**Introduction**

An underdeveloped area of research in performance management is the connection between leadership, governance, and performance management. Leaders develop strategy that sets the context for developing performance measurement systems. In developing strategy in the private sector the discussion about what metrics to choose is as valuable as the measures actually chosen (Collins). In the public sector, developing a deeper understanding of governance depends on examining the use of performance information (Moynihan and Sanjay, p. 862).

Connecting back to leadership, the challenges of public administration extend beyond organizational management to include institutional design in the context of democratic values (Kirlin, 1996a) and creating public value (Moore, 1995). The set of public administration challenges can be described as a set of wicked problems, sharing four characteristics: crossing political and geographic boundaries, high consequences of failure, needing immediate action, and lacking sufficient intellectual capital to generate innovative responses (Kettl, 2006). The public administration challenge is to move off of path dependencies (North, 1990) and move forward out of the challenge of swampy conditions (Biller, 2006). Unfortunately, as a former university president from the United States noted after returning from assignment in Iraq to rebuild higher education: “As Americans we do not have a clue as to what makes democracy work” (Chandrasekaran, p. 324).

The role of leadership in conditions of profound uncertainty is to bring clarity (Buckingham, 2005). The tool of leadership to bring clarity is the use of strategy. Considerable research in the
private sector focuses on the application of strategy in the context of organizations (Kiechel, 2010) and in moving companies from “good to great” (Collins, 2001). In the public sector, the recent case of General Petraeus’s developing and institutionalizing a new strategy for United State’s military (Ricks, 2009) provides case study on the impact of the absence of strategy and the challenges in generating new strategy. Additionally the case suggests that new ways of thinking and the development of more effective strategy does not have to take decades (Brooks, 2010).

The purpose of this research is to extend the current understanding of the development and application of strategy in the public sector through the application of performance management processes. The research looks specifically at how leaders develop and apply strategy at the state government level in two different public sector contexts. The dimensions of this research include exploring the linkage between leadership and governance, outlining a strategy model, and applying the strategy model framework to specific cases to find how governance mechanisms develop to address seemingly intractable public sector problems.

**The Limits of Current Understanding**

A wide range of research separately explores the topics of institutional redesign, organizational change, strategy development, and governance. However, the research is limited at the intersection of these separate topics in the public sector.

There research literature on institutional design and reform at the federal level is well developed. For example, the challenges of sustaining presidential focus and policy priority are consistent through 12 separate reorganizational efforts in the 20th century, with the “problematics of
attention” and policy trade-offs limiting change (March and Olsen, 1983). The metaphor of ocean tides sweeping in and out across four different types of institutional redesigns is the primary finding of Paul Light’s research on federal reform efforts (Light, 1997). There is a range of research on the impact of congressional bargaining (Shepsle and Weingast, 1995) and on congressional oversight (McCubbins, Noll, and Weingast, 1989) of organizational reform and administrative design of federal agencies. The research raises the question of whether public agencies are designed to succeed (Moe, 1990a and b). The research on public sector organizational change is extensive, finding a wide range of studies, often with findings in conflict, leading to at least eight major factors explaining success (Fernandez and Rainey, 2006).

The extensive research on strategy in the private sector with the centrality of strategy to corporate leadership over the past 50 years is well documented (Kiechel, 2010), and includes large data sets (e.g. Collins, 2001). Research on the application of strategy in the public sector tends to cluster around organizational change or innovations (e.g. Moore, 1995). The inter-sectoral experience of challenges crossing the public, private, and nonprofit sectors needs to translate into a framework of governance. A range of research has developed in the past two decades to explain this framework a “hollow state” (Milward and Provan, 2000), with extensive contracting and networks, and with an emphasis on performance management in the public sector. However, the research on improving performance and governance suggests that efficiency is not always the legislative intent (Heinrich, Hill and Lynn, 2004, p. 12), similar to the findings of Terry Moe (1990a and b).

Yet management may do things right, but not necessarily the right things in Bennis’ classic set of distinctions between leadership and management (1989). Bringing clarity into uncertain contexts
is the number one leadership finding of interviews with hundreds of corporate CEO’s (Buckingham, 2005). Leaders bring clarity through strategy, which develops through powerful questions. Ricks recounting of Gen. Petreaus repeated question that drove new strategy development: “what does the end look like?” While there are examples of explicitly applying strategy models to public organizations, in contemporary challenges (for example Porter’s balanced scorecard by the U.S. military [Chiarelli and Michaelis. 2005]). A gap in current research is the study of the application of strategy by leaders in the public sector at the local, regional, and state levels of government (Callahan, Pisano, Linder, 2010). There is a range of recent research on performance management in the public sector, with aspects of leadership as an important dimension (Moynihan and Sanjay, pp. 850-852).

**Research Questions**

Do public sector leaders employ strategy to address wicked problems? The question becomes how to understand and explain the development and implementation of strategy that focuses on results that are performance based. How do leaders deal with uncertainty? What emerges as consistent practices and mechanisms across a range of across contemporary government performance management challenges? Specifically the research methodology will address three key questions as puzzles that two cases helped identify (Callahan, Pisano, Linder, 2010):

1) What are the leadership drivers for the development of strategy?

2) Can public sector leaders develop strategy to implement performance management systems?
3) What are the shared governance mechanisms for developing strategy that move hierarchies off of institutional path dependency?

**Research Methodology**

Case studies will be the core of the research. The case study methodology is favored as an approach seeking to explain the “how” of an issue (Yin 1994, 9), with “richly textured case studies” derived from field research as more appropriate than other methods for governance research (Heinrich, Hill and Lynn, 2004, p 13), as well for institutional process questions (Scott 1995, 146). The purpose of these case studies is to evaluate where public sector leadership has strategically developed performance management and new governance mechanism.

The criteria used in making the case selections were:

1) emphasis on performance results;
2) located in California State Government;
3) access to the evolution from the start;
4) identifiable leadership involvement.

The research connects leadership and strategy in exploring governance adaptation. This research emphasis a typically underdeveloped piece in institutional design and organizational change research in the exploration of the leadership dimension in explaining how to generate effective governance mechanisms and outcomes.
From a framework developed by Callahan, Pisano, and Linder (2010), analysis of these cases begins with application of a strategy model (Logan, 2005) the analysis of leadership has a defined set of activities. The formula is that leaders apply strategy to generate results from design choices, leading to create new governance mechanisms implemented organizationally, depicted as follows:

Leaders → Apply strategy → Result in new practices

In practice, leadership creates possibilities through the design of strategy. The application of strategy moves a project from a fragmented range of possibilities to focused, designed outcomes. Strategy accounts for varied circumstances, stakeholders, geography, and particulars of a context. Effective leadership develops the strategy that accounts for collective purpose, based on values that leverage assets through specific behaviors to produce the desired outcomes. The strategy framework applied in this research considers the factors that enable a leader to assemble the institutional structures that overcome the obstacles to success. It can be depicted visually as follows:

Collective Purpose → Driving Outcomes (measurable in benefits) → Supported by Assets → Leveraged by Behaviors → Directly linked to and causing the intended Outcomes

**Case Studies**

The two case studies that have been identified are: one, The State of California, Environmental Protection Agency, Department of Toxic Substances; and two, The State...
of California Little Hoover Commission, Performance Measurement Council. In both
cases, the author has been an observer and to a limited extent participant in the process
described.

*Department of Toxic Substances Control, State of California*

In 2007 the acting director of the California Environmental Protection Agency’s
Department of Toxic Substance Control, Maziar Movassaghi determined a need to
respond to a set of both internal and external challenges. Movassaghi perceived the
external challenges as both the expansion of mandates by the legislature to include
environmental safety beyond site regulation and remediation as well as an outdated and
insufficient revenue stream. Internally, he saw a data rich but information poor
organization and an organizational culture of crisis management.

Movassaghi looked to develop an “Executive Dashboard” of field driven, selected
measures, with an emphasis on the process of choosing the measures as important as the
final metric choosen (Collins, 2004). He explicitly considered the trade off between
expense of collection and the value of the data collected in six categories outcomes: 1)
Restoring communities, 2) Safeguarding communities, 3) protecting future generations,
4) Accountability and transparency, 4) accountability and transparency, 5) fiscal
responsibility, 6) organizational excellence.

In the framework of the strategy model, at the director level, Movassaghi regularly
looked to discuss the strategic outcomes of the department, bringing a clarity of vision
(Buckingham, 2004). Applying a strong combination of political management skills
(Moore, 1995), he advanced the values of transparency and accountability in the cause of
protecting the health of Californians. He connected these values to the strategic
outcomes of the department.

In terms of assets, Movassaghi primarily looked internally. He did not look for additional
resources or funding, choosing to tap into existing staff. He found a rich asset in the
existing data sets available through *Enviro Stor*. For him the question was how to present
and what questions data should answer in the context, 100,000 plus toxic sites, In
addition he had a $186 million budget. He developed an external asset in creating a
performance management review council, as well as drawing on a state executive, Denzil
Verardo with extensive experience in performance management in other state agencies.

In applying the strategy model framework, he leveraged the existing assets in a specific
set of behaviors. With staff, Movassaghi clearly laid out, charts and material of
performance measurement system and displays in multiple ways. Every measure had a
data sheet with frequency of collection, performance measures, definition of measure,
and other information.

Movassaghi led the implementation of a performance management system reconciling
day-to-day operations with strategic plan. The system managed the gap between what
you want to do and what you have to do. In addition, the system tracked performance
with budget. These metrics were tied into weekly meetings of deputies at the executive
staff level. Additionally, he operationalized performance agreements between
Performance Managers (formerly called Bureau Chiefs) and department executive staff.
These agreements created accountability across a range of programs.
Moreover, Movassaghi advanced the value of transparent public discussion through the appointment of a five member Panel of professionals from outside of department (the author serves on this as academic representative, along with Director of Sierra Club, a private sector representative, State Department of Conservation, and a legislative staff member). This panel provided staff with the opportunity to present and practice presentation skills, to clearly articulate the messages, explain data, and offer conclusions. The presentations became opportunities for organizational learning through staff to learn from five member panel questions. The discussions appear to have generated positive conversations, which in turn promoted an organizational culture to drive performance.

In moving forward, Mossassghi’s strategy faces a range of challenges, including: 1) the need for more resources to address the range of toxic sites and emerging interests in green chemistry; 2) transiting from outputs to outcomes with limited incentives in the existing personal systems to think outside of output systems, 3) how to include costs in the use of data; and 4) working across state agencies and regional boards.

Performance Management Council, State of California

A long-standing focus of the State of California’s Little Hoover Commission has been on improving the performance of organizations within state government. Through a process of study, report writing, and public hearings this Commission has looked to highlight deficiencies in state government operations and offer recommendations for improvement. Starting in 2008, in a study of information technology systems, the staff of the Little Hoover Commission began exploration of how performance management processes in state government were being used and might be expanded (Stern).
To advance an expanded understanding of performance management, the Director of the Little Hoover Commission, Stuart Drown, developed an approach of convening managers in state government who had developed performance management systems. Initially, Drown drew upon local expertise to identify a national leader in performance management, inviting John Kamensky to speak to state agencies in Sacramento. In a voluntary meeting of a range of state executives from the Agency Secretary Office through Department directors totaling over 40 participants, the Little Hoover Commission convened a three hour discussion featuring both a presentation by Kamensky on key practices, as well as a discussion by the state executives on their experiences. A significant feature of the meeting was departments and agencies sharing experiences with performance management with others outside of their organizational jurisdiction. The problems of organizational silos had been identified in a Little Hoover Commission Report in the 1990’s as a significant barrier to improved performance throughout state government. A driver for the strategy of the Little Hoover Commission staff was to provide a safe forum for state executives to share their experiences and questions on performance management, learning not only from the national speaker, but from each other.

The strategy developed to continue this organizational learning, next extended this one time occasion into a voluntary initial meeting of meeting of state executives and managers to simply discuss their performance management experience. Notably the strategy did not call for a formal structure or authorization. Rather, the strategy continued the concept of voluntary meetings with a focus on voluntary discussion of performance management experience. The initial meeting focused on the 20 participants in
attendance developing their process for moving forward as a group. In addition, as might be expected from a group professionally focused on performance management, the group discussed what should be outcomes and metrics for performance of the group.

The Little Hoover Commission staff developed a strategy that emphasized four features:

1) The value of organizational learning across departments;
2) Drawing on the talent of state executives;
3) Valuing the conversations that occurred in presentations and among participants during, before and after the meetings;
4) A voluntary association, without formal structure;
5) Regular meetings approximately every six weeks;
6) A goal of developing a shared strategy and a report within a year.

In the course of a year, the group developed the name of the Performance Management Council (PMC), with presentation from large agencies, as well as smaller departments and boards. An important set of assets to advance this strategy including the on-going participation of a state government executive, Denzil Verado who has experience in setting up extensive performance management systems in Parks and Recreation department and facilitating other departments efforts. An additional set of assets included the staff of the Little Hoover Commission, providing continuity between meetings with notes, minutes, and drafts, convening the meetings and keeping to an agenda with time limits, and preparing presenters. Another asset leveraged in this process was the performance management experience of the participants, allowing a shared set of expectations to emerge in discussion, with the expectation of being accountable.
individually and collectively for meeting these expectations. A final asset leveraged to
advance the group meetings was the experience with program evaluation applied to each
of the presentations: at the conclusion of each presentation feedback forms were
distributed and collected on each presentation, with copies to the presenters. This process
helped both target future presentation to get at participant expectations, as well as
creating accountability for the presenters to the high expectations for the quality of the
presentation.

In concluding over a year of meetings, the PMC produced a “White Paper” on
performance management in California state government. Through a process of a
subcommittee drafting, circulating, and revising a report, the full Council generated an
agreed upon snapshot of the status of performance management in state government and
a set of recommendations. The two significant outcomes generated leadership strategy is
captured in director’s transmittal letter to state government agencies and departments on
the release of the report:

    For the first time, information has been collected about specific strategies state
departments and agencies employ to improve program outcomes by tracking
performance data to inform budget and management decisions. This report
provides a street-level status report on these activities and concludes with a
framework to better leverage, unify and grow these efforts across state

The report represented two sets of tangible accomplishments. First, the occurrences of
organizational learning across state agencies by design. The varied experiences of state
executives in developing and implementing performance management systems was being shared on a regular and systematic basis. Models of success and advice became accessible to anyone volunteering to attend. A designed network was developed to leverage current experiences into new efforts.

Findings

Three sets of findings emerge from the two cases. First, leadership can develop and implement strategy to advance performance management systems. The context for developing strategy diverges in these two cases. In the Department of Toxic Substance Control, the strategy development is in the context of hierarchy, with a director having authority over staff. In the PMC case, the context is voluntary, with the director of the Little Hoover Commission having no formal authority over any of the participants. The differences in the cases suggest the possibility of public sector leaders developing strategy across a range of contexts.

A second finding is that new governance approaches, in both case the Oversight Panel at DTSC and the PMC a new governance approach, incorporating players outside of government emerged to advance performance management adaptation and implementation. The governance approaches emphasized outcomes, as opposed to outputs. The governance mechanisms advanced accountability for performance in both cases.

A third finding is the impact on organizational culture. Each case offers insight into the impact of leadership, strategy, and governance for designing the types of conversations
that shape organizational culture in state government. The development of performance management processes shifted the public sector executive conversations to a focus on performance. While from the outside this might appear as a given, the environment of California state government budgets suggests that this was not a foreordained conclusion. The budget context during both these efforts included state government annual deficits of over $10 billion each year, significant cutbacks across state government in spending, hiring freezes, and most significantly involuntary days off without pay, amounting to annual reduction of approximately 15% of salary at all pay levels in the executive branch.

**Implications**

The research findings may suggest a way to approach the challenge of understanding of how leaders move off the path dependency that various levels of government have been operating on for the past century. Currently, a variety of current governance approaches are not working well; wicked problems outstrip government capacities to generate new mechanisms for problem solving. By bringing the parties to the table needed to define what collectively is needed, the desired result, the leader can develop strategies that are expressed as new rules of the game that organizations follow that changes the way that assets are used and the results are achieved. Leadership and strategy can be researched as processes to structure decision-making process across a range of intractable policy issues.

For future research, these case studies complement a research agenda developed by Callahan and Pisano (2010) exploring leadership application of strategy to governance challenges in local, county, and regional governance. More generally, the methods applied in these cases, of a
strategy framework could be applied across a wider set of California State agencies, departments, or divisions.

The research approach suggests an opportunity to explore performance management choices in the larger context of strategy. An on-going critique of performance management activity is the need to account for the values and practices of democracy, as well as to move beyond a bottom line of metric or efficiency (see for example Radin, 2006 and Kirlin, 1996). Furthermore, the case studies suggest the potential for researching connections between leadership, performance measures, and organizational culture. Moreover, there is a need to improve the understanding of institutional design and public management or to move beyond the “Uncritical and universal adoption of poorly grounded recipes for institutional design…” (Hood and Peters, 2004, p. 278). Additional research across a range of local, regional, and state governance mechanisms offers the potential to develop comparative analytics, with insights not limited to particular locations or policy issues.

**Conclusion**

The biggest challenge for leaders will be how to move off the current path dependency. Leaders who can employ strategy to write new rules of the game for the governance innovations may move off the current path dependencies with a range of wicked problems. A focus on leadership, strategy, and governance moves the lines of inquiry away from hierarchy to a search for mechanisms that facilitate cooperation.

The leadership and strategy approach applied in these and other case studies offer the potential to better understand how new institutional design emerges similar the case study methods refined
by Elinor Ostrom (1990) that moved from across geography and policy domains for over three decades. The cases suggest the possibility of moving beyond the continued layering of government processes like you might find in an ancient civilization on a dig by archeologists. The research into leadership, strategy, performance management, and governance may offer the opportunity to better understand the potential for strategy to drive governance to move beyond layering and generate the intellectual capital to generate innovation.
Bibliography


