

Performance Audit

West Virginia Development Office

The Development Office Needs to Improve Its Measurements of Performance in Some of Its Divisions

The Legislative Auditor's Office Created Outcome Measures of the International Division That Show Areas of Concern and Limited Success

The Development Office's Employee Evaluations Are Infrequent and Incomplete



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OFFICE OF THE LEGISLATIVE AUDITOR

Aaron Allred
Legislative Auditor

John Sylvia
Director

Brian Armentrout
Research Manager

Derek Thomas
Research Analyst

Performance Evaluation and Research Division
Building 1, Room W-314
State Capitol Complex
Charleston, West Virginia 25305
(304) 347-4890

WEST VIRGINIA LEGISLATURE
Performance Evaluation and Research Division

Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0610
(304) 347-4890
(304) 347-4939 FAX



John Sylvia
Director

September 11, 2007

The Honorable Edwin J. Bowman
State Senate
129 West Circle Drive
Weirton, West Virginia 26062

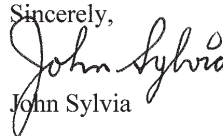
The Honorable Jim Morgan
House of Delegates
Building 1, Room E-213
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0470

Dear Chairs:

Pursuant to West Virginia Code §4-2-5, we are transmitting a Performance Audit of the *West Virginia Development Office*, which will be presented to the Joint Committee on Government Operations and Joint Committee on Government Organization on Tuesday, September 11, 2007. The issues covered herein are "*The Development Office Needs to Improve Its Measurements of Performance in Some of Its Divisions*;" "*The Legislative Auditor's Office Created Outcome Measures of the International Division That Show Areas of Concern and Limited Success*" and "*The Development Office's Employee Evaluations Are Infrequent and Incomplete.*"

We transmitted a draft copy of the report to the West Virginia Development Office on July 31, 2007. We held an exit conference with the West Virginia Development Office on August 3, 2007. We received the agency response on August 10, 2007.

Let me know if you have any questions.

Sincerely,

John Sylvia

JS/tlc

Joint Committee on Government and Finance

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Executive Summary

The Development Office has difficulties measuring outcomes that are the direct result of its efforts.

The difficulty measuring the agency's overall performance lies in the fact that it can take years before the outcomes of its efforts are realized.

Information such as preliminary contact information from businesses that contact or are contacted by the state is kept, but not compiled or analyzed.

Due to the lack of outcome measures in the documents provided by the Development Office, the Legislative Auditor created outcome measures for the International Division using federal data.

Issue 1: The Development Office Needs to Improve Its Measurements of Performance in Some of Its Divisions.

The West Virginia Development Office within the Department of Commerce is the state agency in charge of recruiting and assisting business, both domestic and internationally, that would like to establish operations in West Virginia. The Development Office has difficulties measuring outcomes that are the direct result of its efforts. These measures would include changes in business investment and income growth. The difficulty measuring the agency's overall performance lies in the fact that it can take years before the outcomes of its efforts are realized. Some divisions within the Development Office do track such measures. These Divisions are Small Business Development and Community Development.

In some cases the Development Office has the information to create these outcome measures. However, that information is often not compiled in a manner that would create meaningful statistics and measures. Information such as preliminary contact information from businesses that contact or are contacted by the state is kept, but not compiled or analyzed. This information could be beneficial in identifying trends of businesses interested in the state. A report by the Urban Institute has identified procedures to assist economic development agencies in producing meaningful performance outcome measures. Without qualitative, comprehensive outcome measures, it is difficult for the Legislature to assess the effectiveness of Development Office programs.

Issue 2: The Legislative Auditor's Office Created Outcome Measures of the International Division That Show Areas of Concern and Limited Success.

Due to the lack of outcome measures in the documents provided by the Development Office, the Legislative Auditor created outcome measures for the International Division using federal data. These measures include per capita data on Foreign Direct Investment and export statistics compared against West Virginia's competitive region. The region consists of 10 competitive states as determined by the Council for Community and Economic Development in 2002.

The Legislative Auditor recognizes that these measures may

not be the best representation of the International Division's efforts. However, due to the lack of outcome measures provided by the agency, these measures were created to help assess the performance of the agency. The Development Office has suggested other means of performance measurement that would better represent the results of its efforts.

In examining the evaluations, it was found that some positions had not been evaluated since 2003 and one since 2002.

Issue 3: The Development Office's Employee Evaluations Are Infrequent and Incomplete.

The Legislative Auditor requested employee evaluations of specific positions from the West Virginia Development Office to assess how the agency internally measures performance. In examining the evaluations, it was found that some positions had not been evaluated since 2003 and one since 2002. It should be noted that some were as current as 2006. Given the finances involved and the important economic development to the state, employee evaluations should be performed annually.

Many of the evaluations provided were incomplete. Often whole sections were left incomplete, some that would contain summary and useful information concerning employee performance.

Furthermore, many of the evaluations provided were incomplete. Often whole sections were left incomplete, some that would contain summary and useful information concerning employee performance. Employee performance evaluation should be as comprehensive as possible in order to better assess the agency as a whole.

Recommendations

- 1. The Development Office should develop performance measures that measure the outcomes of its programs and report the new measures to the Legislative Joint Committee on Government Operations by December 31, 2007.*
- 2. The Development Office should consider reviewing and analyzing records of preliminary business contacts to assist in identifying practices that are more effective in attracting business investment to the state.*
- 3. The Development Office, or another qualified entity such as the West Virginia University or Marshall University Schools of Business, should develop outcome measures internally to fairly and accurately report the results of agency's efforts.*
- 4. The Legislative Auditor recommends that the Development Office should conduct employee evaluations annually.*

5. *The Legislative Auditor recommends that the Development Office should fully complete the employee evaluation forms.*

6. *The Legislative Auditor recommends that outcomes of performance be measured at the employee level and that such measures be attributable to the agency's mission.*

Review Objective, Scope and Methodology

Objective

This Agency Review is authorized under the auspices of Chapter 4, Article 2, Section 5 of the West Virginia Code. The objective of this Agency Review was to determine what methods the Development Office uses to measure and report its performance. This included reviewing the overall mission of the agency and its active efforts during the scope of this report.

Scope

The scope of this report was from calendar year 2000 to June 2007.

Methodology

The methodology of this report included reviewing all applicable statutes regarding the Development Office, monitoring news media concerning the state's economic development, analyzing several examples of agency documents such as employee evaluations and meeting minutes, interviews with agency officials, examining similar development agencies of other states, reviewing several studies regarding performance measurement in state economic development, and extensive internet research. Every aspect of this review complied with Generally Accepted Government Auditing Standards (GAGAS).

Issue 1

The Development Office Needs to Improve Its Measurements of Performance in Some of Its Divisions.

The difficulties in measuring the direct impact of a development office's programs are due to a significant lag-time in when outcomes occur. Business and job creation that are the direct result of a development office may occur years after the development agency's efforts.

Without comprehensive, qualitative measures of performance outcomes, it is difficult for the Legislature to assess the effectiveness of WVDO programs.

The Legislative Auditor finds that survey data and a record of preliminary contact information, including business names, types of industries, employment potential and the workforce requirements, could assist in identifying trends as to what types of businesses are considering West Virginia for opportunities.

Issue Summary

The West Virginia Development Office (WVDO or Development Office) has difficulties measuring the outcomes that are the direct result of its programs. Such outcome measures would include changes in business investment and income growth. Each division within the Development Office is generally responsible for measuring its own performance. Some divisions within the WVDO measure outcomes, such as the Small Business Division and the Community Development Division. However, it has been recognized that measuring the overall direct outcomes of development offices is difficult. The difficulties in measuring the direct impact of a development office's programs are due to a significant lag-time in when outcomes occur. Business and job creation that are the direct result of a development office may occur years after the development agency's efforts. Consequently, development offices need to create other performance measures that serve as proxy measures of the agency's outcomes. In some cases the WVDO has the information to create these measures, but it has not compiled the information into meaningful statistics that measure the agency's performance or impact. Procedures from a report published by the Urban Institute provide a roadmap on how to establish the necessary measures for development agencies. Without comprehensive, qualitative measures of performance outcomes, it is difficult for the Legislature to assess the effectiveness of WVDO programs.

The Development Office often does not compile and review records of preliminary contacts with businesses, which would be beneficial in identifying practices that are more effective in attracting business to the state. These contacts should be measured as those contacted by the agency and those contacted by business. Also, the WVDO should consider routinely surveying businesses that it has contact with to obtain valuable information concerning the agency's performance and impact. The Legislative Auditor finds that survey data and a record of preliminary contact information, including business names, types of industries, employment potential and the workforce requirements, could assist in identifying trends as to what types of businesses are considering West Virginia for opportunities.

Introduction

The Development Office is a facilitating agency in that it is set up to be a “one stop shop” for businesses by providing information and assistance services.

The Development Office within the Department of Commerce is the state government agency that is in charge of recruiting and assisting business, both domestically and internationally, that would like to establish operations in West Virginia. The Development Office is a facilitating agency in that it is set up to be a “one stop shop” for businesses by providing information and assistance services. Just to name a few services the Development Office provides, it assists businesses in identifying appropriate building sites for businesses to locate, determining infrastructure needs, and connecting businesses with all the necessary permitting agencies. The West Virginia Development Office was created in 1992 in WVC §5B-2-1. The WVDO’s budget for FY 2007 includes approximately \$24 million in state funds.

The Development Office does not keep agency-wide outcome measures to determine the success of its programs.

The Development Office Lacks Outcome Measures

The Development Office does not keep agency-wide outcome measures to determine the success of its programs. The agency tracks output measures such as the number of business contacts or the number of business conferences attended. However, outcome measures are used to measure the effectiveness of programs.

The establishment of outcome measures in economic development has been recognized as a challenge in several studies.

The establishment of outcome measures in economic development has been recognized as a challenge in several studies. There are guidelines and recommendations for economic development agencies to follow when establishing outcome measures.

There are several interrelated elements organizations use to measure performance of an operation. Those elements are

- Inputs: Resources such as money, staff time and other resources used to produce outputs and outcomes. Inputs indicate the amount of a particular resource that is actually used to produce a desired result.
- Activities: The actions a program takes to achieve a particular result.
- Outputs: The amounts of products created and services delivered in a reported period, such as the number of

business contacts made or number of clients served.

The Development Office does keep track of various performance measures, but they focus more on inputs, activities and outputs rather than outcomes in terms of the results or effects of its programs

An output measure may show the agency performing more of a certain service than last year but it does not show if that increase amount of service lead to increased economic development in the state.

It is difficult for the Legislature to determine the success of Development Office programs without qualitative outcome measures. Without these measures, successful development programs can only be determined anecdotally.

- Outcomes: Changes in knowledge, skills, attitudes, values, behavior, or condition that indicate progress toward achieving the program's mission and objectives. Outcomes can be short-term, intermediate, or long-term. Outcomes are linked to a program's overall mission.

Another element is often used to measure a program's performance. An **efficiency measure**, usually expressed in a ratio of costs per unit, is the relationship between the amount of a particular input (usually money or staff hours) it takes to produce an output or outcome. This is an important measure for an organization to track internally. It tells the staff and policymakers the amount of effort the organization takes to produce results and how efficiently it is doing so.

The Development Office does keep track of various performance measures, but they focus more on inputs, activities and outputs rather than outcomes in terms of the results or effects of its programs. For example, the agency has a performance measure for the number of international investment prospects that visit the state (32 in 2005) but no measures to determine what percentage of these visits actually result in investments and the dollar amount of these investments. Only a portion of the measurement information provided to PERD by the agency definitively showed if its programs were effective or not.

An output measure may show the agency performing more of a certain service than last year but it does not show if that increase amount of service lead to increased economic development in the state. The Development Office should use internal information such as businesses contacted and other efforts of development representatives to develop measurements of the results for those efforts. Outcome measures are the performance measures that actually determine if a program is successful and effective. It is difficult for the Legislature to determine the success of Development Office programs without qualitative outcome measures. Without these measures, successful development programs can only be determined anecdotally.

The Small Business Division and Community Development Division Keep Some Outcome Measures

The Small Business Development Division has recently exhibited the most extensive use of outcome measures in the documents

provided by the Development Office. The Small Business Development Division had a study conducted by an independent consultant in 2003 to assess the economic impact of its small business clients. This included aggregate sales impact figures, tax revenue added, among others (See Table 1). The study was done again in 2006, with the possibility of continuing the study according to the West Virginia Small Business Development Center(WVSBDC). The results of the 2006 study were not included in the 2006 WWSBDC Annual Report. The WWSBDC also performs annual customer satisfaction surveys. These surveys showed an average customer satisfaction rate of 99%.

The Small Business Development Division had a study conducted by an independent consultant in 2003 to assess the economic impact of its small business clients.

Table 1	
Outcome Measures in Small Business Development Division	
Measure	Data
Customer Satisfaction: based on surveys completed after initial customer visits	99.34% Avg. from 2002 to 2006
Aggregate Sales Impact: based on findings in which client sales changes of the sample were compared to the average change in sales of all WV businesses	\$59,506,375 in 2004
New Jobs: based on findings in which client employment changes of the sample were compared to the average change in employment of all WV businesses	451 in 2004
Existing Revenue Maintained: based on a study conducted by an independent consultant	\$53,493,638 in 2004
Jobs Saved: based on a study conducted by an independent consultant	700 in 2004
Total Tax Revenues Added by Pre-Venture Clients: tax revenue added by clients who started new businesses	\$2,937,721 in 2004
<i>Source: Small Business Development Center 2006 Annual Report</i>	

The Legislative Auditor finds it would benefit economic development for all WVDO Divisions to adopt a more comprehensive system of outcome measurement similar to the Small Business Division and the Community Development Division.

PERD agrees that it is difficult to measure the outcomes of the Development Office's efforts. This is due to significant lag time between the WVDO's efforts and their results, the involvement of other state agencies and organizations, state economic policies and other economic conditions.

The Development Office management does keep records of its preliminary dealings with companies. However, that information is not utilized in an analytical form, which would be valuable in establishment of best practices and recognizing trends.

The Community Development Division also reports on outcome measures such as total community improvement numbers, projects completed and industrial energy savings figures. Based on the documents provided to PERD, these were the only divisions of the Development Office with any substantial measurement of outcomes. The Legislative Auditor finds it would benefit economic development for all WVDO Divisions to adopt a more comprehensive system of outcome measurement similar to the Small Business Division and the Community Development Division.

The reason given by the Development Office for not tracking outcome measures is:

It is difficult for the Development Office to precisely measure its performance as an individual agency. This is because projects vary greatly in time, effort and infrastructure required, as well as the amount of involvement from other state agencies, local organizations and independent contractors.

PERD agrees that it is difficult to measure the outcomes of the Development Office's efforts. This is due to significant lag time between the WVDO's efforts and their results, the involvement of other state agencies and organizations, state economic policies and other economic conditions. Economic development is of high priority to the state and should be measured in a qualitative, meaningful fashion by the agencies responsible. The Development Office should work to establish a method of measuring and reporting its efforts with qualitative outcomes. Such measures would aid agency leadership as well as policymakers in assessing the effectiveness of development programs and how to best allocate resources

The Development Office Management Does Not Review Preliminary Meeting Data

The Development Office management does keep records of its preliminary dealings with companies. However, that information is not utilized in an analytical form, which would be valuable in establishment of best practices and recognizing trends. When asked if the Development Office has used preliminary contact information to identify best practices that are more effective in attracting outside businesses to locate within the state, the agency replied:

The Development Office does not often keep paper records of preliminary interactions with potential incoming businesses. This is due to the confidential nature of a company's requirements for locating within the state. Once a project obligates public funds, the documents evidencing that obligation are public. Similarly, a project may decide to make information public.

Organizing and analyzing records of preliminary contact activity with businesses showing interest in West Virginia can be valuable in identifying practices that are more effective at attracting business to the state.

Organizing and analyzing records of preliminary contact activity with businesses showing interest in West Virginia can be valuable in identifying practices that are more effective at attracting business to the state. It can be useful in identifying the types of industry most interested in the state and other trends. This would be a valuable tool for agency management. The needed information can still be kept confidential by the agency or can be collected in a way that keeps company confidentiality intact.

Procedure for Developing Outcome Measures

A 1990 report from the Urban Institute, a nonpartisan economic and social policy research organization located in Washington, D.C., comprised a methodology applicable to economic development agencies in their development and implementation of performance measures that emphasizes performance monitoring.

A 1990 report from the Urban Institute, a nonpartisan economic and social policy research organization located in Washington, D.C., comprised a methodology applicable to economic development agencies in their development and implementation of performance measures that emphasizes performance monitoring.¹ The report identified twelve key characteristics as criteria in developing performance measures for economic development agencies.

Resulting measures should

- focus on service quality and outcomes;
- focus on helping program managers improve their operations;
- provide timely and frequent information;
- focus on the outcomes accruing to clients of program services;
- use multiple performance indicators to assess service quality outcomes;
- use nontraditional data sources - such as client surveys and unemployment data;
- include both intermediate and long-term outcomes

¹Hatry, HP., Fall, M., Singer, TO., & Liner, E.B. 1990. "Monitoring the Outcomes of Economic Development Programs". Washington, D.C.: The Urban Institute Press.

-
- include indicators that attempt to show the extent of the agency's contributions;
 - breakout by characteristics;
 - provide comparisons of performance for previous years, trends, target levels and categories of clients;
 - include explanatory factors as well as performance data; and
 - be designed to be cost-efficient.

In regard to data collection, the report proposed the following:

- Procedures should rely on information provided by agency clients (client-based assessment).
- Procedures should be designed to be incorporated into the normal operations of the development agency so as to provide regular, periodic reports, that, over time, can be used to identify trends in performance.
- Performance indicators should include both intermediate and end outcomes. Intermediate outcomes highlight actions taken by clients that are accepted as significant steps toward achievements of the long-term results.

Conclusion

The Development Office does keep track of performance measures. However, its measures focus on inputs, activities and outputs, not outcomes. Outcome measures will show if an agency is achieving the objectives of its programs. It is difficult for the Legislature to assess the effectiveness of Development Office programs without comprehensive, qualitative outcome measures.

The agency needs to organize and review records of its preliminary contacts with companies interested in investing in the state. Such information would be beneficial in identifying practices that are more effective in attracting business to the state by identifying trends of businesses interested in West Virginia. Following the procedures from the report from the Urban Institute will help the Development Office establish better outcome measures.

Recommendations

- 1. The Development Office should develop performance measures that measure the outcomes of its programs and report the new measures to the Legislative Joint Committee on Government Operations by December 31, 2007.*
- 2. The Development Office should consider reviewing and analyzing records of preliminary business contacts to assist in identifying practices that are more effective at attracting business investment to the state.*

Issue 2

The Legislative Auditor's Office Created Outcome Measures of The International Division That Show Areas of Concern and Limited Success.

Issue Summary

Thorough and comprehensive performance measurement has been recognized as a key component in effective economic development in several studies.

The Development Office does not measure certain outcomes that could be beneficial in assessing economic development within the state and against its competitive region. Thorough and comprehensive performance measurement has been recognized as a key component in effective economic development in several studies. The Legislative Auditor has calculated some per capita performance measures that the Development Office does not record. The measures consist of per capita Foreign Direct Investment (FDI) and export dollars among West Virginia and its competitor states. West Virginia's competitor states were determined in 2002 by the West Virginia Council for Community and Economic Development. Those states are Kentucky, Ohio, Pennsylvania, Maryland, Virginia, North Carolina, South Carolina, Tennessee and Indiana.

Per capita Foreign Direct Investment in West Virginia has decreased 23 percent from 2002 through 2004. Export dollars per capita has increased 44 percent from 2000 to 2006.

These and similar measurements would be useful in comparing the competitive states' various economic development numbers on an even playing field. Per capita Foreign Direct Investment in West Virginia has decreased 23 percent from 2002 through 2004. Export dollars per capita has increased 44 percent from 2000 to 2006. Also a table has been created detailing the changes in FDI from 1990 compared to 2004. This is to help quantify the impact the Development Offices has had on FDI since the office was codified in 1992. Attracting foreign investment and assisting West Virginia businesses in exports are functions of the International Division of the Development Office.

The Legislative Auditor recognizes that these measures may not be the most representative of the International Division's performance. However, due to the lack of outcome measures in the documents provided by the agency, PERD decided to create these measures using federal data in order to help assess the performance of the International Division. The Development Office has suggested alternative methods of measuring its performance based on nationwide benchmarks in target industries. The International Division should develop and report qualitative measurements that it believes best represents its performance.

The International Division Lacks Key Outcome Measures

The Development Office's International Division does not keep key outcome measures to use in performance measurement. **Based on documents provided, the International Division emphasizes output measures such as businesses contacted and trade missions attended in measurement of performance. Studies reviewed by the Legislative Auditor have concluded that outcome measures such as cost-benefit ratios and customer satisfaction surveys are the most effective in measuring economic development programs.**

Studies reviewed by the Legislative Auditor have concluded that outcome measures such as cost-benefit ratios and customer satisfaction surveys are the most effective in measuring economic development programs.

In 2002, the Performance Goals Committee of the West Virginia Council for Community and Economic Development developed a competitive region of 10 states including West Virginia. Much of the Development Office's performance measures are compared against the nine other states in the region and used as benchmarks in the Vision Shared Implementation Plan. West Virginia's competitive states are Kentucky, Ohio, Pennsylvania, Maryland, Virginia, North Carolina, South Carolina, Tennessee and Indiana.

The Legislative Auditor has created a series of outcome measures attributable to the International Division of the WVDO. The measures are found in the tables below and include:

- the change in FDI among the 10 competitive states,
- FDI per capita among the 10 competitive states,
- European investment per capita among the 10 competitive states,
- FDI from Asia and South Pacific per capita among the 10 competitive states,
- exports per capita among the 10 competitive states,
- the top 10 export destinations for West Virginia products in 2006, and
- the top 10 exported products for West Virginia in 2006.

West Virginia is one of only five states in the nation that has shown a decrease in FDI when compared to 1990.

Foreign Direct Investment is measured by the U.S. Bureau of Economic Analysis in gross property, plant or equipment owned with a majority by any nonbank United States affiliate.

Foreign Direct Investment Has Decreased

Foreign Direct Investment is measured by the U.S. Bureau of Economic Analysis in gross property, plant or equipment owned with a majority by any nonbank United States affiliate. West Virginia is one of only five states in the nation that has shown a decrease in FDI when compared to 1990. These five states, in order of largest percentage

decrease, are Hawaii (-41 percent), West Virginia (-27 percent), Delaware (-23 percent), New Mexico (-12 percent), and Minnesota (-9 percent). Aside from these five states, every state in the country has shown an increase in FDI ranging from a 2 percent to a 347 percent increase in 2004 as compared to 1990. The average increase in FDI from 1990 to 2004 for all 50 states is 98 percent.

The state's FDI dollars were greater in 1990 than in each year of 2002 through 2004.

The Legislative Auditor created a table demonstrating West Virginia's performance compared with its competitor states in FDI from 1990 to the years 2002 through 2004 (see Table 2). The purpose of these measures is to help assess the impact the Development Office has made on West Virginia's FDI numbers. The West Virginia Development Office was created in 1992 by WVC §5B-2-1. Increasing FDI is a major function of the Development Office's International Division. A table listing the these measures for all 50 states can be seen in Appendix C.

The state's FDI dollars were greater in 1990 than in each year of 2002 through 2004. 2004 is the most recent year FDI numbers available through the U.S. Bureau of Economic Analysis. West Virginia has seen a 27 percent decrease in FDI since 1990. From 2002 to 2004, the state's FDI numbers decreased 23 percent, declining 17 percent from 2002 to 2003 and 6 percent from 2003 to 2004.

Table 2

Change in Total Foreign Direct Investment for 10 Competitive States (in millions)

States	1990 FDI	2002 FDI	Change from 1990	% Change from 1990	2003 FDI	Change from 1990	% Change from 1990	2004 FDI	Change from 1990	% Change from 1990
Maryland	\$5,713	\$10,339	\$4,626	81%	\$10,667	\$4,954	87%	\$11,172	\$5,459	96%
Pennsylvania	\$16,587	\$29,118	\$12,531	76%	\$31,248	\$14,661	88%	\$30,237	\$13,650	82%
Indiana	\$13,426	\$27,985	\$14,559	108%	\$29,977	\$16,551	123%	\$30,904	\$17,478	130%
Ohio	\$20,549	\$32,124	\$11,575	56%	\$32,759	\$12,210	59%	\$32,898	\$12,349	60%
Kentucky	\$9,229	\$24,091	\$14,862	161%	\$25,852	\$16,623	180%	\$26,919	\$17,690	192%
North Carolina	\$15,234	\$24,045	\$8,811	58%	\$25,088	\$9,854	65%	\$23,917	\$8,683	57%
South Carolina	\$10,067	\$21,570	\$11,503	114%	\$20,520	\$10,453	104%	\$21,844	\$11,777	117%
Tennessee	\$10,280	\$16,790	\$6,510	63%	\$17,919	\$7,639	74%	\$19,890	\$9,610	93%
Virginia	\$10,702	\$17,331	\$6,629	62%	\$16,607	\$5,905	55%	\$16,442	\$5,740	54%
West Virginia	\$7,795	\$7,388	-\$407	-5%	\$6,092	-\$1,703	-22%	\$5,716	-\$2,079	-27%

Source: United States Bureau of Economic Analysis

West Virginia Is Average in Overall Per Capita FDI in the Competitive Region

The Legislative Auditor has created tables detailing West Virginia's FDI position among 10 states categorized as competitive with West Virginia in economic development. The tables are intended as an outcome measure of the Development Office's International Division since the agency does not report outcome measures in these areas. The charts measure West Virginia's per capita performance in foreign direct investment.

Per capita for FDI, West Virginia has ranked fourth and fifth among the 10 competitive states from 2002 through 2004.

Per capita for FDI, West Virginia has ranked fourth and fifth among the 10 competitive states from 2002 through 2004 (see Table 3). In those years per capita FDI in West Virginia has decreased from \$4,094 to \$3,154 (-23 percent). From 2002 to 2004, West Virginia saw a decrease in per capita FDI from European countries from \$3,216 to \$2,055, a decrease of 36 percent. However, West Virginia still ranked fourth in per capita FDI from Europe among the 10 competitive states in 2004 (see Table 4). West Virginia ranked sixth in each year from 2002 to 2004 in per capita FDI from Asia and Pacific countries. Per capita FDI from Asia and Pacific countries increased from \$638 in 2002 to \$677 in 2004 (see Table 5). This is an increase of 6 percent. The per capita foreign direct investment numbers in 2002 and 2003 reflect only the investment from Japan and Australia because the total investment from all Asia and Pacific countries was not disclosed for those years.

In those years per capita FDI in West Virginia has decreased from \$4,094 to \$3,154 (-23 percent).

These measures in Tables 3, 4, and 5 could prove useful in assessing the Development Office's performance in attracting FDI to the state. They are also good indicators of how the state is viewed by the global economic market as compared to the states of the surrounding region.

Table 3						
Total Foreign Direct Investment Per Capita in Ten Competing States						
State	2002	Rank	2003	Rank	2004	Rank
Indiana	\$4,547	3	\$4,838	3	\$4,963	3
Kentucky	\$5,892	1	\$6,280	1	\$6,499	1
Maryland	\$1,900	10	\$1,935	10	\$2,009	10
North Carolina	\$2,893	6	\$2,979	6	\$2,800	7
Ohio	\$2,817	7	\$2,866	7	\$2,873	6
Pennsylvania	\$2,363	9	\$2,527	8	\$2,440	8
South Carolina	\$5,258	2	\$4,948	2	\$5,204	2
Tennessee	\$2,900	5	\$3,067	5	\$3,375	4
Virginia	\$2,379	8	\$2,249	9	\$2,195	9
West Virginia	\$4,094	4	\$3,365	4	\$3,154	5

Source: United States Bureau of Economic Analysis and the U.S. Census Bureau

Table 4						
European Investment Per Capita in 10 Competing States						
State	2002	Rank	2003	Rank	2004	Rank
Indiana	\$3,161	3	\$3,227	3	\$3,230	3
Kentucky	\$2,984	4	\$3,311	2	\$3,486	2
Maryland	\$1,315	10	\$1,344	10	\$1,284	10
North Carolina	\$1,906	5	\$2,186	5	\$1,948	5
Ohio	\$1,650	8	\$1,683	8	\$1,619	8
Pennsylvania	\$1,768	7	\$1,870	6	\$1,802	6
South Carolina	\$3,862	1	\$3,646	1	\$3,791	1
Tennessee	\$1,354	9	\$1,389	9	\$1,435	9
Virginia	\$1,772	6	\$1,748	7	\$1,641	7
West Virginia	\$3,216	2	\$2,419	4	\$2,055	4

Source: United States Bureau of Economic Analysis and the U.S. Census Bureau

Table 5						
FDI From Asia and Pacific Per Capita in 10 Competing States						
State	2002	Rank	2003	Rank	2004	Rank
Indiana	\$1,136	2	\$1,323	2	\$1,461	2
Kentucky	\$2,169	1	\$2,213	1	\$2,237	1
Maryland	\$307	9	\$309	8	\$358	8
North Carolina	\$347	8	\$349	7	\$394	7
Ohio	\$931	5	\$963	5	\$1005	5
Pennsylvania	\$206	10	\$221	10	\$141	10
South Carolina	\$1039	3	\$1013	4	\$1096	4
Tennessee	\$1032	4	\$1171	3	\$1449	3
Virginia	\$390	7	\$278	9	\$314	9
West Virginia	\$638*	6	\$722*	6	\$677	6

**Denotes FDI From Japan and Australia Only
Source: United States Bureau of Economic Analysis and the U.S. Census Bureau*

West Virginia has increased its export values per capita over the years 2000 to 2006. The state has seen an increase of exports per capita from \$1,228 to \$1,774 (44 percent) over this time period.

In 2006, the number one and two exporters in West Virginia were the chemical and mining industries respectively.

West Virginia Per Capita Exports Have Increased Though Not at the Level of Competing States

The Legislative Auditor created a similar table measuring West Virginia’s export activity per capita (see Table 6). Export measures can also be attributed to the International Division of the Development Office. West Virginia’s export per capita numbers have improved significantly from 2000 to 2006. The state, however, has not gained much ground amongst the competitor states peaking at a ranking of seventh in 2004. West Virginia has increased its export values per capita over the years 2000 to 2006. The state has seen an increase of exports per capita from \$1,228 to \$1,774 (44 percent) over this time period. The state’s ranking peaked at number seven in 2004. Kentucky ranked first in all the most recent categories except European investment, in which it ranked second.

West Virginia’s number one export destination for 2006 is Canada by a significant margin over Belgium, the second highest export destination. Canada accounts for 29 percent of West Virginia’s export dollars, Belgium accounts for 10 percent. Japan is third, receiving 8 percent of the state’s exports in 2006 (see Table 7). In 2006, the number one and two exporters in West Virginia were the chemical and mining industries respectively (see Table 8).

Table 6

Exports Per Capita in Ten Competitive States

State	2000	Rank	2001	Rank	2002	Rank	2003	Rank	2004	Rank	2005	Rank	2006	Rank
Indiana	\$2,526	1	\$2,345	3	\$2,425	3	\$2,647	2	\$3,069	3	\$3,424	2	\$3,583	3
Kentucky	\$2,374	2	\$2,225	4	\$2,594	1	\$2,607	3	\$3,137	2	\$3,570	1	\$4,097	1
Maryland	\$865	10	\$925	10	\$822	10	\$896	10	\$1,033	10	\$1,271	10	\$1,353	10
North Carolina	\$2,221	4	\$2,049	5	\$1,771	6	\$1,923	6	\$2,121	6	\$2,241	6	\$2,396	6
Ohio	\$2,316	3	\$2,380	2	\$2,431	2	\$2,604	4	\$2,726	5	\$3,036	5	\$3,296	4
Pennsylvania	\$1,530	8	\$1,418	8	\$1,279	8	\$1,318	8	\$1,492	9	\$1,792	7	\$2,117	7
South Carolina	\$2,129	5	\$2,453	1	\$2,354	4	\$2,839	1	\$3,186	1	\$3,277	3	\$3,151	5
Tennessee	\$2,033	6	\$1,970	6	\$2,007	5	\$2,159	5	\$2,736	4	\$3,198	4	\$3,646	2
Virginia	\$1,647	7	\$1,617	7	\$1,482	7	\$1,470	7	\$1,555	8	\$1,614	9	\$1,845	8
West Virginia	\$1,228	9	\$1,244	9	\$1,240	9	\$1,315	9	\$1,800	7	\$1,732	8	\$1,774	9

Source: Office of Trade and Industry, Manufacturing and Services, International Trade Administration, U.S. Department of Commerce, U.S. Census Bureau

Table 7		
Top 10 West Virginia Export Destinations in 2006		
Destination	Dollar Amount (in thousands)	Percentage of Total Exports
Canada	\$923,282	29%
Belgium	\$312,512	10%
Japan	\$268,891	8%
China	\$187,110	6%
Brazil	\$143,130	4%
Netherlands	\$141,033	4%
Italy	\$133,422	4%
United Kingdom	\$132,396	4%
Mexico	\$129,959	4%
India	\$100,092	3%

Source: Office of Trade and Industry, Manufacturing and Services, International Trade Administration, U.S. Department of Commerce, U.S. Census Bureau

Table 8		
Top 10 West Virginia Export Products in 2006		
Item	U.S. Dollars (in thousands)	Percentage of Export Items
Chemical Manufactures	\$1,345,948	42%
Mining	\$544,788	16%
Transportation Equipment	\$337,598	10%
Machinery Manufactures	\$289,442	9%
Primary Metal Manufactures	\$272,984	8%
Wood Products	\$85,529	3%
Non-Metallic Mineral Mfgs.	\$56,240	2%
Computers & Electronic Products	\$54,672	2%
Plastic & Rubber Products	\$41,924	1%
Petroleum & Coal Products	\$41,663	1%

Source: Office of Trade and Industry, Manufacturing and Services, International Trade Administration, U.S. Department of Commerce, U.S. Census Bureau

Conclusion

In per capita comparisons West Virginia has ranked at or near the middle in three of the four categories calculated by the Legislative Auditor. These measurements demonstrate that West Virginia has performed average on a per capita basis in foreign direct investment among the states of the competitive region. This is despite a decline in the state's total FDI from 2002 through 2004. The per capita measurement of export activity, however, places the state in the lower half of the competitive region consistently from the years 2000 through 2006. This is despite an increase of 44 percent in the state's export per capita numbers over those years.

The Development Office, or another qualified entity such as the West Virginia University or Marshall University Schools of Business, should establish outcome measures it believes best represents the results of agency's efforts.

The Legislative Auditor created these measures because there were no sufficient measures available to assess the performance of the International Division. Measures such as these can be used by the Development Office to determine how and in what areas West Virginia's economic development programs can be improved. They demonstrate areas in which our competitor states are strong and validate further study of competitor states' development programs for possible best policy practices.

However, PERD agrees that these may not be the most meaningful measures in assessing the states economic competitiveness. The Development Office, or another qualified entity such as the West Virginia University or Marshall University Schools of Business, should establish outcome measures it believes best represents the results of agency's efforts. The WVDO has suggested the use of national benchmarks in target industries to measure its performance. Thorough measurement of performance and outcomes can narrow the focus to both positive and negative aspects of the state's economic development.

Recommendation

3. *The Development Office, or another qualified entity such as the West Virginia University or Marshall University Schools of Business, should develop outcome measures internally to fairly and accurately report the results of agency's efforts.*

The Development Office's Employee Evaluations Are Infrequent and Incomplete.

In examining the evaluations, it was found some positions had not been evaluated since 2003 and one since 2002.

Issue Summary

The Legislative Auditor requested employee evaluations of specific positions from the West Virginia Development Office in order to determine how the agency internally measures performance. In examining the evaluations, it was found some positions had not been evaluated since 2003 and one since 2002. It should be noted that some were as current as 2006. Given the finances involved and the importance of the mission of the WVDO, employee evaluations should be performed annually.

Many of the evaluations provided were incomplete. Often whole sections were left incomplete, some that would contain summary and useful information concerning employee performance.

The criteria for much of these evaluations lacked significant outcome measures. Much of the performance measurement, based on the evaluations provided, concerned output measures. These include meetings and conferences attended, businesses contacted, training sessions and similar activities. While these measurements are important to employee evaluation; they do not reflect the qualitative outcomes such as economic interest in the state as a result of conference attendance or through businesses being contacted.

Furthermore, many of the evaluations provided were incomplete. Often whole sections were left incomplete, some that would contain summary and useful information concerning employee performance. The responsibilities of these positions are cornerstones of the Development Office and their performance evaluation should be as comprehensive as possible.

In examining performance evaluations for WVDO employees, the Legislative Auditor hoped to find recommendations for translating these individual measures to effective performance measures agency-wide.

Some Employee Evaluations Are Infrequent

The Legislative Auditor requested copies of employee evaluation forms for certain positions within the Development Office. Only the sections pertinent to performance evaluation were requested. Information identifying employees was generally redacted. This request was made to determine how the Development Office measures its performance internally. In examining performance evaluations for WVDO employees, the Legislative Auditor hoped to find recommendations for translating these individual measures to effective performance measures agency-wide.

The evaluations for the positions of economic development repre-

representatives and development specialists were requested. These positions were selected because most divisions within the Development Office utilize one or both of these titles. Economic development representatives and specialists do much of the field work for attracting and retaining all forms of investment in the state. **Given the importance of economic development and the level of compensation allocated to the Development Office, performance measurement and employee accountability should be of high priority.**

Performance evaluation should be performed regularly because the agency's ability to achieve outcomes depends on the performance of its employees.

In reviewing a sample of employee performance evaluations from the Development Office, the Legislative Auditor found some positions have not been evaluated since 2003 and one since 2002. Some WVDO divisions' evaluations were more current than others. Some evaluations were as current as 2006, many were last done in 2004 or 2005 and, in a few evaluations, dates could not be concluded in the documents provided.

The economic development representatives in the International Division have not been evaluated since 2003. These representatives are responsible for attracting foreign investment and relocating businesses to the state. Their duties involve working with representatives from several different countries and cultures. Performance evaluation should be performed regularly because the agency's ability to achieve outcomes depends on the performance of its employees.

Some divisions' evaluations were as current as 2006 and more comprehensive than others. Some aspects of employee evaluation within the WVDO should be made uniform such as the length of time between evaluations and the completion of evaluation forms in full.

The Division of Personnel states in section 15 of its administrative rules that evaluations be done on a yearly basis. While classified-exempt agencies, such as the Development Office, do not fall under these rules, many tend to follow the policies set forth by the Division of Personnel. It may be beneficial for the Development Office, as a whole, to develop a more frequent, standard performance evaluation policy. This will allow for a more comprehensive and up to date analysis of employees and the state's economic development performance.

Some divisions' evaluations were as current as 2006 and more comprehensive than others. Some aspects of employee evaluation within the WVDO should be made uniform such as the length of time between evaluations and the completion of evaluation forms in full. However, because of the varying responsibilities of divisions within the Development Office, some performance measures should be created specifically for each division. The financial commitments and priorities devoted to economic development in West Virginia are substantial. Therefore Legislative Auditor finds the state would benefit from regular employee evaluation in the Development Office.

Performance Measures Used in Employee Evaluations Are Often Incomplete and Do Not Reflect Performance Outcomes

Some evaluation forms provided were incomplete. Often whole sections regarding pertinent performance measures were left incomplete. Sections titled ‘Performance Objective Number And Comments,’ ‘Action Plan,’ ‘Strong Skill Areas,’ and ‘Skill Areas Needing Work’ among others are often left blank. These sections would prove useful in identifying objectives completed and areas of concern during the evaluation period.

Forms of major performance measurement included participation in trade missions, training sessions, business contacted and timeliness of certain tasks. The Legislative Auditor finds that outputs such as these, while useful, are not the most effective tool for measuring employees charged with economic development. Though it is important to keep such measures; they really only measure a quantitative amount of work being done as opposed to the qualitative effectiveness of that work.

Of the evaluations sampled, performance is often measured by outputs rather than more significant outcomes. For example, performance is sometimes measured by the number of meetings and workshops organized rather than the outcomes of those meetings and workshops. Other forms of major performance measurement included participation in trade missions, training sessions, business contacted and timeliness of certain tasks. The Legislative Auditor finds that outputs such as these, while useful, are not the most effective tool for measuring employees charged with economic development. Though it is important to keep such measures; they really only measure a quantitative amount of work being done as opposed to the qualitative effectiveness of that work.

Outcome measurement, where applicable, would be beneficial not only in evaluating individual employees, but the agency as a whole. Examples of outcomes would include: jobs created, new businesses created, businesses and jobs retained, new exporters and export markets established and the impact of infrastructure projects in which the employee had a role. It is recognized that these measures are not always easily measured or attributable. However, in the context of receiving assistance from the WVDO, best efforts should be made to measure these outcomes when possible.

Because several key sections of evaluations are often not completed, the evaluation results appear subjective rather than objective.

These limited measures of performance and expectations often result in very positive evaluations. However, because several key sections of evaluations are often not completed, the evaluation results appear subjective rather than objective. Also any tangible contributions to the state’s actual economic development are often not apparent in the evaluations as provided. Less than favorable evaluations are generally based on difficulty with co-workers and personal issues rather than job performance.

Conclusion

Some positions within the Development Office have not been evaluated since 2003, with one dating back to 2002. Other positions have been evaluated as recent as 2006. The Development Office would benefit from regular employee evaluation done in standard intervals throughout the agency. Some evaluations, as provided, were incomplete. Often summary performance measures were left blank or unmarked. Due to the importance of economic development in West Virginia, employee evaluations within the WVDO should be completed in full.

The Development Office would benefit from regular employee evaluation done in standard intervals throughout the agency.

Employee evaluations often do not measure performance outcomes. The evaluations tend to reflect quantitative measures such as meetings attended and businesses contacted. The WVDO employee evaluations should note more qualitative contributions to the agency such as jobs created or businesses retained whenever applicable.

Recommendations

4. *The Legislative Auditor recommends that the Development Office should conduct employee evaluations annually.*
5. *The Legislative Auditor recommends that the Development Office should fully complete the employee evaluation forms.*
6. *The Legislative Auditor recommends that outcomes of performance be measured at the employee level and that such measures be attributable to the agency's mission.*

Appendix A: Transmittal Letter

WEST VIRGINIA LEGISLATURE *Performance Evaluation and Research Division*

Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0610
(304) 347-4890
(304) 347-4939 FAX



John Sylvia
Director

July 31, 2007

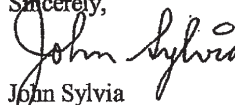
West Virginia Development Office
Capitol Complex Bldg. 6, Rm. 553
1900 Kanawha Blvd. E.
Charleston, WV 25305

Dear Director Spence:

This is to transmit a draft copy of the Agency Review of the West Virginia Development Office. This report is tentatively scheduled to be presented during the August 19 through 21, 2007 interim meeting of the Joint Committee on Government Operations, and Joint Committee on Government Organization. We will inform you of the exact time and location once the information becomes available. It is expected that a representative from your agency be present at the meeting to orally respond to the report and answer any questions the committees may have.

We need to schedule an exit conference to discuss any concerns you may have with the report. We would like to schedule the meeting on August 3, 2007. Please notify us to schedule an exact time. In addition, we need your written response by noon on Thursday, August 9, 2007 in order for it to be included in the final report. If your agency intends to distribute additional material to committee members at the meeting, please contact the House Government Organization staff at 340-3192 by Thursday, August 16, 2007 to make arrangements.

We request that your personnel not disclose the report to anyone not affiliated with your agency. Thank you for your cooperation.

Sincerely,

John Sylvia

Enclosure

Joint Committee on Government and Finance

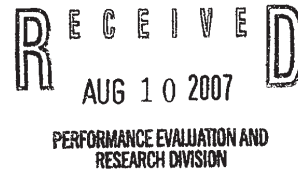
Appendix B: Agency Response



WEST VIRGINIA DEVELOPMENT OFFICE

1900 Kanawha Boulevard, East • Charleston, WV 25305-0311
(304) 558-2234 • (800) 982-3386
www.wvopenforbusiness.com

August 10, 2007



Mr. John Sylvia
Director
West Virginia Legislature
Performance Evaluation and Research Division
Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, WV 25305-0616

Dear Mr. Sylvia:

I am in receipt of your Agency Review of the West Virginia Development Office. I appreciate the efforts you and your staff have made during the past year to evaluate the performance of our agency and generally are in agreement with your findings and recommendations. We will be pleased to implement the six (6) recommendations you have outlined.

Thank you for your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen E. Spence".

Stephen E. Spence
Executive Director

