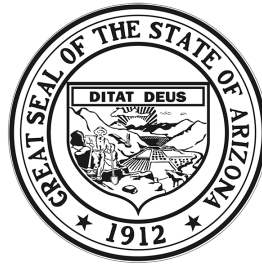


STRATEGIC PLANNING FOR CONTINUOUS IMPROVEMENT

STATE AGENCY HANDBOOK



January 2023

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Preface to the Fifth Revision

The 2023 *Strategic Planning for Continuous Improvement Handbook* is the fifth revision of the state's guide to strategic planning, deployment, and performance management. First published in 1994, this handbook represents the collaborative efforts of the Governor's Office of Strategic Planning and Budgeting (OSP) and the Strategic Planning Advisory Committee in defining a model for Arizona state government. This latest edition continues to build upon that strong foundation, with a focus on continuous improvement and meaningful results. A complete list of acknowledgments is included in the Appendices.

Introduction

Executive Summary

Arizona's Strategic Planning Model

Strategic planning *is* managing for continuous improvement. It is a participatory process requiring the full support of the agency director, as well as the involvement of employees at all levels in the agency. Strategic planning considers the needs and expectations of customers, stakeholders, and policy makers in defining agency missions, goals, and performance measures. A strategic plan guides agencies by asking and answering five basic questions:

- Where are we now?
- Where do we want to be?
- How do we measure our progress?
- How do we get there?
- How do we track our progress?

These questions and the corresponding strategic planning components comprise the State model that appears in this document. The model follows the Plan – Do – Check – Act (PDCA) cycle for continuous improvement:

- **PLAN:** Establish the objectives and processes necessary to deliver results in accordance with the goals, objectives, and targets.
- **DO:** Implement the plan, perform a pilot as necessary, and execute the process.
- **CHECK:** Study the actual results and compare against the expected results.
- **ACT:** If the check shows that the plan that was implemented is an improvement then that becomes the new baseline; if not, then the existing baseline will remain in place and adjustments may be made to the plan.

Arizona Management System (AMS)

The guidance in this handbook applies to *all* state agencies. In addition, some agencies have implemented AMS strategic planning and performance management processes and tools. These agencies should refer to standard work, resources, and training available through the Governor's Office of Strategic Planning and Budgeting (OSPB) and the Government Transformation Office (GTO) to ensure that they meet AMS requirements.

Budget Reform Legislation

Agency Budgets

A.R.S. §35-113. Submission of budget estimates

Every year for annual budget units and biennially in even-numbered years for biennial budget units, the head of each budget unit, not later than September 1 or at a later date not to exceed thirty days after September 1 if approved by the director of the governor's office of strategic planning and budgeting, shall submit to the governor, with two copies, estimates of the financial requirements and of receipts, including appropriated and non-appropriated monies in no less detail than the state general fund, of the

budget unit for the next two ensuing fiscal years for biennial budget units and for the next fiscal year for annual budget units.

Administrative Costs

A.R.S. §35-115.6. Contents of budget report

Each fiscal year for annual budget units and biennially for biennial budget units, delineation by budget unit, of requested expenditures for Administrative costs, including:

- Administrative personnel salaries
- Employee related expenses
- Direct, indirect and shared costs for administrative office space, equipment, supplies and overhead

For purposes of this paragraph, “administrative” means any supportive activity relating to management, supervision, budget or execution of the affairs of the budget unit as distinguished from activities relating to its primary direct service functions. The process of delineation and determination of what constitutes administrative costs for each budget unit shall be developed by OSPB in consultation with the director and staff of the Joint Legislative Budget Committee (JLBC).

Strategic Plans

A.R.S. §35-122B Strategic plans

Developing a five-year strategic plan for the entire budget unit. The strategic plan shall be updated annually as necessary. The plan shall contain strategic issues, a mission statement, a description, goals, strategies and resource assumptions. The resource assumptions shall include the number of full-time equivalent positions and budgetary data, including all funding sources categorized by general fund, other appropriated funds, non-appropriated funds and federal funds that are required to support the strategic plan.

The agency shall also provide an executive summary of the strategic plan. The executive summary shall not exceed five pages in length. The strategic plan, including the executive summary, shall be posted on the agency's official internet web site and submitted to the governor's office of strategic planning and budgeting and to the staff of the joint legislative budget committee by *September 1st of each year*.

Master List of State Government Programs

A.R.S. §35-122E. Program lists

The governor's office of strategic planning and budgeting shall compile the submissions required in subsection B, paragraphs 2 and 3, and subsection C. And no later than five days after the regular session of the legislature convenes of each even-numbered year shall publish a master list of programs that are performed or overseen by state government. The master list shall include the program description, agency description, mission statement, strategic issues, goals, performance measures and budgetary data.

Strategic Planning for Continuous Improvement

Successful Strategic Planning

Strategic planning is **required**. Arizona Budget Reform legislation requires that all budget units in State government develop strategic plans for each agency, program and subprogram. The law requires that plans be developed at the agency-wide (budget unit) level, as well as for programs and subprograms.

A successful strategic planning process:

- Has the full support of the agency director and executive leadership team
- Involves staff at all levels
- Is based on a current analysis of the internal and external environment
- Clearly defines responsibilities and time frames
- Establishes and ensures accountability for results
- Is realistic about goals, objectives, resources, and outcomes
- Develops and conveys compelling evidence for its recommendations
- Has a method or strategy for resolving conflicts among stakeholders
- Includes a governance structure that specifies who has the authority to revise the plan, when, and why

Strategic Management

Strategic management is the process of positioning an organization so it can prosper in the future. Strategic management integrates strategic planning with continuous improvement management, budgeting, resource management, and performance monitoring and reporting. In practice, strategic management may not be sequential, but there are strong interrelationships between the various key components.

Continuous Improvement is an approach that values customer satisfaction and is based on participation of all members of an organization in improving the processes, products, services, and culture in which they work. Other terms that are synonymous with Continuous Improvement include quality management, business process improvement, continuous quality improvement, and process management, to name a few. The emphasis is on *continuous improvement* rather than a one-time fix.

This systematic approach to identifying problems and opportunities offers a variety of benefits:

- Promotes customer-focused services and products
- Emphasizes employee involvement and teamwork
- Uses performance measurements to focus on results
- Relies on data collection and interpretation
- Supports management and decision making based on facts
- Involves efficient and effective resource allocation and management

Strategic Planning and Budgeting

Resource planning is an essential component of strategic planning. Good management practices always include budget considerations when conducting strategic planning. The strategic plan charts an agency's direction, while the budget provides the resources to implement the plan. The plan establishes priorities and affords management an opportunity to reevaluate existing allocation of funds. In the early planning stages, agency leadership and management should consider which of the following **general resourcing categories** applies to strategies under consideration, in order to determine the magnitude and duration of resources needed:

- **Sustain** – Requires no additional resources
- **Realign** – Requires some additional temporary resources to carry out the strategy and achieve performance targets
- **Amplify** – Requires ongoing additional resources to achieve increased performance levels
- **Invest** – Requires a significant amount of resources; in the case of a new capability, may require permanent resources and/or resources used on a project basis

Agency leadership and management may also identify areas in which they can **divest** of unnecessary activities in order to create or free up resources to dedicate to strategic issues and objectives.

During the planning process, agencies will develop strategies and action plans that detail what will be accomplished to achieve goals and objectives each year, along with detailed budgets. These action plans, together with performance measures, provide the strongest links between the strategic plans and budget.

Planning and budgeting are interactive. The Internal/External Assessment component of the strategic planning process can be valuable in identifying trends, demand factors, and strategic issues to support budget development. Assumptions about available resources affect what can be achieved and help set priorities for resource allocation.

Information Technology (IT) Resources

As with all other necessary resource needs, the information technology resource needs of an agency should be determined **during** the strategic planning process. IT planning should be compatible with all Arizona Strategic Enterprise Technology (ASET) policies, procedures, standards and guidelines, and the agency strategic plan, and should reference the specific programs or subprograms it supports.

A.R.S. § 18-104 requires State agencies to submit IT plans to the ASET Office each year on or before May 15. Legislative and judicial agency plans are submitted for information purposes. As part of a budget request for an information technology project that has total costs of at least twenty-five thousand dollars, a budget unit shall indicate the status of review by the department.

Performance Monitoring and Reporting

A critical component of the strategic management cycle is the monitoring and reporting of progress in achieving strategic goals. Agencies are encouraged to develop monitoring and reporting systems that collect data continuously and report, at a minimum, annually. It is, however, recommended that agencies report performance data more frequently (monthly or quarterly) in order to provide more opportunities to identify and address measures that are underperforming. Results, good or bad, should be used to evaluate programs and to determine whether any corrective action needs to be taken. The performance information provides a basis for reporting progress to internal and external policy makers and the public.

Where Are We Now?

Internal/External Assessment (also known as an Environmental/Ecosystem Analysis)

An internal/external assessment is a basic management tool that is used not only in strategic planning, but also in policy development and problem solving. It provides a baseline assessment of the organization. The process of conducting an assessment is often referred to as a SWOT analysis because it involves reviewing an organization's *internal* Strengths and Weaknesses and *external* Opportunities and Threats (SWOT). The data gathered during the assessment will often lead to the identification of strategic issues. An essential component of the SWOT analysis is the identification and surveying of internal and external customers and stakeholders.

Conducting the Internal Assessment

The internal assessment, also called a situation inventory, identifies the organization's *strengths* and *weaknesses* and evaluates capacity to respond to issues, problems, and opportunities. It also reveals the paradigms (patterns or beliefs) and values that comprise the organization's current principles and that drive (or disrupt) current operations. It throws light on administrative or managerial policies and procedures that help or inhibit quality.

When conducting the internal assessment, the following questions should be addressed:

- Where has the agency been?
- Where is the agency now?
- What are the agency's strengths and weaknesses?

Conducting the External Assessment

The external assessment identifies the *opportunities* and *threats* in the current environment and anticipates changes in the future environment. This portion of the SWOT analysis provides an essential backdrop for strategic planning and policy development. Considering the diverse Political, Economic, Social, Technological, Legal, and Environmental (PESTLE) influences on the agency results in a comprehensive view of the positive and negative forces in the external environment

When conducting the external assessment, the following questions should be addressed:

- What is the current external environment?
- How might the environment differ/change in the future?

Data Sources for the Internal/External Assessment

There are hundreds of sources where agencies can find useful information. The following list of sources may be useful.

Internal data sources:

- Quality assessment surveys
- Annual reports

- Employee surveys
- Annual progress review meetings
- Customer surveys
- Program evaluations
- Agency audit recommendations
- Internal databases
- Performance measurements
- Budget requests
- Internal plans

External data sources:

- Federal and state government statistical reports and databases
- Federal, state, and local government:
 - Legislation, regulations, and executive orders or actions
 - Budgets and policy statements
 - Special studies
 - Court decisions and actions
- National and regional professional organizations or associations
- Interest or advocacy groups
- Media (both broadcast and print)
- University and college resource centers
- Agency advisory and governing boards

In addition to identifying all internal strengths and weaknesses, and external opportunities and threats, agencies also need to identify their customers and stakeholders.

Customer and Stakeholder Identification

Customer: Anyone whose best interests are served by, or who receives or uses the products or services of, an agency, program, or subprogram.

Organizations have many different customers. Internal customers include units or employees in an organization whose work depends upon another unit or person within the same organization. External customers include the end users of the organization's products or services.

Stakeholder: Any person or group with a vested interest in or with expectations of a certain level of performance or compliance from an agency, program, or subprogram.

Stakeholders may not necessarily use the products or receive the services of a program; they may be advocates.

Identification Process: To identify and understand customers and stakeholders, the following questions should be addressed:

- Who receives or uses the goods and services produced by the agency?
- Whose best interests are served by the actions of the agency?
- Who are the stakeholders and what results do they expect from the organization or program?

- Who are the internal customers?

To gather customer and stakeholder input and feedback (also known as voice of the customer – VOC), the following methods can be used:

- Surveys
- Focus groups
- One-on-one interviews
- Comment forms
- Customer advisory committees
- Public meetings and hearings

Once customer and stakeholder feedback has been obtained, it must be used. Problems that have been identified need to be addressed in the strategic plan. It is crucial to continue communicating with customers and stakeholders by keeping them informed about how their input is being used by publishing reports.

Summary

The results of the internal/external assessment become the basis for all the other phases of the strategic planning process. The assessment should be reviewed, revised, and/or repeated as part of the agency strategic plan annual update process.

Where Do We Want To Be?

Vision Statement

Planning begins with a compelling, conceptual image of the desired future.

Great visions are conceived through a partnership between top management and all levels of the organization. The vision becomes a focal point for everyone in the agency. By sharing the vision, management establishes commitment to the overall vision from employees at all levels.

A vision statement will be:

- Brief and memorable
- Inspiring and challenging
- Descriptive of the ideal
- Appealing to employees, customers, and stakeholders
- Descriptive of future service levels
- Idealistic, standing above the commonplace
- Enduring

In addition, a vision statement should address the following questions:

- What does the agency want? What are its aspirations?
- How does the agency wish to be known by customers, employees, and the community?
- How will the agency enhance the quality of life for those who use its services or products?

E X A M P L E	<p>Arizona Department of Juvenile Corrections – <i>Vision</i> :</p> <p>Arizona will have safer communities through effective rehabilitative services for youth committed to our care.</p>
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Mission Statement

Mission Statements provide a brief, comprehensive statement of purpose of an agency, program, or subprogram—how the agency will advance to the desired future expressed in the vision.

The mission statement is an invaluable tool in directing, planning, and implementing agency efforts. The mission is part of the organization's identity, is all encompassing, rarely changes, and is the ultimate rationale for the existence of the agency, program, or subprogram.

When writing a mission statement, consideration should be given to these questions:

- Who are we?
- What do we do?

- For whom do we do it?
- Why do we do it?

Address these questions by looking at the agency, program or subprogram from the outside - from the customer and stakeholder points of view.

Defining the Mission

A mission statement will address the following questions:

- Why does the agency exist? What is its purpose?
- What are the agency's basic needs?
- Who are the agency's clients, customers, or users?
- What are the clients', customers', or users' basic needs?
- How does the agency measure performance?

E X A M P L E	Arizona Department of Juvenile Corrections (ADJC) – Agency Mission : To effectively deliver evidence-based rehabilitative services to youth in our care, strengthening their well-being and leading them to become successful members of society.
	Rehabilitation – Program Mission : To rehabilitate seriously delinquent juveniles by confronting delinquent thinking and behaviors; developing pro-social attitudes and skills; and preparing juveniles academically.
	Education – Subprogram Mission : To support the mission of ADJC by providing all students educational opportunities to acquire academic/vocational skills as a pathway to responsible citizenship.

Principles

Principles are the core values and philosophies that describe how an agency conducts itself in carrying out its mission.

Principles are often associated with a continuous improvement culture and meet the following criteria:

- Guide decision-making at all levels of an agency
- Express common values that can be embraced by the whole organization
- Act as powerful instruments for changing organizational culture
- Motivate employees
- Express basic beliefs about the conditions under which people work best

Articulating Principles

Describing the organization's principles represents a challenging, yet essential component of leadership. Principles should reflect the values and philosophy of the director and the executive management team, as well as organization-wide values and assumptions. The principles should be compatible and compelling for everyone inside the organization and for customers and stakeholders.

Sometimes principles are expressed in terms of responsibilities to customers, employees, stakeholders, the community in which it operates, or the physical environment as a whole. Sometimes principles are expressed in terms of quality or excellence in management and the production of goods and provision of services.

Principles generally address the organization's attitude and values about the following:

- People: The way employees and customers are treated
- Processes: The way the organization is managed and services are provided
- Performance: The expectations concerning the organization's products and services

Principles summarize the philosophies or core values that will be utilized in fulfillment of the vision and mission. Thus, principles help form a bridge between where the organization *is*, where it *wants to be*, and the *way* in which it will get there.

E X A M P L E	Arizona Department of Transportation –
	Accountability: We take responsibility for our actions.
	Integrity: We hold ourselves to the highest ethical and professional standards.
	Respect: We treat everyone with respect and dignity.
	Arizona Department of Tourism –
	We step up.
	We thrive together.
	We see the big picture.
	We care for the team.
	Arizona Department of Revenue –
	Do the right thing.
	Commit to excellence.
Care about one another.	

Description

The description provides a general explanation of what an agency, program, or subprogram does; whom it serves; why it is needed; and how it works.

Besides mission statements, budget units are responsible for developing agency, program, and subprogram descriptions for the various documents required by the Arizona Budget Reform Act. Agency descriptions are required for the Five-Year Strategic Plan and the *Master List of State Government Programs*.

The description of an agency, program, or subprogram should be clear and understandable to anyone reading it, regardless of the technical aspect of the work being done or the services being provided. Enabling statutes can be a good source of content for these sections.

Whenever possible, avoid the use of technical terminology, abbreviations, and acronyms. If a program is jointly administered by another agency (funds are either “passed-through” from one agency to another or are subject to an intergovernmental agreement or contract) include the name of the organization in the description.

E X A M P L E	<p>Agency – Arizona Department of Juvenile Corrections (ADJC)</p> <p>Program – Rehabilitation</p> <p>Subprogram – Education</p> <p>Subprogram Mission – To support the mission of ADJC by providing all students educational opportunities to acquire academic/vocational skills as a pathway to responsible citizenship.</p> <p>Subprogram <i>Description</i> – The Education subprogram is a North Central Association accredited special function outcomes-based system that integrates reading, writing, listening, locating information, applied mathematics, applied technology, vocational training, observation, and teamwork into an individualized school-to-career curriculum. The Education subprogram is designed to meet the individual needs of each juvenile to assist in their successful transition to the community.</p>
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Strategic Issues – (Also referred to as Strategic Priorities)

Strategic Issues represent the strategic direction for the agency as a whole and, therefore, will be broad. Collectively, strategic issues will clearly chart the direction of the agency and provide a unifying theme for programs and activities.

Strategic Issues

Strategic issues do not necessarily fall neatly within the boundaries of a particular program; instead, they often impact several programs or the entire agency. Agencies may be able to consolidate or categorize these issues into key result areas, which can be a combination of many different strategic, operational, or programmatic concerns.

The following examples will help further identify strategic issues:

- **Strategic issues may arise as a result of an agency's internal assessment** - *Consistently low employee engagement scores may result in a strategic issue related to improving agency culture.*
- **Strategic issues may be generated by external forces** - *Revisions to Federal Environmental Protection Agency regulations may place additional requirements on agencies with missions related to clean air and water.*
- **Strategic issues are generally implemented over the long-term** - While some may be addressed in the short-term (during a single fiscal year), the majority of strategic issues are broad in scope, complex, and will require a multi-year effort. *Modernize agency technology. Maintain and improve wildlife habitats*

Goals

Goals establish the desired end result, generally after three or more years.

It is important to remember that goals will be set at the program and subprogram levels. Program and subprogram goals address both direction and improvements associated with *primary activities* and will be more specific than strategic issues. Program and subprogram goals should not be a comprehensive listing of every activity, but they should represent a significant portion of the relevant budget.

Goals may also represent immediate or serious problems or high-priority situations that merit special attention. These critical matters, which are often uncovered during the internal/external assessment, might be described as the "make or break" or "mission critical" kinds of issues that require resolution.

Criteria for Goals

A well-constructed goal will:

- Align with the agency vision, mission and principles
- Fulfill, or contribute to fulfilling, the mission of the agency
- Address priorities and the results of the internal/external assessment and may be developed in response to strategic issues
- Tend to remain essentially unchanged, until there is a shift in the environment under which they were created and/or the desired outcome has been achieved
- Normally encompass a relatively long period (i.e., at least three years or more)
- Address the gaps between the current and the desired level of service
- Represent a desired program or subprogram result
- Be within legislative authority or, as an objective, seek introduction of supporting legislation
- Be challenging, but realistic and achievable

Goals that *don't* meet the criteria:

To continue to serve our customers. (*Not challenging*)

To process registration filings. (*Unclear purpose; more appropriate as objective or action step*)

To enter 3,000 records by FY 2023. (*Too specific, short-term; more appropriate as objective or action step*)

Goals that *do* meet the criteria:

To increase the timeliness of eligibility determinations.

To accelerate agency performance.

To increase visitation.

EXAMPLE

Summary

Goals will usually relate to the major components of an agency's mission and description. Each agency will vary in the number and scope of the goals set. Agencies may develop goals for distinct programs or goals that cross program lines. Although the scope of the strategic issues set at the agency level may be more general than the goals established at the program or subprogram level, the process of goal setting and the definition of a goal remain the same.

The next step in planning is to develop objectives. Objectives are more specific, quantifiable, and time bound than the goals they support. The next section will introduce the criteria for developing objectives.

Objectives

Objectives are specific and measurable targets for accomplishing goals. In contrast to goals, objectives are specific, quantifiable and time-bound statements of desired accomplishments or results. As such, objectives represent intermediate achievements necessary to realize goals.

Criteria for Objectives

Objectives should be **SMART** and meet the following criteria:

- **Specific:** Objectives should reflect specific accomplishments that are desired, not ways to accomplish them.
- **Measurable:** Objectives must be measurable to determine when they have been accomplished.
- **Achievable/Aggressive:** Objectives are to be standards for achievement; they should be challenging, but should not demand the impossible.
- **Results-oriented/Relevant:** Objectives should specify a result.
- **Time-bound:** Objectives should specify a relatively short time frame for meeting objectives, from a few weeks to no more than a year.

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Objectives that are *not* "SMART":

To reduce processing time. *(Not specific, measurable, or time-bound)*

To eliminate turnover. *(Too broad, not realistic)*

To complete 750 field visitations. *(Specific, not time-bound)*

"SMART" objectives:

To reduce *average days to process an initial application to 21 by FY 2023*.

To reduce turnover *by 5% in FY 2023*.

To complete 750 field investigations *in FY 2023*.*

**For guidance on how to establish the results component of SMART objectives, refer to the section on Setting Performance Targets in this handbook.*

How Do We Measure Our Progress?

Categories of Performance Measures

Performance measures are used to quantify results and ensure accountability.

Arizona's strategic planning model incorporates five common performance measure types: *input*, *output*, *outcome*, *efficiency*, and *quality*. Each category is designed to answer a different question and must often be used in combination to quantify and analyze agency, program, or subprogram results.

Input: Measures the amount of resources needed to provide particular products or services.

Input measures are useful in showing the total cost of providing a service, the mix of resources used to provide the service, the demand for services, and the amount of resources used for one service in relation to other services. Inputs include labor, materials, equipment, and supplies and can also represent demand factors, such as target populations.

Examples of input measures:

- Number of clients applying for a program
- Number of customers requesting service
- Amount of paving material available
- Number of child abuse reports received
- Number of applications received

Output: Measures the amount of products or services provided.

Outputs focus on the level of activity in a particular program or subprogram within an agency. Workload measures, which are designed to show how staff time will be allocated to respond to service demand, are most commonly reported. Outputs are useful in defining what a program produces or what services it provides. They are, however, limited because they do not reflect the results of the program, indicate whether the program goals have been accomplished, or reveal anything about the quality or efficiency of the service provided.

Examples of output measures:

- Miles of highway resurfaced
- Number of police reports filed
- Number of applications approved
- Number of patients treated and released
- Number of vaccinations given to school age children per year
- Number of registered autos inspected

Outcome: Measures whether services are meeting proposed targets.

Outcomes reflect the actual results achieved, as well as the impact, benefit, or success of programs. Both intermediate and long-term outcomes can be evaluated. Policy makers are generally most interested in outcome measures. Yet information about the ultimate result is not always available or practical to measure. In these instances, it may be necessary to use proxy or surrogate measures. For example, completion of the 12th grade is not the same as literacy, but it may be the measurement that comes closest, and the one that can currently be measured.

Examples of outcome measures:

- Percent reduction in auto emissions
- Percent of discharged patients living independently (versus homeless)
- Percent decrease in repeat complaints to a regulatory board

Output measures are often mistaken for outcome measures. Outcomes assess how effective or successful the program has been. Outputs alone cannot tell management the program results. How much work a program does (output) is different from how well a program is working (outcome).

Efficiency: Measures the productivity and cost-effectiveness of a program or subprogram.

Efficiency can be measured in terms of cost per unit of output (product or service), ratio of outputs per unit of input, and ratio of outputs per unit of time. Ratios help express the relationships between different performance measures.

Examples of efficiency measures:

- Output/Input: number of students graduating to number of students enrolled
- Time/Output: turnaround time per application processed
- Cost/Input: cost per inmate

Quality: Measures the effectiveness in meeting the expectations of customers and stakeholders.

Measures of quality include reliability, accuracy, courtesy, competence, responsiveness, and completeness associated with the product or service provided. Lack of quality can also be measured, such as resources devoted to performing rework, correcting errors, or resolving customer complaints.

Examples of quality measures:

- Number of defect-free reports compared to number of reports produced
- Number of customer satisfaction ratings in highest category compared to total number of customer ratings
- Percent accuracy of information entered in the database

Measuring Progress

Choosing Performance Measures

One of the most difficult aspects of strategic planning is picking a balanced set of results-based performance measures (also referred to as performance metrics) to gauge the success in meeting goals and objectives and to provide the basis for decision-making. Once measures are selected, agencies need to establish clear definitions, determine data requirements, identify current baselines, set realistic performance targets based on benchmarking, and compare actual performance with expected results.

1. Select Initial Performance Measures

Review the vision, mission, description, strategic issues, goals, and objectives for the agency, programs, and subprograms. Keep the intermediate and final outcomes in mind.

Ideally, performance measures will be chosen with contributions from relevant staff at all levels of the agency, as well as feedback from customers and policy makers. The most effective measures are those that represent a consensus of what is intended and expected.

2. Evaluate the Performance Measures

The following criteria can be used to evaluate performance measures under consideration:

- Meaningful: significant and directly related to the vision, mission, description, strategic issues, goals, and objectives of the agency
- Valid: represents what is being measured
- Customer-focused: reflect the point of view of internal and external customers and stakeholders
- Comprehensive: the set includes all key aspects of program performance
- Balanced: the set includes several categories of measures
- Credible: based on accurate and reliable data
- Cost-effective: based upon acceptable data collection and processing costs
- Simple: easy to calculate and interpret
- Comparable: useful for making comparisons with other data over time

3. Select the Key Performance Measures (also referred to as Key Performance Indicators (KPIs) or Vital Factors)

Once the entire set of performance measures has been chosen, a subset of key measures needs to be selected. While internal management will need programs to collect enough measures to capture all aspects of performance, external policy makers will be interested in the success of the program.

For external planning documents, focus on the desired results, the primary measure of achievement, and a balance between external and internal focus. Review the complete list of measures for the agency and each program and subprogram and select those that are most important based upon the vision, mission, description, strategic priorities, and goals. Identify the key or vital few measures to report on external planning documents. Recognize that outcome, efficiency, and quality measures will be most useful to

decision-makers. Also consider which measures could be aggregated to the next level of management for reporting purposes.

4. Determine Data Requirements

Once all measures have been chosen, the next step is to establish the data needs of the agency, programs, and subprograms.

To determine what data is needed, the following should be addressed:

- What information is currently being gathered? Does it meet agency needs?
- What new information needs to be collected?
- What is the data source?
- Do any data collection problems exist?
- What resources will be needed to manage performance data?
- Is the required information technology available?
- Are there any constraints to changing data collection?
- How often will the data be collected: Monthly? Quarterly? Annually?

5. Define Performance Measures

Good performance measures need to be clearly defined, including exactly what is being measured, the source of the data, and how the value is being calculated. Definitions that are clear and specific are not open to interpretation, which ensures that staff will be able to provide accurate and consistent information over time.

6. Determine Baseline Performance

The next step is to assess current performance. Where are we now? This information will be compared with data reported in the future to measure progress and improvement. The baseline is usually derived from the most recent one-year period. If no data is available, sometimes industry averages can be used. Otherwise, data will need to be collected to establish the initial baseline.

7. Setting Performance Targets and Benchmarking

Finally, the agency needs to establish targets for the performance measures. What do we want future performance to be? How much increase/decrease or improvement do we expect per month? Quarter? Year? The targets should be aggressive, but achievable. One method of establishing targets is benchmarking.

Benchmarking involves seeking out exemplary models inside or outside of the organization, studying them to determine why they are the best at what they do, and applying what is learned.

Benchmarking data may represent: Professional, national, or accreditation standards, as well as quality practices; the highest or lowest rating (whichever is more desirable) in a given issue or field; or performance or workload levels set in statutes, regulations, or official guidelines.

Potential benchmarking sources can be identified through:

- Previous studies
- Literature from national associations
- Awards given to organizations
- Other state or federal agencies with similar or related missions
- Business/government press literature
- The Internet

Example of Performance Measures in Relation to Goals and Objectives

The following generic example is designed to show the relationship of goals, objectives, performance measures, and targets. It illustrates a balanced set of measures (including one measure from each category: Input, Output, Outcome, Efficiency, and Quality). In many cases, however, agencies may not have access to a complete set of balanced measures. Agencies should select one or more measurement categories that provide the most meaningful and results-oriented data.

E X A M P L E	Adult Literacy Course
	Goal: To increase the literacy of adult students.
	Objectives: Increase the number of adult students able to read above a 6th grade level to 25% in FY 2023. ... 30% in FY 2024. ... 35% in FY 2025.
	<i>Performance Measures:</i>
	Input: Number of adult students enrolled in the literacy course.
	Output: Number of adult students completing the course.
	Outcome: Number of adult students reading above a 6th grade level upon completing the course.
	Efficiency: Cost per adult student.
	Quality: Adult students rating the course content a 5 (on a scale of 1 to 5).

Summary

Create, Review, and Update Performance Measures

Developing good performance measures is an evolving process that improves with time. The following questions can be used to create, review, and update performance measures, as well as goals, objectives and any other component of the model:

- What adjustments, if any, should be made to the measures currently used?
- What developments in the past year will influence current performance measures?
- Have there been any problems in measuring performance in the past year?
- What changes should be made in the way data are collected and analyzed?

- Is the measurement information useful? Does it reflect results? Is the information used in decision-making?
- How could performance reports be enhanced?
- Are additional measures necessary?
- Should any of the performance measures be deleted?

How Do We Get There?

Action Plans

Action plans provide a detailed description of the tasks and subtasks required to implement a strategic plan.

Action plans spell out the details of the approach that will be used to accomplish the objectives, goals, and missions of the agency and its programs and subprograms. Similar to the format for Objectives, tasks and responsibilities are documented in SMART (specific, measurable, aggressive/attainable, result-oriented/relevant, and time-bound) steps.

Planning assumptions are often included. Planning assumptions clarify expectations about future conditions upon which the strategic plan is based. If these conditions significantly change, planning assumptions and, possibly, the strategic plan may need to be amended. This part of the process builds upon past experience, current activities, and projected trends, which could significantly impact future performance. The majority may have already been identified in the internal/external assessment conducted by the agency earlier in the strategic planning process.

Purpose, background, and scope may also be included as an introduction, to provide context, and keep the project team on track. Agencies will likely need to develop multiple action plans to implement various elements of the strategic plan.

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Sample planning assumptions for a social service agency:

Demographic: The demand for services will continue to grow based on the state's population growth, changes in the family structure, and aging of the population.

Economic: Unemployment will continue to decrease, creating a lower demand for the Job Training program and placement services.

Government/Legislative: Criminal justice reform will be enacted.

Formulating Strategies

In order to build an action plan, managers, supervisors, and other key staff members must determine how to achieve the desired results. The costs, benefits and possible consequences of alternative courses of action, or strategies, must be evaluated. The most effective and efficient strategies should be selected. Researching successful programs in other agencies, both local and out of state, can prove helpful. Nonprofit, federal, and private-sector organizations are also a good source of information.

Looking at other units or sections within the agency can prove fruitful. You may find similar goals, objectives, and procedures that can be borrowed. Also, fellow staff members may have experience or knowledge that can be utilized.

The following questions can be used as a test of each suggested alternative:

- If implemented, is it plausible that the objective will be reached?
- What are the anticipated costs and benefits of this course of action?
- Will this course of action have a positive or negative impact on any other objectives?
- Is this objective dependent upon the successful implementation of any other objective?
- Is the agency organized to implement this course of action?
- If changes are necessary, how long will they take?
- Once implemented, will procedural changes be required?
- What are the general steps necessary for implementation and how long will each step take?
- Do we need to collaborate with one or more other agencies to successfully implement the plan?

Resource Allocation involves the determination and allotment of resources or assets necessary to carry out strategies and achieve objectives, within a priority framework.

To avoid creating unrealistic expectations, planning decisions must be grounded in fiscal reality. The emphasis on efficient agency operations and results-oriented management also means that, regardless of the current political and economic climate, all agencies should plan under the general assumption that future funds and the likelihood of additional staffing will be limited. Budget units should consider service delivery alternatives, processes that leverage existing resources, or resource redeployment before requesting budget increases.

The following questions can be used to determine the resource needs:

- Are the resources required to implement this course of action available? (This includes staff with the required skill sets.) If not, how will needed resources be obtained? Can resources be reallocated within the agency?
- If information resources (hardware, software, etc.) will be required, will these needs be reflected in the annual Information Technology (IT) plan?
- What will the fiscal impact of this course of action be?
- Will additional funding be needed?
- If additional funding is required, will it be one-time funding or ongoing?

Once the costs, benefits, possible constraints, time frames, and resources for each alternative have been analyzed, select the best strategy. Next, identify the steps necessary to successfully implement the strategy in order to achieve the objective.

Putting the Action Plan Together

The action plan is where the specific action steps required for accomplishing the strategy are established. It may detail the creation of a new program, improvements being made to an existing program, or initiation of a new project.

Action plans are geared toward operations, procedures and processes. The action plan describes who performs each step and when the step is scheduled for completion.

The following process is one way of managing the action plan:

1. Assign responsibility for implementation of the action plan (typically a Team or Project Lead)
2. Detail the action plan in steps and identify deliverables

3. Set a time frame for completion of each step in the plan and the action plan as a whole
4. Calculate the fiscal impact of the action plan and the resources necessary to carry it out
5. Obtain a commitment from leadership to make the necessary resources available

How Do We Track Our Progress?

Tracking Systems

Tracking systems: monitor progress, compile management information, and keep the plan on track.

Tracking the implementation of goals and objectives will normally be the responsibility of the individual or team responsible for completion of the action plan. Ideally, monitoring should follow a regular schedule -- quarterly or monthly.

Developing a tracking document

Elements for a workable tracking document should include:

- Goals
- Objectives
- Performance measures
- Action plans, including the identification of the position, unit, section and/or division responsible for implementation; time frames; and deliverables
- Room for comments and an explanation of the actions taken to date
- Information on current status

Progress and non-progress should be reported. Report progress to date on steps in the action plan that are completed ahead of schedule and that are on schedule. If things are not progressing according to plan, report the reasons, as well as what is being done to get implementation back on track. Agencies will develop their own methods of tracking implementation of their goals, objectives, and action plans. The document needs to track the status of each action step. For example, is it on schedule, delayed, canceled, ahead of schedule, or in the planning stages? Ample space should be included for comments. Team Leads should be encouraged to include as much or as little comment as is necessary to give complete information to upper management.

Monitoring Performance Measures

In addition to tracking progress on goals, objectives, and action plans, performance measures should also be monitored. Data should be collected for each performance measure and reported at a regular interval. Progress reports on performance measures should be presented in a user-friendly format, such as data tables, charts, or graphs.

Comparison of actual performance, as reported in the monitoring document, to the "planned" performance (i.e., target) provides the basis for periodic evaluation of the strategic plan and the planning process. Management should use the results of the quarterly or monthly reports to identify reasons for not meeting expected results and use this information to review and revise policies, procedures, goals and objectives, as necessary.

Tracking performance and reporting results are important ways to measure progress toward meeting the goals in the strategic plan. Assist staff serving as Team Leads and Team Members by articulating some expectations:

- Designate specific cut-off times for reporting
- Pay special attention to continuity of data collection and calculation during personnel changes
- Implement effective internal controls to ensure information is properly collected and reported

For each performance measure, compare actual performance with the proposed performance level and report the results. Ask the following questions about variances:

- How does the report compare to previous periods?
- Do external factors affect performance to the extent that targets may not be met?
- Is the variance due to a faulty projection of performance?
- Are there unanticipated effects resulting from the variance?
- What kind of data do you think will be needed to explain trends and results?
- How will the data/information be verified and checked for accuracy?
- How can you avoid unintended results from implementing the strategies?
- How will you use the data to evaluate, improve, and change your programs?
- How will you know if your program is inefficient or ineffective?

Reporting the Results

Each agency will establish its own guidelines concerning how often performance information is to be collected and reported. At a minimum, data for each measure will have to be collected annually, but some measures may be calculated more frequently to allow for faster course correction for underperforming measures.

External reporting

External stakeholders, policy makers, providers, contractors, etc., want to know how well the organization and its programs are performing. If performance measurements show a continuous improvement process with a positive impact on results, some of the stakeholders' concerns may be allayed.

Reports for policy makers should be clear and concise. Reports are often easier to read if the data are presented graphically. Reporting performance measures can also be aggregated and incorporated into annual reports. Use explanatory information when reporting results. You can rarely measure all the variables or identify true cause-and-effect relationships. Multiple factors can influence outcomes and many are beyond the control of the Team Lead. Recognize that your measures have some limitations and try to explain any unexpected results.

The following may help in the communication of results:

- Include targets, as well as actual results
- Include explanations where performance varies significantly from previous levels or targets
- Develop reports that are user-friendly and easy to understand
- Ensure that the information enables readers to assess the level of performance
- Create a process to gather feedback on the information reported

Internal reporting

Internal reports can take various forms. Chief among these are program performance evaluation, planning and budgeting activities, and implementation of improvement activities. These reports can be

more detailed and are usually more frequent than those for policy makers. They may also include more process information. Sometimes the data may be separated or categorized in order to clearly convey patterns. For example, results may be more meaningful if reported by geographic area.

Conclusion

Strategic planning is a practical, action-oriented process based on an examination of internal and external factors that direct goal-setting and resource allocation to achieve meaningful results over time.

A successful strategic plan includes:

- The full support of the director and agency's executive team
- An inspiring and challenging vision
- A clear mission statement
- Clear, long-term, challenging, but realistic and achievable goals
- SMART objectives
- A balanced set of performance measures that accurately reflect key results
- Supporting action plans that establish accountability, time frames, and deliverables
- Use of the PDCA (Plan - Do - Check - Act) cycle as a framework to support continuous improvement

A glossary of terms, references, and resources can be found in the appendices of this handbook and can be used to assist agencies in each phase of the strategic planning process.

Appendices

Glossary

Accountability - Monitoring, measuring, and evaluating the performance and progress of policies, plans, and programs to ensure that results are achieved.

Action Plan - A detailed description of the steps used to implement a strategic plan.

Administrative Costs – An expense associated with the support, management, and oversight of services delivered pursuant to the agency or program mission. Typical administrative costs include those associated with accounting, human resources, budgeting, strategic planning, public information, auditing, executive management, etc.

AFIS - An abbreviation for the Arizona Financial Information System - the statewide accounting system maintained by the Department of Administration.

A.R.S. - An abbreviation for Arizona Revised Statutes - the laws governing the State of Arizona.

Arizona Management System (AMS) - The State of Arizona's intentional, results-driven approach for doing the work of state government - where every employee, at every level, with discipline, reflects daily on how they did, finds the waste, and decides how to do better going forward with sustainable progress.

ASET – An abbreviation for the Arizona Strategic Enterprise Technology Office.

Baseline - Base level of previous or current performance that can be used to set improvement goals and provide a basis for assessing future progress.

Benchmarking - The continuous process of collecting information on external standards, processes, and/or best practices, evaluating why they are successful, and applying what is learned.

Biennial Budget - A process that estimates revenues and expenditure for a two-year period.

Budget Reform Legislation - Refers to the provisions contained in Laws 1993, Chapter 252; Laws 1994, Chapter 218; Laws 1995, Chapter 283; Laws 1996, Chapter 339; Laws 1997, Chapter 210; Laws 1999, Chapter 148; and Laws 2002, Chapter 210.

Budget Unit - "Any department, commission, board, institution or other agency of the state organization receiving, expending, or disbursing state funds or incurring obligations against state funds." (A.R.S. § 35-101) All budget units are subject to the requirements of budget reform legislation.

Capital Outlay - Expenditures for the upkeep, preservation, development, improvement, or acquisition of lands, buildings, or certain associated equipment.

Cost-benefit Analysis - A management tool that involves calculating or estimating the known costs and potential benefits of a course of action under consideration.

Critical Issues - Strategic issues that are brought to the Governor's attention through the budget unit operating budget request. (See Strategic Issues.)

Customer – Anyone whose best interests are served by or who receives or uses the products or services of an agency, program, or subprogram.

Efficiency Measure - A type of performance measure that reflects the productivity or cost of providing a good or service.

External Assessment - An analysis of key external elements or forces that affect the environment in which an organization functions. Also called an Environmental Scan.

Financial or Budget Manager - The person responsible for analyzing fiscal impacts of potential strategies, projecting resource allocation needs, and using the strategic plan to guide development of the annual operating and capital outlay budgets.

FTE - Full-time equivalent positions, calculated at either 2080 or 2088 hours per year.

Fund - An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities, which are segregated for the purpose of carrying on specific activities in accordance with limitations, restrictions, or regulations.

FY - An abbreviation for Fiscal Year. Arizona's fiscal year begins July 1 and ends June 30. The Federal fiscal year begins October 1 and ends September 30.

GAO - An abbreviation for the General Accounting Office of the Arizona Department of Administration.

Goal - The desired end result, generally after three or more years.

HB - An abbreviation used to denote a House Bill

Input - A type of performance measure that identifies the amount of resources needed to provide particular products or services.

Internal Assessment - An evaluation of an organization's position, performance, problems, and potential. Also called a Situation Inventory.

IT - An abbreviation for Information Technology.

JLBC - An abbreviation for the Joint Legislative Budget Committee, consisting of 16 members of the Legislature which include the following members: Majority Leaders of both the House and Senate, Chairs of both the House and Senate Appropriations Committees, Chairs of the Senate Finance Committee, Chair of the House Ways and Means Committee, 5 members of the House Appropriations Committee, and 5 members of the Senate Appropriations Committee. The JLBC meets as often as is necessary to transact business related to the fiscal management of the State's resources.

JLBC Staff - The Legislative counterpart to the OSPB. They prepare an analysis of the Governor's budget recommendation as soon as it is presented to the Legislature. *Note:* Although the Joint Legislative Budget Committee Staff is often referred to as the JLBC, it should not be confused with the Legislative Committee previously described.

Master List of State Government Programs – Budget reform legislation requires the Governor's Office of Strategic Planning and Budgeting (OSPB) to publish a 'Master List' (inventory) of programs run by or overseen by State government. Laws 2022, Chapter 210 slightly changed the format of the Master List and designated this annual submittal as the operational plan for State agencies and conformed to the budget cycles. Required information for each agency, program, and subprogram includes the agency description, mission statement, strategic issues, and financial and FTE position information, as well as the description, mission statements, goals, and performance measures for all programs and subprograms.

Mission - A brief, comprehensive statement of purpose of an agency, program, or subprogram.

Objectives - Specific and measurable targets for accomplishing goals.

Operating Budget - A plan of all proposed expenditures other than capital expenditures, including Personal Services, Employee Related Expenditures, Professional and Outside Services, Travel, Other Operating Expenses, and Equipment.

OSPB - An abbreviation for the Governor's Office of Strategic Planning and Budgeting. The OSPB staff advises the Governor in the preparation of the Executive Budget, facilitates a strategic planning process for state government, and is responsible for implementing many of the provisions of budget reform legislation. The OSPB staff is the Executive counterpart to the JLBC Staff.

Outcome - A type of performance measure that reflects the actual results achieved, as well as the impact or benefit, of a program.

Output - A type of performance measure that focuses on the level of activity in a particular program or subprogram.

Performance Measures – Used to track results and ensure accountability.

Performance Targets - Quantifiable estimates of results expected for a given period of time.

Planning Assumptions - Expectations concerning future trends that could significantly impact performance (derived from the Internal/External Assessment results).

Principles – The core values and philosophies that describe how an agency conducts itself in carrying out its mission.

Program – Activities that result in the accomplishment of a clearly defined mission.

Quality Management - An integrated management methodology that aligns the activities of all employees in an organization with the common focus of customer satisfaction through continuous improvement in the quality of all activities, goods, and services.

Quality Measure - A type of performance measure that reflects the effectiveness in meeting the expectations of customers and stakeholders.

Resource Allocation - The determination and allotment of resources or assets necessary to carry out strategies and achieve objectives within a priority framework.

SB - An abbreviation used to denote a Senate Bill.

SLI - An abbreviation used to denote a special line item in the appropriations bill; a specific expenditure or budgetary account that has been singled out through the appropriation process to provide high visibility of expenditure.

Stakeholder – Any person or group with a vested interest in or with expectations of a certain level of performance or compliance from an agency, program, or subprogram.

Strategic Issues - Those concerns of vital importance to the organization, which often impact several or all of the programs in an agency.

Strategic Management - The process of positioning an organization for future success. The overall framework within which policy development, strategic/quality planning, programmatic operational planning and budgeting, capital outlay planning and budgeting, program implementation, program evaluation, and accountability take place.

Strategic Plan - A practical, action-oriented guide based on an examination of internal and external factors that directs goal-setting and resource allocation to achieve meaningful results over time.

Strategic Planner - A person who provides the coordination and tools for moving the organization through the planning process.

Subprogram - Two or more integral components of a program that can be separately analyzed to gain a better understanding of the larger program.

SWOT Analysis – An abbreviation used to denote an analysis of an organization's internal **S**trengths and **W**eaknesses, and external **O**pportunities and **T**hreats. (Also called an Internal/External Assessment.)

Tracking Systems - Electronic or manual systems that monitor progress, compile management information, and keep goals and action plans on schedule.

Vision - A compelling, conceptual image of the desired future.

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Resources

- To obtain further information on **strategic planning and performance measures**, contact the Governor's Office of Strategic Planning and Budgeting (OSPB) at 602-542-5381.
- This Handbook is available on the OSPB website at <http://www.azospb.gov>.
- For information on **technological trends and the State's Information Technology Strategic Plan**, access the [Arizona Strategic Enterprise Technology \(ASET\) Website](#) or contact the ASET Office at 602-542-2250.

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