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Lean Budgeting Paper #2

This is the second installment of my series about Lean Budgeting. In the first paper, I wrote about using A3 problem solving techniques to develop new strategies for achieving citywide outcomes. In this paper, I want to take a wider-angle view of Lean Budgeting, looking at it from a Value Stream Mapping perspective.

In public budgeting, government agencies should be thinking about how to 1) align resources with organizational goals and 2) make the services they deliver more cost-effective. Lean is usually associated with cost-effectiveness, through business process improvement. To most people, Lean is about eliminating waste: reducing the number of handoffs in an approval chain, better organizing supplies, streamlining the flow of work, etc.

Using Lean only for specific process problems misses out on much of what Lean has to offer. Lean gives us leadership and strategy tools to envision a better future, take on the biggest challenges we face, and engage employees and residents in positive change. These tools are needed by cities to see beyond the symptoms of problems and get to the root causes.

One of my most important lessons from a quarter-century of public service is that government spends a lot of figuring out how to do things right and not enough time figuring out if it is doing the right things. I saw this happen in Baltimore's CitiStat program, which monitored operational performance metrics biweekly. Well-intended as it is, CitiStat can become obsessed with how long it takes DOT to fill potholes and lose sight of the larger issue, which is that streets with a ten-year lifecycle are being repaved on a forty-year cycle.

Much bigger than potholes is violent crime, where the stock response to a spike in murders is to deploy more police officers. This is a short-term solution that sucks resources away from programs that have a better chance of reducing crime down the line, like youth development, job training, and child abuse prevention.

One of the key steps in a Lean Value Stream Mapping exercise is to define the desired Future State, the endpoint we want to work toward. This is also a key step in budgeting. Budgeting should look forward, not backward, yet too many cities still budget by making incremental adjustments to last year's spending.

At a high level, the Future State for a city budget (or state, or school district, or other mission-driven organization) is a set of outcomes, such as Better Schools, Safer Streets, Growing Economy, etc. Of course, "Better Schools" by itself is not useful for planning. Lean would suggest focusing on a FEW metrics that tell us if schools are getting better, such as test scores, graduation rates, and college or career readiness.

After we have looked forward to the Future State, Lean tells us to work backward to determine how to get from where we are to where we want to go. It is natural to want to start by planning our first step, but it is better to start by planning our next-to-last step.



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When I was the CFO at the Bureau of Transportation Statistics (BTS), I experimented with something I called “Logic Model Budgeting.” A Logic Model is a graphical depiction of how inputs (or resources) are turned into outcomes (or results). It is used primarily for program evaluation, because it helps to pinpoint gaps in the causal chain that need to be filled to get better outcomes.

The classic Logic Model works left-to-right from inputs to outcomes, which is the reverse of how Lean thinking works. At BTS, I gave program managers a Logic Model template like the one shown below, with outcomes on the left side, and asked them to build their budget proposals by asking How? until they got to inputs. They grumbled quite a bit about this new approach, but a few of them admitted that it gave them a new understanding of how their program worked and how to make it work better.

LOGIC MODEL

OUTCOME	INTERMEDIATE OUTCOMES	OUTPUTS	ACTIVITIES	INPUTS
Recycling rate	% of households using recycling bins	# of recycling bins distributed	Distribute 10,000 recycling bins	Funding for recycling bins, distribution

Another principle of Lean that should be brought into budgeting is employee empowerment and engagement. My favorite thing about Lean is that it relies on the expertise of the front-line employees who actually do the work. Before Lean, the rare business process improvement project in Baltimore involved bringing in high-priced consultants who left behind a report that may or may not ever be operationalized. One of the best moments of my career was sitting in for the report-out from Baltimore’s first Value Stream Mapping event. The team’s excitement about what they had accomplished was palpable, and they couldn’t wait to start implementing their ideas.

In traditional city budgeting, decisions are made behind closed doors by the Mayor and few senior officials. Business leaders, union heads, and other interest groups lobby behind the scenes, and sometimes town hall meetings are held just for show.

Lean budgeting would bring employees and residents to the table in a meaningful way. They would work in teams to Value Stream Map citywide outcomes, give strategic direction to agencies, review budget proposals, and make recommendations to the Mayor. This kind of inclusion boosts morale, improves service delivery, and gives the inevitable tough budget decisions more credibility with the public.

In my next paper, I will explore how Lean can streamline the budget process.

- Andrew Kleine, former Budget Director for the City of Baltimore and a member of the OPS Board of Advisors