic Plans as follows, quote, "On the whole, the agencies' Strategic Plans should prove useful to Congress in undertaking the full range of its appropriation, budget, authorization, and oversight responsibilities and to agencies in setting a general direction for their efforts. These plans appear to provide a workable foundation for the next phase of the Act's implementation—annual performance planning and measurement."

OMB agrees with GAO's assessment. Plans were of varying quality. All these plans can be improved, yet, and this is a critical point—we believe all are adequate to serve as, "a workable foundation."

The annual Performance Plans were first submitted to OMB in September. I've got NRC's September plan here. This happens to be an example of one plan.

We used the information in these plans as part of the decision-making process in developing the President's budget last fall. In fact, let me quote the President in that regard. This is from the budget document:

The administration has made a good start in the process GPRA envisioned. Nevertheless, more work remains. Agencies will modify annual Performance Plans to reflect changing circumstances and resource levels. The plans will provide a backdrop for further discussion about allocating resources and the President's future budget will contain new and better administration. The administration looks forward to working with Congress and stakeholders to use these tools to build better performance.

Mr. McTigue probably couldn't have said that better than President Clinton did. You might disagree. I don't know.

We'll use this information to build the President's budget in the fall. Some plans were very good, and some needed improvement. We have provided, and continue to provide, comments to the agencies in an effort to improve the usefulness of their plans.

This is the NASA plan. NASA did quite a good Strategic Plan and has been at it for quite a while. However, this plan is replete with my comments to NASA about how to make it a better plan. And they're now in the business of retooling that plan before they send it up to Congress.

As you know, many of these plans have not yet been reviewed by the authorizers and appropriators. As this is done, I have encouraged agencies to prepare revisions of these plans, as needed, to improve their usefulness to Congress, to the agencies themselves, and others in the executive branch.

Revisions reflecting final congressional action will likely be made in September and October, about the time the fiscal year begins. Some agencies refer to this revision as an operating plan. Thus, over the summer, agencies will simultaneously be working on revisions to their fiscal year 1999 plans and completing the initial iteration of their agency annual plans for fiscal year 2000. We hope to incorporate many of the improvements and enhancements we expect to see in the fiscal year 2000 plans into the revised plans for fiscal 1999, a dynamic process of changing agency plans.

This will be no small task for any agency. To this work, H.R. 2883 would now add a further burden: revising the recently submitted Strategic Plans and preparing additional Strategic Plans for agency components. This is required to be done under the regular process of GPRA.

I am certain that the net result of having agencies concurrently prepare revised Strategic Plans, revised Performance Plans for 1999, and initial Performance Plans for 2000, would be to substantially diminish the quality of all three products.

That is not to say that OMB is opposed to individual agencies deciding on their own, or with the benefit of congressional input, to revise their plans. To be clear, agencies that believe it is advantageous to resubmit their Strategic Plans can, and should, do so.

The Labor Department has done that. Under OMB's Circular A–11 guidance, we indicate to them that with the submission of their annual Performance Plans, if they so choose, they should submit changes in their Strategic Plans. And you'll be able to go through and see that the six goals in the Labor Department plan have been reformulated, compressed, and changed.

I think you'll find the Labor Department plan, as I believe GAO has indicated in recent testimony before the Appropriations Committee for labor and the appropriations committee has testified, is a good start that the committee finds useful. So there's an example where agencies, in fact, decided to do that modification. In these instances when they do submit these revisions, OMB is quickly reviewing the revisions and facilitating their transmission to Congress.

The bill before us also includes new statutory specifications for what must be in a Strategic Plan. These specifications would need to be included in the revised plans that would be due this September. I believe these new statutory specifications are premature until Congress has had time to use both the Strategic Plans and the annual Performance Plans. For example, in reference to the crosscutting and data collection areas that the bill would mandate, GAO found that, "The forthcoming annual performance planning and measurement and performance-reporting phases of the Act will provide opportunity to address these longstanding management issues."

I also would say that crosscutting planning is not done just within agencies. July 1994, the CFO Act's first beginning of the Strategic Plan's revised in 1997. You're familiar with the 5-year financial plan and status report. When I got involved with the Chief Information Officer's Council in July, I insisted that they work very hard on their own Strategic Plan. It is just out. I would encourage you to get a copy of it because many of the concerns on the year 2000 information architecture, creating better data standards are being addressed in this crosscutting forum, as envisioned by the Clinger-Cohen Act. So we have multiple processes here which I am trying to get OMB to make sure that they knit together. And I'll talk very briefly about that at the end of my testimony.

In developing and reviewing annual Performance Plans, agencies as well as OMB have identified the need to develop crosscutting measures in several areas. While crosscutting areas are important, agencies have been encouraged to focus primarily on their own plans as contemplated by the statute. Get your own plan right first. Then we'll worry about crosscuts. And we'll be continuing to work with areas such as drugs.

ONDCP, law enforcement, credit policy, housing, research and development, foreign affairs have already begun the crosscutting process, both as to common objectives and common measures. We have consulted with congressional committees—Mr. Sensenbrenner's Science Committee, Foreign Operations Committees. And I have sent out the word to other committees. I was with the appropriations clerks in the House about a week ago and said: "Please. Please. We're happy to sit down anytime anywhere and talk with you about what would be useful to you in the arena of crosscutting measures."

Mr. Chairman, I understand there is some interest in adding a requirement for cost-accounting goals to be included in this bill. I will note that the committee report on the Results Act already specifies unit cost measures. The Federal Accounting Standards Advisory Board has issued accounting standards in this regard and the Chief Financial Officers have been working with the Joint Financial Management Improvement Program to issue systems guidance and procedural guidance along the way.

Mr. Chairman, I am personally reviewing every annual Performance Plan from the CFO Act agencies. I have a big table that's littered with drafts of plans. And I've been meeting with the agencies day after day after day. I met with the State Department 2 days ago, I'm meeting with HUD tomorrow, and so on, and giving them very strong feedback.

What's happening is there's a flight to quality. Why did the Labor plan get better? Labor went to the Transportation Department and said: "We want to look at your plan. Tell us how you're doing this." They brought the Coast Guard in and said: "What's the best way to do this?" So, we believe that there will continue to be a flight to quality.

My belief is that a useful plan will be used. Thus, our effort in recent months has been to make these plans more useful documents. I have found no perfect plan, nor do I expect to find a perfect plan. Many are as good or better than any Performance Plans produced anywhere in the world. I'll ask Mr. McTigue to comment on that. But, even these can still be improved.

We are particularly interested in engaging the substantive committees of jurisdictions; appropriators; authorizers; budget; and oversight on an agency-by-agency basis that will engage in discussions leading to identifying and incorporating specific changes that will make these plans more informative.

If we focus our effort in defining changes that will improve the annual plans for 1999 and 2000, all of us will more quickly secure the benefits and utility of having better plans as we make our decisions and determinations.

Thank you very much, Mr. Chairman. I'll be happy to answer questions.

[The prepared statement of Mr. DeSeve follows:]

STATEMENT OF G. EDWARD DESEVE
ACTING DEPUTY DIRECTOR FOR MANAGEMENT
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
HOUSE SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY
FEBRUARY 12, 1998

Mr. Chairman, I welcome again the opportunity to appear before this Committee and discuss the Government Performance and Results Act (GPRA). We all recognize that this is an important piece of legislation, and we are in the midst of its implementation government-wide. We appreciate the Committee's sustained interest in and commitment to bringing about a successful implementation of the Results Act, and look forward to working with you to that end.

The hearing today is centered on H.R. 2883, the "Government Performance and Results Act Technical Amendments of 1998". Let me say at the outset, we oppose this legislation. We did not come to this conclusion lightly, for we believe that both the products and processes of GPRA should be of the highest quality. However, we are convinced that this is not the time for this legislation. Indeed, we believe its enactment could impede successful implementation of the Results Act.

Let me explain why. Less than four and a half months ago, 100 agencies sent strategic plans to Congress. In its January 1998 Report, "Managing for Results" the General Accounting Office characterizes these strategic plans as follows: "On the whole, the agencies' strategic plans should prove useful to Congress in undertaking the full range of its appropriation, budget, authorization, and oversight responsibilities and to agencies in setting a general direction for their efforts. These plans appear to provide a workable foundation for the next phase of the Act's implementation - - annual performance planning and measurement." OMB agrees with GAO's assessment. Plans were of varying quality. All these plans can be improved, yet -- and this is a critical point -- we believe all are adequate to serve as a "workable foundation" for the annual performance plans for fiscal year 1999 which are being sent to Congress as required by the statute. In fact, annual plans from some agencies have already arrived and are being reviewed by the Congress.

The annual performance plans were first submitted to OMB in September. We used the information in these plans as part of the decision making process in developing the President's Budget this fall. Some plans were very good, and some needed improvement. We have provided, and continue to provide, comments to agencies in an effort to improve the usefulness of the plans. As you know, many of these plans have not yet been reviewed by the authorizers and appropriators. As this is done, I have encouraged agencies to prepare revisions of these plans as needed to improve their usefulness to Congress, the agencies and others in the Executive Branch.

Revisions reflecting final Congressional action will likely be made this September and October, about the time that the fiscal year begins. Some agencies refer to this revision as an operating plan. Let me add that the Committee Report on the Results Act provides for such a revision to the annual plans. Thus, over the Summer, agencies will simultaneously be working on revisions to their fiscal year 1999 annual plans and completing the initial iteration of their annual plans for fiscal year 2000. We hope to incorporate many of the improvements and enhancements we expect to see in the fiscal year 2000 plans into the revised final plans for fiscal year 1999.

This will be no small task for any agency. To this work, H.R. 2883 would now add a further burden: revising the recently submitted strategic plans, and preparing additional strategic plans for agency components. All this would be required to be done under the regular process of GPRA, including consultation with Congress, and provision of an opportunity for stakeholders, customers, and other parties to give their views on these plans. I would not minimize the prospective burden on Congress as well. H.R. 2883 would increase the total number of strategic plans to several hundred, promoting a similar expansion in consultation with the Congress, which, given the timetable set out in H.R. 2883, would likely occur in July and August.

I am certain that the net result of having agencies concurrently prepare revised strategic plans, revised plans for fiscal year 1999, and initial plans for fiscal year 2000, would be to diminish substantially the quality of all three products.

That is not to say that OMB is opposed to individual agencies deciding on their own, or with the benefit of Congressional input, to revise their plans. To be clear, agencies that believe it is advantageous to resubmit their strategic plans can and should do so. In fact agencies are taking advantage of the OMB Circular A-11 guidance that allows submission of revisions along with annual performance plans. In these instances, OMB is quickly reviewing the revisions and facilitating their transmission to Congress.

The bill before us also includes new statutory specifications for what must be in a strategic plan. These specifications would also need to be included in the revised plans that would be due this September. I believe these new statutory specifications are premature until Congress has had time to use both the strategic plans and annual performance plans. For example, in reference to the cross-cutting and data collection areas that the bill would mandate GAO found that, "The forthcoming annual performance planning and measurement and performance-reporting phases of the Act will provide opportunity to address these long-standing management issues." Many agency annual performance plans cover areas such as data sources and collection, management problems, and cross-cutting programs in a more specific way than did the strategic plans.

In developing and reviewing annual performance plans, agencies as well as OMB have identified the need to develop cross-cutting measures in several areas. While crosscutting areas are important, agencies have been encouraged to focus primarily on their own plans as contemplated in the statute. Efforts have already been undertaken by groups of agencies, with

OMB involvement, in areas such as drugs, law enforcement, credit policy, housing, research and development, and foreign affairs to develop common objectives and measures. We have consulted with Congressional committees and will continue to do so as appropriate.

Mr. Chairman, I understand there is some interest in adding a requirement for cost-accounting goals to be included in this bill. I will note that the Committee Report on the Results Act already specifies that unit cost measures, including unit cost of service, etc., are a preferred measure which agencies should include in their annual performance plan. I believe these measures are more appropriate to an annual plan than a strategic plan. Additionally, the Federal Accounting Standards Advisory Board has already published an Accounting Standard addressing cost accounting. The Chief Financial Officers Council in conjunction with the Joint Financial Management Improvement Program are in the process of issuing both systems and procedural guidance based on this Standard. Further Congressional action is not needed.

Mr. Chairman, I am personally reviewing every annual performance plan from CFO Act agencies. My review, which is nearly complete, has centered on looking at whether these plans are useful. Useful to the agency and its managers, useful to OMB and others in the Executive Branch, useful to the Congress as it makes decisions on agency programs, and useful to the public in understanding what they are getting for their tax dollars.

My belief is that a useful plan will be used. Thus, our effort in recent months has been to make these plans more useful documents. I have found no perfect plan; nor do I expect to find a perfect plan. Many are as good or better than any performance type plans produced anywhere in the world. Even these can still be improved.

We are particularly interested in engaging the substantive committees of jurisdiction-authorizers, appropriators, budget, and oversight - on an agency-by agency basis, in discussions that would lead to identifying and incorporating specific changes that will make each plan a more informative and useful document. Let us do that work first before new requirements are legislated.

If we focus our effort on defining those changes that will improve the annual plans, for both fiscal years 1999 and 2000, all of us will more quickly secure the benefits and utility of having better plans available when we make our determinations and decisions on where, how, and when we carry out the basic functions of this Federal Government.

Mr. Chairman, that concludes my statement. I will be pleased to answer any questions you may have.

Mr. SESSIONS. Thank you, Mr. DeSeve.

I find your comments very interesting, and I want to make it very clear that my comments today should be taken in the spirit in which they're intended.

Mr. DESEVE. Yes, sir.

Mr. SESSIONS. And that is that I disagree with you.

Mr. DESEVE. Yes, sir.

Mr. SESSIONS. You politely disagreed with the legislation that is before us. I have this disagreement as a result of the time that I have spent with you and Mr. Koskinen to work through this process for the past year. What I would like to do is, if I could, rather than having a question directed at you right now, is to go to Mr. McTigue and Mr. Grant.

Obviously when you are in government, you have somewhat of a different view of the world than if you are in a legislative body. Please discuss with me from a legislative perspective and also from a chief executive perspective where the OMB and the President are about allowing an agency to determine whether their plan met the specifications of the law and you, in essence, letting them decide that and not demanding a better product because I heard Mr. DeSeve say that agencies would make this determination. And that to me is a disturbing point that he has made today.

Mr. McTigue.

Mr. MCTIGUE. Thank you, Mr. Chairman.

The first thing is I would not advocate that course of action, that I think that accountability means that somebody else can look at your actions and decide whether or not they meet the standard required.

I have looked at the plans, as I mentioned. And I agree with Mr. DeSeve that some of the plans are excellent. And certainly the plan of your Transportation Department would meet the quality test of any of the plans that I reviewed in my own country, but some of the others would not.

If Congress was to accept that they did not have a part to play in saying whether or not these plans were accepted, then it would be abrogating its duty in my view.

Finally, the control lies in Congress' hands because at some stage, you're going to have to approve or not approve an appropriation. And the final test would be if you thought that this plan was totally inappropriate, then you would not approve an appropriation for it.

I think there are a lot of steps that must be taken before you get to that point. I think some understanding has to be available to work through what it is that you consider needs to be improved.

Perhaps I can focus on this by giving you a very brief example of a practical experience. I was Minister of Employment. When I became Minister of Employment, the department, the Ministry of Employment, thought and wrote in its Strategic Plan that its job was to diminish unemployment.

Quite clearly, that was an impossible goal for it because it does not have control over all of the things that create unemployment. That is going to have a much greater impact in government macroeconomic policy and all of those things.

So the first thing to do was to give it an appropriate mission statement. Its appropriate mission statement was that it was to help unemployed people find work. Then when we looked at the things that it did, it had 54 programs. By looking at the results of those programs, it was clear that 30 of them, while helping people with some kind of occupational therapy, did them no good whatsoever in terms of finding work.

So what I did was abolish those 30 programs and put more funding into the 4 that actually helped people find work. At that time, we were putting about 40,000 people a year into work. By making those changes, we were able to put 120,000 people into the work force each year and do that at a 40 percent reduction in cost. So that's putting it into place.

I've got to say to you, sir, that there is a sequence in these decisions. If you don't get the Strategic Plan right, you're not going to get the Performance Plans right and all of the consequential actions that flow from that. And if I were to say, "What's the critical point?" the most critical point is that the mission statement has to reflect what it is that you need from that agency because it's from that that the rest of the decisions flow.

Because you have a bipartisan attitude here and the benefit is to both sides of the house in improving the quality of the information coming to Congress, there are many steps that I think that you can follow before you take the hardest of those steps, which would be finally to deny an appropriation.

Thank you, Mr. Chairman.

Mr. SESSIONS. Thank you.

Mr. Grant. And then I will—do you need to go back right away?

Mrs. MALONEY. Right away.

Mr. SESSIONS. If I could, Mr. Grant, Mrs. Maloney would like to make a statement.

Mrs. MALONEY. I am in conflict in another committee meeting, where they need me right now. I had a series of questions that I worked on last night. Unfortunately, I will not be here to ask these questions. I'd like to submit them in writing, if I could, Mr. Chairman, and have the responses come back to the Committee staff.

Mr. SESSIONS. Without objection.

Mrs. MALONEY. Thank you very much. Thank you for your testimony. Thank you for all of your hard work.

Mr. SESSIONS. Thank you.

Will you please make sure that those get to the clerk?

Mrs. MALONEY. Yes.

Mr. SESSIONS. Good. Thank you.

Mr. Grant.

Mr. GRANT. The only comment that I would make is in relation to corporations, then this issue of accountability and the role of Strategic Plans in terms of not just guiding decisionmaking but forming the basis upon which the corporate officers could be held accountable I think is becoming of increasing importance.

The implication of that is, again, this very, very close linkage between the Strategic Plan and the performance plotting. And that I think is a common feature of all corporations. And typically the annual Performance Plans are typically the first year of the 4 or 5-year Strategic Plan.

Mr. DESEVE. Mr. Chairman, may I clarify?

Mr. SESSIONS. Yes.

Mr. DESEVE. On page 4 of my testimony—and I may have misread this—"That is not to say that OMB is opposed to individual agencies deciding on their own or with the benefit of congressional input." So we don't leave this to the agencies by themselves.

What I truly am trying to do is draw in the authorizers, draw in the appropriators. Your interest has been greatly manifest. There are some authorizers and some appropriators who have not yet engaged.

And as good as an oversight committee is, the authorizers and appropriators are closer to the scene and have the ability, as Mr. McTigue suggests, to make the consequences even more real. So I'm not leaving it to their own decision in an agency.

I'm saying an agency may decide to do it all by themselves. EPA, Energy, and Treasury have done the annual Performance Plans for some years. They have all modified their plans by working with their appropriators, the format of the plan, the structure, and the content of the plan. That's what we're trying to seek at this time.

Mr. SESSIONS. Good. Well, let's go to that portion, then, Mr. DeSeve, if we can. It is my understanding that in a briefing for congressional staff last week that was provided by OMB, you were asked whether Congress would have to live for the next 3 years with these poor Strategic Plans or whether OMB would do anything to have agencies improve their plans this year. I understand that your answer was that you would consider having agencies improve their Strategic Plans only if appropriators and authorizers got together and indicated that that was their desire.

Mr. DESEVE. I want to be very clear. That's probably exactly what I said, and I'm going to stand by that statement. In addition, we encourage the agencies themselves to think about whether they want to do it.

The Labor Department essentially did theirs on their own. We didn't tell them to do it. I don't know what their dialog was with their congressional appropriators and authorizers. So the only thing I would add to that is we don't inhibit an agency in any way from making the decision on their own to do it.

Mr. SESSIONS. Good. Well, I wanted you to know that I would like to submit for the record, asking unanimous consent, a letter received by my chairman, Chairman Burton, dated February 11th and signed by the following Members of Congress: Majority Leader Armey, Senate Republican Policy Chairman Larry Craig, Budget Committee Chairman John Kasich, Judiciary Committee Chairman Henry Hyde, International Relations Chairman Ben Gilman, Science Committee Chairman Jim Sensenbrenner, Committee Chairman Tom Bliley, Veterans Affairs Chairman Bob Stump, Small Business Committee Chairman Jim Talent, and Education and Working Committee Chairman Bill Goodling.

These members in this letter voiced their support for agencies to resubmit their Strategic Plans by September 30, 1998, rather than waiting 3 years for improving these plans. So I want you to know that I am in receipt of that, and it will be admitted, without objection, to the record.

[The letter from Mr. Burton follows:]

Congress of the United States
Washington, DC 20515

February 11, 1998

The Honorable Dan Burton
Chairman
House Government Reform and Oversight Committee
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Burton:

We understand that the Government Reform and Oversight Committee and the Subcommittee on Government Management, Information, and Technology, will be considering legislation that requires federal agencies to resubmit their Government Performance and Results Act strategic plans by September 30, 1998, rather than wait three years as current law provides. More importantly, it requires that the resubmissions include certain information deemed critical to a useful strategic plan. We are writing to support this improvement to current law regarding strategic plans under the Results Act.

The first major step in Results Act implementation occurred with the submission last September of agencies' 5-year strategic plans. The law envisioned that the strategic plans would lay the foundation for more informed policy decisions based on whether federal programs are working efficiently and effectively, whether there is duplication or conflict between programs, and whether programs need to be rethought. Unfortunately, we do not believe the bulk of the agency strategic plans are of a quality high enough to be useful, either by Congress or by the agencies, as envisioned by the Act.

In early spring of 1997, congressional staff teams and the General Accounting Office reviewed drafts of agency strategic plans and found that three serious information gaps existed: (1) the agencies did not recognize or address serious, sometimes longstanding, management problems that have been identified by the GAO or the agency Inspector General -- problems that would obviously jeopardize the attainment of goals and objectives; (2) the agencies failed to identify overlapping or similar functions, such as job training or drug prevention, that may exist within an agency or across several agencies. If an agency is not coordinating such programs internally, or externally, chances are we are wasting taxpayers' money, and; (3) it is clear that most agencies have major data problems that will severely limit their capacity to implement their strategic plans. While such deficiencies were pointed out during the drafting phase, congressional and GAO assessments showed that very few agencies fully addressed these problems in their final plans.

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During the congressional assessments of the plans, both the Office of Management and Budget and the federal agency officials argued that the information Congress had identified as crucial, but missing from the plans, was not included because it was not required by the law. Legislation, such as that in Section 2 of H.R. 2884, which makes these critical elements statutory for strategic plans, would ensure that agencies do not have an excuse to avoid crucial questions that go to the heart of a successful agency planning effort.

In a November 1997 Results Act report, you, House Majority Leader Dick Armey, Senator Larry Craig, Appropriations Chairman Bob Livingston, and Budget Chairman John Kasich, expressed the expectation that agencies would "submit another round of strategic plans by September 30 of next year that reflect substantive input from the Congress as well as substantial quality enhancements." *(Results Act: It's The Law*, November 1997.) H.R. 2883, particularly Section 2, recognizes the importance of such information for planning and decision-making by both agencies and the Congress.

Please accept our support for your efforts to overcome the deficiencies in the Results Act with regard to agency strategic planning. We look forward to higher quality strategic plans that will better serve the agencies, the Congress, and ultimately, the American people.

Sincerely,

Dick Armey
Majority Leader

Larry Craig, Chairman
Senate Republican Policy Committee

Bob Livingston, Chairman
House Committee on Appropriations

John Kasich, Chairman
House Committee on Budget

Henry Hyde, Chairman
House Committee on Judiciary

Benjamin A. Gilman, Chairman
House Committee on International Relations

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James F. Sensenbrenner, Jr., Chairman
House Committee on Science

Tom Bliley, Chairman
House Committee on Commerce

Bob Stump, Chairman
House Committee on Veterans Affairs

James M. Talent, Chairman
House Committee on Small Business

William F. Goodling, Chairman
House Committee on Education and the Workforce

Mr. SESSIONS. What I would like to do——

Mr. DESEVE. I will share that letter with the agencies to encourage them to engage the members in conversation for the kinds of modifications that would be useful to the members in those plans.

Mr. SESSIONS. Yes. What I would like to do is if I can now go through a process with you, Mr. DeSeve. Obviously sometime before you took your job, John Koskinen, who appeared before this subcommittee and our committee as well as several meetings that I had with him, we were attempting to work together to develop the criteria for how the responses would be from the agencies.

And Mr. Koskinen agreed with what we were doing. It was in full compliance with the administration and also with Congress that we would not only do the strategic grading but we would also followup to ensure the quality of these plans.

I now am working off of what I know as the Results Act. It's the law that was prepared I assume by OMB. And it's Congressman Armey's. He has in here the final grades for departments and agencies.

I would like to hear from you about your management objective as you try and work with these agencies on behalf of the President because we feel like, the Congress, that we were trying to ask the person who was doing the job what they felt like they were doing, how they were going to achieve it, what tools they needed for us not only to budget and appropriate properly but for us to look at them from an objective managerial standpoint of the Congress in our role of oversight and also for appropriations.

I am extremely interested in your view from the President about these agencies because I would find it very interesting if somehow the President found these to be acceptable also. And so I would be interested in your comments.

Mr. DESEVE. Yes. I want to go back and start by again associating myself with GAO's recent report, which said the plans aren't perfect, they're of varying quality, but they provide a suitable going-forward framework.

At the same time, the Strategic Plans were submitted finally. And, again, Mr. Mihm notes the marked improvement as a result of the work that we did over the summer with the Congress in changing them.

We also began receiving Performance Plans. And we knew that the next step, the next thing that people would want to see and want to work on were Performance Plans. We encouraged agencies to—in those Performance Plans—clarify their missions, clarify their objectives, link resources to results, and get good performance measures that brought us down to the specifics of what the agencies were trying to do. And, again, in some cases, the agencies went back and revised their Strategic Plans during that time period. We thought that was a very good thing. And again I talk of the flight to quality.

What we have been doing and are continuing to do is continuing to provide agencies very specific feedback to sharpen their objectives. I had some conversations the other day with a particular agency about: I'm not sure you really want to do that that way. That probably doesn't work that way.

What we're doing is we're moving from a generalized framework, which we and GAO found to be an acceptable place to start, to looking now more at the details. We're using a more inductive method, if you will, in looking at each of the details very carefully and trying to get them to line up with the objectives.

If it's necessary to change an objective—in Labor, they found that their six overall goals didn't work. They had to narrow them and focus them. Then that will happen in the natural course of events.

John Koskinen always talked about the bell-shaped curve.

Mr. SESSIONS. Yes.

Mr. DESEVE. We believe we've moved the shape of that curve over toward higher quality. Is everybody there yet? No. And that's why we enlist the entire weight of the Congress to work with us.

There are some strong disagreements among the agencies about how things should be measured. The Attorney General has a profound disagreement about how crime should be measured and how success in crime-fighting should be measured.

The Internal Revenue Service was a subject of recent hearings I believe in this room—it may have been on the Senate side—about: How do you stop bounty hunting and harassment of taxpayers from people who have got measures in a certain arena?

So what we're trying to do is to get down to the reality of measuring performance, and look at how that is associated with goals. And then we may have to revise some mission statements to do it.

But, in our opinion, to go back now and start the process top down again is probably premature and unnecessary. That's where we're trying to come from. We're trying to get right down to where the rubber meets the road.

And, again, as Mr. McTigue has said, if you look at Transportation's plan, they talk about the fact that there are 42,000 highway deaths. And they're committing to hold that number constant or decrease it as vehicle miles go up. And they have a series of strategies.

They know they can't control everything. They would love to have, Transportation would love to have, a 55-mile-an-hour speed limit because they know that would help them. They don't. They would love to have a universal seat belt law. They don't. So they're invoking very specific performance strategies to try to achieve that.

If it goes up, is it DOT's fault? Probably not. Maybe they have to spend more money on public awareness campaigns. So that's what we're up to right now.

Mr. SESSIONS. Our President has talked about the bridge to the 21st century. Would you consider the road map to be those plans that are submitted by the agencies, of which more than half have been graded at an F grade, 50 or less, as that blueprint to get us there?

Mr. DESEVE. Oh, no, I don't think so at all. I think the blueprint, the fine details in the blueprint, are contained in the agency, the overall agency Performance Plans, as GPRA intended. I think what you have in the Strategic Plans is at best a sense of direction, a sense, again going back to your comment earlier that the mission statements, by and large, were in pretty good shape. That's the schematic. That's the pointing in those plans.

We believe that annual Performance Plans, as GAO believes, can lead to improvements and will lead to improvements over time.

Mr. SESSIONS. Mr. Grant, when I was involved in private industry, we were aware of a term that was known to us as "continuous improvement." That would imply, among other things, that if you work off of a Strategic Plan, that you went in on a regular basis because it was a hands-on tool for you, that you literally updated and created and re-created and changed and did those things that were necessary as a paradigm occurred, a shift occurred, as a new market appeared, as a difference in whatever your mission was, that this continuous improvement involved updating your Strategic Plan, your goals, and your direction, and then communicating that to probably the most important person; that is, the worker.

In this case, we're dealing with a large customer, and that is many people who deal with the Government on a regular basis and need to know which direction the ship is headed.

Please talk with me about that thought process of continuous improvement and whether you believe it is fair for me to judge Mr. DeSeve's comments and the administration on their opposition to what we're trying to do. Put it in the context that I believe we're asking for them to be resubmitted in September of this year; that is, months away. Sir?

Mr. GRANT. Well, partly because I am not particularly familiar with the kind of strategic planning process which you're engaged in here, I can't really make much comment on the reasonableness of redoing these plans of public agencies between now and—September?

Mr. SESSIONS. September of this year. That is correct, sir.

Mr. GRANT. What I will say is that amongst the corporations that I am familiar with, then, while the basic planning process is this annual cycle, then typically those plans will be updated and in many cases revised substantially in the event of some major change in the external environment.

So, for example, recently many companies have been redoing their plans in response to the financial problems in East and Southeast Asia. So increasingly what you're seeing is the planning process becoming less of a formalized annual cycle and one where plans are being revised and updated as and when needed.

And the other aspect of that is that some companies have said: We are not going to go through this whole process every year unless we feel we really have to. We'll do fine-tuning. So I think that is my understanding of what the private sector does.

Now, the other aspect of this I think is the relationship between the corporate and the divisions. So typically what will happen during the planning process is that the major divisions, say, of General Electric, they put up their draft Strategic Plans to corporate. And corporate if they're not satisfied, will send them back to be redone within a period of 6 weeks, something like that.

Mr. SESSIONS. Which answers my earlier question about whether there is some controlling factor, as opposed to the agencies determining their own self-evaluation. In other words, you believe that OMB and Mr. DeSeve should be giving back strategic information and saying to them, "Look, this didn't cut it," or "I need it to be clarified," or "Please go back to work again" evaluation.

Mr. GRANT. Well, the difficulty I have is actually sort of clarifying where is sort of the corporate, who is playing the corporate role in this. Is the corporate role Congress? Is the corporate role the OMB? That is something which I find difficulty in drawing sort of precise analogies between the private and public sectors.

Mr. SESSIONS. Let me take 1 minute, if I can, and tell you what that is. We, in Congress, are not trying to punish agencies or the American public by withholding money. We have been forthright in legislation for the last few years. That was a very clear indication to any administration that was in power that the expectation is that we would begin and follow a formal process whereby these agencies would understand that they would go through strategic planning. And we've had a great deal of legislation and discussion along that line.

We are attempting to have this process be equally brought in and accepted by these agencies such that they can solve many of their own problems by asking questions and knowing the direction. And then we would work carefully with them. To assume that we want to punish someone or to withhold money because they have not performed in a way that we expected in my opinion would be less than honest.

This was inward thinking. This was a serious endeavor. And it was intended that honest and professional people would go forth in that regard. So if that helps you a little bit, we're not trying to withhold. We're trying to give them a structure in which they can work, but we did anticipate and expect that they would do it. And it is in some instances, unfortunately, the will of Congress that will prevail, maybe in error but never in doubt, in this instance to try and get a better product.

Thank you, Mr. Grant.

I would now like to ask Mr. Mihm and Mr. DeSeve, Mr. Mihm first: Can you please tell the reason some agencies' Strategic Plans improved? And why did they do it between August and September? Because evidently there has been a great deal of work that is done, and we have made a lot of progress.

I have seen this happen many times. Last week we had Ms. Garvey, who is Director of the FAA, once—I need to be careful. We scheduled a hearing that would be held, and she spent a great deal of time within her agency scrubbing a lot of the plans that would be presented to Congress. I consider her work very honest that she would have done that as the administrator anyway.

What has caused this work? And tell me about the improvement, Mr. Mihm.

Mr. MIHM. There are a number of reasons, Mr. Sessions, but the first, fundamental and overwhelming reason I think was the congressional engagement. I can't tell you how many times during the pilot phase of Results Act implementation that I'd meet with agency people and they would say: When is Congress going to get involved in this? We can't get the senior political leadership engaged until they start hearing from it from the congressional leadership.

I was telling them often: Be careful what you wish for. It may come true. And it came true in a very, very big way over the summer. I know there has been a lot of debate going back and forth about the scoring that was done both on the draft plans and the final plans, but I think, without question, it had a beneficial effect in focusing the minds within agencies, particularly the political leadership within agencies.

And we have heard this a lot from the career staff who were working on the plan that in many cases they didn't necessarily like the scores that they got, but, nevertheless, they understood what was going on and that there was a need to improve the quality of the plan and the planning efforts generally within agencies. So I think that the active congressional involvement, both at the staff level in terms of the scores—there was something like 20 different hearings that were held last year on the Results Act. And I know many of them were in this subcommittee but also in other committees across Congress.

That sent clear and unmistakable messages that they have heard from the majority leader's office based on surveys of subcommittees and committees, that it could be double that number this year on the House and the Senate side. And so I think that it sent very clear messages to agencies, that Congress cares and cares very deeply about the implementation of the Results Act. That was one thing, certainly OMB's engagement during the late summer and early fall as they began to work with the agencies in a little more focused way on the quality of the Strategic Plans and then agencies themselves. I think as the time came due, September 30th, they began to focus a little bit more.

But, like I said at the outset, overwhelmingly I think it was the congressional involvement sending unmistakable messages that you all were very, very serious about this, would be having discussions with senior political people and holding them, as Mr. McTigue was suggesting, accountable for the strategic decisions that were being made in the plans.

Mr. SESSIONS. Let me discuss with you now what I would say has been referenced today: getting better. In the specific case, how did they improve?

Mr. MIHM. What were the improvements in the plans?

Mr. SESSIONS. Yes.

Mr. MIHM. I think there were a number of areas where they got better in, I mean, at least at the threshold level in terms of compliance or including the discussions of the required elements.

When we looked at the draft Strategic Plans—these were the plans that were submitted to Congress for consultations. We looked at those for the 24 CFO Act agencies. All but six of those were missing one of the six required elements. And these required elements aren't very difficult, things like mission statements, goals and strategies, and discussion of external events that may impact your ability to achieve your strategies. And so all but 6 of the 24 plans for the largest agencies were silent on at least one of those elements.

We also found the majority of the plans were silent on two or more of the elements as well. And then by the time the September 30 plans came in, at least each agency had discussions of the required elements. So at one level, we at least got them up to the level of compliance.

I think second, though, is that also within compliance or within each of the various elements, they got better in terms of the quality and the usefulness of those plans. We saw goals—oh, I'm sorry.

Mr. SESSIONS. Was this the result of an output that you could look at a sheet of paper that they provided you and you review it and you would look at one plan dated one date and a different plan dated another date and you'd say, "They got better"?

Mr. MIHM. Yes, sir. The report that we did here that we're releasing today, we go through each of the 24 CFO Act agencies in the back. And what we talk about is we compare the plan that came out September 30th, to the plan that was submitted to Congress for congressional consultations in the summer, usually in the July timeframe.

And then we talk about the improvements made since the July plan. And for each agency, it goes through in a very direct way and discusses that. And then there's a separate section for each agency that discusses in our view the improvements that still remain to be made.

Mr. SESSIONS. Thank you, Mr. Mihm.

Mr. DeSeve.

Mr. DESEVE. I want to associate myself with Mr. Mihm's remarks. I think the only caveat I would put to that, there were a few agencies, and not very many, that lacked senior political leadership at that time.

The Labor Department is the classic example, where Secretary Herman, Deputy Secretary Higgins were not in place. It was very difficult. There was only one senior assistant secretary running the show, and she did a great job while she was there.

Mr. SESSIONS. Yes.

Mr. DESEVE. So it was very difficult for the Labor Department to get into the hands of Congress that which represented senior political leadership when there was none. So I think there were very few cases where that was going on.

What happened I think was the sharpening and the focusing. There was a lot of work. But there hadn't been a lot of dialog. And they weren't quite sure what was wanted.

So as they began talking to the people in Congress who had an interest in talking with them—and that was fairly broad across. It wasn't uniform, and it wasn't two from here and two from here and two from there. There were some holes. They saw what was wanted there.

We worked very hard over the summer with them to help them in the compliance arena. We were kind of the compliance checkers. We didn't tell them what their mission ought to be with some exceptions, but we did try to make sure they focused on——

Mr. SESSIONS. You were assistants for them, a resource.

Mr. DESEVE. Assistants and resource in quality control. RMOs, our resource management organizations, read each of the plans in their areas, cleared those plans, providing critiques along the way. The agencies took those critiques back and made them better.

So Congress, OMB, the agencies concentrated attention, again moving from a draft to a final. A draft will always have room for improvement. And I think there was significant improvement during that period. But Congress was a very important factor and will be as we roll forward with the annual Performance Plans.

Mr. SESSIONS. Please discuss with me my comment about continuous improvement. If you will give me just 1 second. It is my belief that this is not in a computer and put on a disk and thrown away but, rather, something that should be done, changed, moved on a regular moving-forward basis.

What I'm simply asking—and I'm going to go to Mr. McTigue here in a minute to ask him to critique between the two of us what the correct answer is. I believe that this should be a moving-forward target that they update, look at, change, make better, and that asking someone to go and re-evaluate after they have been told that it didn't cut the mustard some 8 months later is not an unreasonable expectation.

So my question to you is this: Are you suggesting to this subcommittee that these Government agencies would have to start over from scratch? That would be very timeconsuming. Or, are you suggesting to us that you simply don't want to do it for some other not political reason but some other reason within the agency that you don't want to ask them to do it?

Mr. DESEVE. Sure. Let me start by associating myself with your notion of continuous improvement. As any major factor changes in an agency's environment, I'd encourage them, continue to encourage them, OMB Circular A–11 encourages them to make modifications in their Strategic Plan. We would expect them to do that.

And if we look in their annual Performance Plan, for example—and they've got a brand new area of responsibility that they didn't have before, we would definitely encourage them to go back and make the modification in their Strategic Plan according to the A–11 process during the annual cycle for that modification.

Mr. SESSIONS. Do they believe that that is part of what they're to do or that they are going to wait until you say——

Mr. DESEVE. I think so. They've done it.

Mr. SESSIONS. Their vision would be they know this is a working document that would meet a continuous improvement process?

Mr. DESEVE. That has been my message, and it has been their reaction to that message.

Mr. SESSIONS. Good. Good. So it's not a starting over?

Mr. DESEVE. It's not a starting over. It's a continual modification along the way.

Mr. SESSIONS. Good.

Mr. DESEVE. What we're encouraging is that that continual modification focus now on the annual Performance Plans and use them as the basis for changes, three or four or five changes, that are very specific, very focused, very targeted.

One of the problems in this very large government—I hate to hide behind the size of the Government, but——

Mr. SESSIONS. But once again, sir, it may be a problem, what you're talking about, but we're breaking this down by agencies. And agencies are not as large as the Government.

Mr. DESEVE. I agree. And what I want to say is when we give a specific generalized directive—and I've been guilty of this myself—we don't understand what it triggers within the agencies and within the subcomponents of the agencies in terms of work in communication.

And we might say, "Revise your Strategic Plan." And you and I might mean: Look at those very specific elements in the plan that are troublesome and revise them. Honestly, by the time it gets down to a component agency, they don't get the same message, as hard as I try, as hard as you might try. So we know that when you give a generalized guidance, "Revise your Strategic Plan," it makes it very difficult for the agencies to know exactly what they have to do. Do I consult with stakeholders again? Do I consult with Congress again?

What we're saying is, instead of focusing on that now, focus on the annual performance plan. Use that as your vehicle, your specific vehicle, for continued improvements.

If as you in Congress work through it you see that there's a goal, tell the agency to change that particular goal, not their whole plan, but that goal. Let's use laser surgery. Let's use laser surgery on these things now. That's the only place that you and I differ. It's not of ends but of different means.

Mr. SESSIONS. Mr. McTigue, if you could please take a few minutes and help me out? We have had what I consider to be a very forthright discussion, Mr. DeSeve and I, Mr. Mihm, Mr. Grant, and I. You have been in both roles. And I think you see the position. I think you also understand that we're after the American public to get something that it pays for that helps us to get along in the process better. And I don't think we disagree. Your comments, sir?

Mr. MCTIGUE. Thank you, Mr. Chairman.

The first comment I would make is that it seems to me that there are two issues at play. The first of those issues is: Where do you start? The plan that's in front of you now, is that an acceptable starting point?

The second issue is: What happens through the future? If I was to relate to the experiences that we had, which are not too different from the ones that you're going through now, we graded agencies A through D in accordance with their ability to be able to meet the standards that we wanted.

Some of those agencies, for example, like the Treasury and the Revenue Department, because their functions are quite clear, you can set very clear objectives for them. It was much more difficult, for example, to set objectives for Foreign Affairs or the equivalent of your State Department because it's hard to measure foreign policy and exactly the same for Defense.

Having established what was the beginning point, then under the Financial Reporting Act, each agency is required to keep a continuum of planning that looks at a 5-year horizon. So unless there is some extraordinary event each year as they report, they are required to bring their plan forward so that it remains always 5 years out.

In my view, it must be a process that has a continuum. It will never succeed if once every X number of years, 2, 3, or 4 years, you draw up a new plan because by the end of the third year, the plan is going to be pretty much irrelevant to the activities that are going on.

So I think that what you are really discussing at the moment is: Do we have an acceptable starting point? And in some cases, I think the answer is yes. In other cases, the answer is no.

How do we get to an acceptable starting point? What is the mechanism? Is it done by compulsion by Congress or is it done by a process of cooperation by bringing agencies before specific committees and saying, "These are the areas that we're dissatisfied with. Can you upgrade those to a certain standard?" And we do that over a period of time.

And then the next issue is: What are we going to do from now into the future? I think the requirement there has to be that you keep a continuing flaming window open that will evolve over time and change so that you don't get the sudden jerk nature of policy change that we've had in the past and you actually know where you're going at any particular time.

Now, in a few moments, that sounds easy to do. In practice, it is much more difficult. And I have some sympathy with agencies where what you are requiring of them is a total change in the culture of what they do.

Not only are you requiring them to look a long distance forward, but you are also saying to them: What you do, we are now going to assess in a totally different way. In the past, we approved programs. We gave you money to fund those programs. As long as you spent the money in the right area, that was acceptable.

Now you're saying that is not going to be an acceptable measure in the future. We're not going to look at so much whether you spent the money in the right area but whether you achieved what it is that we wanted you to achieve. And I think that people are having a great deal of difficulty in changing to that new culture. I think that it needs the assistance of both the Congress and the agencies to resolve those problems for a number of those agencies.

Mr. SESSIONS. With that said, I have one last question, if I could, for you, Mr. McTigue. And, Mr. Deseve, if you wish to add onto this, feel free. I heard you say that it's a process that deals, really, in our example, the Congress and the administration, through the OMB. Why do you think that OMB would accept these plans that they admit did not meet the proper specifications? And do you believe that OMB has some role to say, "This is not acceptable" and would send it back, even if submitted to Congress, but to go back and say to them, "You must get this corrected"? What do you believe is the proper role of OMB and the administration in that regard?

Mr. MCTIGUE. I am trying to draw on some of my experience, short experience, as a diplomat here, sir, in answering the question. [Laughter.]

Mr. SESSIONS. Well, Mr. DeSeve and I are friends. This is a very open—and Mr. DeSeve will have that opportunity to defend himself. He can ably do that.

Mr. DESEVE. Of course, Mr. McTigue worked in it in the Whitehall parliamentary system. So he was both. He was both Congress and the Executive simultaneously.

Mr. SESSIONS. Duly noted.

Mr. DESEVE. He can see both sides of the argument that we're having.

Mr. SESSIONS. Duly noted. And that is why, really, Mr. DeSeve, I'm asking for his comment.

Mr. DESEVE. Sure. Very helpful.

Mr. SESSIONS. It is not in any way meant to expose or embarrass anyone but, rather, simply a question.

Mr. DESEVE. Certainly.

Mr. MCTIGUE. Mr. Chairman, I view your question or your contention as an issue of the machinery of government. The machinery of government is the thing that Mr. DeSeve is involved in on a day-to-day basis. His is what I would call a control agency. And he is meant to see that inside the administration, different organizations meet the goals that have been set for them and account in the right way. He deals with those things on a day-to-day basis. And he can watch progression as it happens on a day-to-day basis.

The Congress sits in a rather different position in that I see it sitting as the final court of appeal. It sits in the name of the taxpayer and the public good of the United States of America. And it finally has to make a decision of whether or not you have gone far enough for us to say it is acceptable to proceed on this basis.

Mr. DeSeve sees that from one point of view. Yes, we are making progress. He might see that in 1 year's time, he would have those agencies at exactly the point that you would want them to be under your piece of legislation.

You're saying that from what you can see at the moment, I'm not too sure that they're going to get there because I can't see evidence that this is a continuum in this process of continually upgrading what's happening. I don't know how you resolve that impasse if it really is an impasse because I think that your in game in both cases is exactly the same. It's a matter of how you're going to get there.

Mr. SESSIONS. Good. Thank you.

Mr. MCTIGUE. How did I do on the diplomacy?

Mr. SESSIONS. You're outstanding. And, by the way, I think that Mr. DeSeve and I would have to state on behalf of the Congress and my colleagues as well as the President, we are trying to get to the same point.

Mr. DESEVE. That's right, yes.

Mr. SESSIONS. So let's not mix or confuse that signal.

Good. Thank you, sir.

Mr. DeSeve.

Mr. DESEVE. And let me try to give you a sense of OMB's role here. I really got most actively involved in this in July, when John left. I had full responsibility then, but I have been working on it for quite some time——

Mr. SESSIONS. Yes.

Mr. DESEVE [continuing]. Both while I was at the Department of Housing and Urban Development and then when I came to OMB. The number of drafts and redrafts and quality controls and so on that we have done on plans is enormous.

Sitting to my left is Walter Grossik. Last Sunday he and I were sitting in different buildings e-mailing to each other. How are we doing on so and so? How are we doing on such and such? What do you think about the objectives here?

In several cases, we had excellent information in a crummy format. I won't tell you which agency. But by being able to move some of the blocks around for that agency, it made the plan more useful.

We again want to go back to the point of saying that we think we've got enough of a foundation here that we can build with you, but we truly, really—I'm not trying to, again, be disrespectful at all. We need even more input from the people in Congress who have like a laser beam targeted.

I want to talk to—I've had a dialog before with the Small Business Committee. I want to talk to people like Mr. LaFalce, whom I've had a lot of dialog with—he happens to be the ranking minority member in Small Business—about whether we got the measures right in SBA.

I've proposed some things to SBA about how they handle, for example, the relationship between their subsidy estimates and the objectives that they have and the target for performance measures in terms of number of loans.

I think that will be very useful to him, but I need to talk to him about that because I've given SBA a certain guidance, which hopefully they will accept and use. But if it doesn't help him in seeing the program better—he got some surprises over the last couple of years, as did the rest of the committee, in that program because they didn't have good projected performance information. And we need to fix those surprises.

So this is the kind of dialog that we're looking for at OMB at this time.

Mr. SESSIONS. Thank you.

I would like to make a comment directly in response to you. And once again I'm going back directly to this document that Mr. Armey has put together. I believe that the Congress has been very clear in our grading of these plans. I believe that the Congress has given specific feedback.

I would encourage—and I'm going to give two comments. Just since you mentioned that, just what I was looking at here popped right out at me. It is specific feedback for you to take back to each agency. And I hope at some point when Mr. McTigue at least meets with your executive council he is able to perhaps interlink us a little bit closer together.

On page 8, under "Strategies," "Few agencies prioritize among their many programs and activities. Hardly any show any interest in," quote, 'thinking outside the box' by proposing changes in their current programs and activities."

If there was one thing that this Republican majority Congress has done, it is that we are trying to encourage people to think outside the box, to think differently about what they're doing, and to propose how they're going to put current programs and activities together. So I would find it very discouraging if I heard an agency state, "Boy, they didn't get it. They didn't understand that."

Second, under "Factor 4. Relationship between strategic goals and annual performance goals," and I'm quoting, "Few plans describe whether or how annual performance goals will reduce the negative effects of agency programs, such as regulatory costs and burdens." I believe, Mr. DeSeve, that the Congress of the United States has been not only very clear but provided a specific road map for you and Government agencies to operate within and for continuous improvement.

I would first like to summarize, if I can, where I believe we are. First of all, let me say that each one of you who has been here today has represented your perspective and your background, I believe, very well. It should be noted that Mr. Mihm, I believe, has very ably and forthrightly done what we asked him to do, and that is to present the evidence, the information that he saw based upon an impartial evaluation. And, Mr. DeSeve, I want you to know that I believe that you have ably represented the administration and our President very well today.

I will tell you that at this point, we are going to go to markup at some later time. It will not be done today. But I would not like to have you leave believing that you have sold your case. I believe that the testimony, information that has been submitted to the testimony, is an overwhelming case that would state that we believe that further work must be done, that the letter that I have given and provided in testimony, February 11th, even though it was brand new, from our agencies that deal with giving money, appropriating, and looking at agencies carefully, are asking for this process to be done.

And I would like and think that in the short term, prior to markup and before us moving forward on this, that you would have an opportunity to communicate very carefully to those colleagues that you have and to those people who look for your direction to say to them that you would consider this to be continuous improvement and they should not throw that disk away that has their plan but, rather, continue along that line to make that better.

Mr. DESEVE. I will do that, sir.

Mr. SESSIONS. With this said, I have great respect and appreciation not only for each of your performances today but for your background and also for the people whom you represent.

I am now finding this subcommittee in recess.

[Whereupon, at 11:59 a.m., the subcommittee was adjourned.]

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