Washington State Auditor's Office
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Performance Measurement in State Economic Development Programs

The Associate Development Organization (ADO) program was established by the Washington State Legislature in 1985 to deliver economic development services and promote business growth across the state. Through this program, the Department of Commerce (Commerce) manages $3 million in annual grant support to 34 county-designated ADOs, including economic development councils (EDCs), chambers of commerce, and other organizations. ADOs deliver a diverse array of services, tailoring priorities to local needs.

The Legislature wants to know if the money directed toward economic development has the desired impact. Commerce is required by statute to maintain a system of performance measures focused on ADO outcomes, especially job creation and capital investment, which are widely used metrics for economic development. However, Washington stakeholders and economic developers have found it challenging to report meaningfully on these measures.

Our audit asked whether the impact of ADOs on economic outcomes such as jobs and capital investment can be isolated from other factors, let alone measured with certainty. We also wanted to determine whether the performance measurement practices currently used by Commerce align with the intent of state law and with leading practices. Finally, we wanted to develop a list of leading practices in performance measurement that could benefit ADOs and other economic development programs.

Measuring ADO outcomes is virtually impossible because isolating ADO program impact is not feasible

We found it is virtually impossible to measure the impact of ADO services, because it is difficult to isolate them from the effects of other economic development partners and the factors business owners consider when deciding to expand or relocate. Factors beyond the control of economic developers – such as the availability of loans, company sales, inflation rates, and the price of raw materials – all play into business decisions to relocate, expand, or invest capital.

Compounding these challenges, the modest size of Commerce's ADO program compared to Washington's economy makes identifying a meaningful level of impact unlikely. Furthermore, because ADO priorities vary according to local needs, we found some ADOs focus on important activities and services whose long-term nature and indirect effects make performance measurement challenging. Although Commerce made an effort to improve ADO performance measurement, it could not carry out statutory intent to identify impacts, because doing so with certainty is virtually impossible.

Business owners consider many factors when making decisions to relocate, invest or expand.

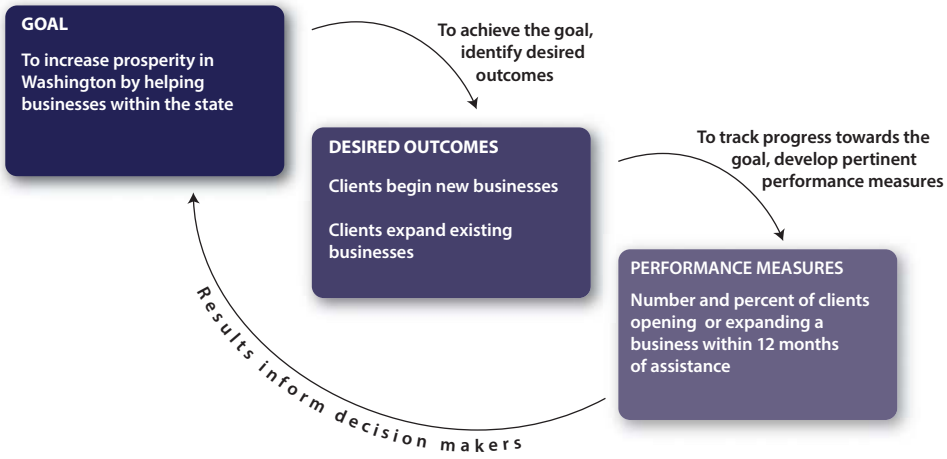
The performance measurement system is not working as intended, and only partially follows leading practices

The law that directed Commerce to set up a performance measurement system to report on impacts also includes provisions meant to support effective analysis and data management. We found that Commerce has been able to craft and track some useful performance measures. However, the system does not fulfill statutory intent to implement an effective performance measurement system because the law is unclear regarding both program goals and Commerce's role.

As a first step, the Legislature and Commerce will need to work together to clarify the statute's stated goals. While the number of jobs created is an important performance measure for an economic development program, it cannot be connected with certainty to the ADO program due to the factors shown in the graphic on the previous page. Other measures of quality and efficiency can provide useful performance information. They include intermediate outcome measures, such as the number and percent of clients expanding a business after assistance, or efficiency measures such as the number of staff hours invested in each project.

The diagram at right provides an example of how goals guide the development of outcomes, which in turn drive the performance measures the agency tracks. Once analyzed, performance measures help inform stakeholders about how well a program is doing in delivering the intermediate outcomes which support the overarching goals of the program.

One example of how a clear goal, supported by clear outcomes, can make it easier to develop and apply performance measures



Refining the goals in statute should lead to improved program measures

While we recommend the Legislature establish clear goals for the ADO program, we also recommend that Commerce and the ADOs develop a more robust performance measurement system that better reflects ADO activities and provides the information needed to manage the program. Our report identifies leading practices that could be applied to improve the nature and quality of their metrics. These leading practices served as our criteria when we examined Commerce's current practices.

We also recommend the Legislature reform reporting requirements so it receives the information needed to make decisions while reducing the effort required from Commerce and ADOs. To make it easier for ADOs to provide this information, Commerce should follow applicable leading practices.

AUDIT ISSUES

- Statutory language concerning ADO performance goals is unclear
- Required reporting only partially reveals successes and challenges in the program
- A key outcome – job creation – is not actually measurable in a scientific way

RECOMMENDATIONS

- Review and revise statute to clarify goals for the ADO program
- Reform reporting requirements
- Develop measures based on clarified program goals and leading practices