

# Balanced Scorecard Report

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## A Bottom-Up Approach to National Governance

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*It has been more than 20 years since the institutions of democracy were re-established in the Philippines. Since 1986, four Presidents have served at the top of a national government that meets the basic test of a democracy: it has regular elections, a tripartite government structure that abides by the principle of checks and balances, a free press, and it adheres to the rule of law.*

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Yet, when measured by almost any standard of good governance, the Philippines remains at the lowest level. In the corruption index, it competes for a spot at the top among the countries in East Asia, and in the real-GDP-growth league table, it falls near the bottom. In the Asia-Pacific Economic Cooperation indicators for ease of doing business, the Philippines ranks last among the region's 21 economies in starting new businesses, and hovers in the bottom four to six in everything from obtaining credit and enforcing contracts to dealing with construction permits, trading across borders, and employing workers. It is no surprise, then, that in public opinion surveys, Filipinos generally express great dissatisfaction with their national institutions of public governance, from the presidency on down. These dismal scores reflect a high degree of cynicism and loss of hope in democracy's capacity, under its current form in the Philippines, to deliver the benefits of good governance and societal development.

Filipinos are prone to complaining about the low standards of public governance they must endure and are ashamed about. On occasion, they can be loud in their complaints. When emotions come to a boil over specific national issues, street rallies can draw enough people to disrupt traffic or stop the normal flow of commerce and metropolitan life altogether. Yet the avenues for effecting positive change appear to be blocked: coups are out, and any attempt at staging one attracts negligible support. Elections in many parts of the country, including the presidential election of 2004, are tainted by fraud. Political dynasties continue to exert a strong hold over their fiefdoms, and running for public office can be so expensive that, for the most part, this possibility is open only to those with abundant resources and/or celebrity status.

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## Philippines 2030

Against this bleak prospect for effecting significant change in the Philippine polity, a diverse group of concerned citizens decided to take action. In 2004, under the auspices of the Institute for Solidarity in Asia (ISA), a group I founded and head,<sup>1</sup> the Renaissance Initiative was launched to break current molds and, where necessary, to create new paradigms. Though the group was small (no more than 30 individuals), its members came from many different sectors of society: business, academe, youth, media, the military, labor, and civil society. More than a few had served in the cabinets of previous administrations. They came as individuals, but were bound together by their civic duty to promote the common good of the country. Indeed, their shared commitment to the general welfare of the Philippines and the Filipino people made it easy for them to agree on three fundamental principles: the personal dignity of every Filipino; solidarity with fellow Filipinos; and “subsidiarity,” or greater local autonomy in decision making.<sup>2</sup>

Based on these shared principles, and the recognition that their key challenge—speeding the country’s transition from a “feudal” traditional culture to a modern, open, democratic society—was longstanding, the Renaissance Initiative agreed to forge a program of good governance and responsible citizenship.<sup>3</sup> The group formulated a road map, called Philippines 2030, that contained a set of strategic priorities ranging from values (spiritual and moral) to institutions that should be the main drivers of social change; from the internal capacity of these institutions to the national infrastructure within which they work; from

the economy—its productivity and growth—to the desire to provide for the welfare of all the people in the Philippines. In particular, they pinpointed government, business, schools, and the family as the key drivers of change in the economy and society.

In a country where anything marked “official” is often treated with suspicion, a national road map formulated by a patently unofficial group of responsible citizens who were acting in their capacity as individuals was viewed with respect. Media reaction was in general positive, and since the road map was nonthreatening and noncontroversial, it was easy for the public to accept. Its broad and idealistic emphasis on country and on what citizens can contribute to nation-building made it difficult for people to object to. Indeed, rather than focusing on political leaders, it trained its attention exclusively toward the country and the aspirations of its people. Instead of limiting the time horizon to political cycles (anywhere from three to six years),

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it extended it some 25 years into the future. Instead of zeroing in on one or two specific issues, it interconnected strategic priorities that covered every significant facet of national life. And instead of identifying tactical programs, it mapped a strategic path—a mission for the Philippines as articulated in the Philippine Constitution—toward the realization of a national vision by 2030. In sum, Philippines 2030 laid out a governance strategy aimed at achieving a

vision that various sectors of society, national institutions, and local government units could rally around—and contribute toward.

To help achieve that vision, Philippines 2030 needed a tool that would help those interested to easily adopt the road map. They developed the Public Governance System (PGS), a Balanced Scorecard–based system modified for public sector and government use. The PGS process featured four phases, each with its own required actions and outcomes: (1) *Initiation* (defining a time-bound agenda and translating the strategy into measurable targets); (2) *Compliance* (organizing stakeholders for the governance process and establishing accountability and deliverables; planning and budgeting); (3) *Proficiency* (monitoring and reporting strategic performance, establishing an Office of Strategy Management); and (4) *Institutionalization* (achieving breakthrough results, linking individual performance and compensation to strategy).

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<sup>1</sup> The Institute for Solidarity in Asia fosters good governance throughout the public and private sectors in East Asia. It works with industry leaders, institutions, and public officials to develop best practices, systems and standards, and leadership programs.

<sup>2</sup> “Subsidiarity,” a term used widely in Europe, is also conceptually complementary to “solidarity,” a teamwork approach to achieving general welfare.

<sup>3</sup> The group’s choice of the terms “good governance” and “responsible citizenship” derive from the Renaissance painter Ambrogio Lorenzetti’s famous mural in the Siena, Italy town hall.

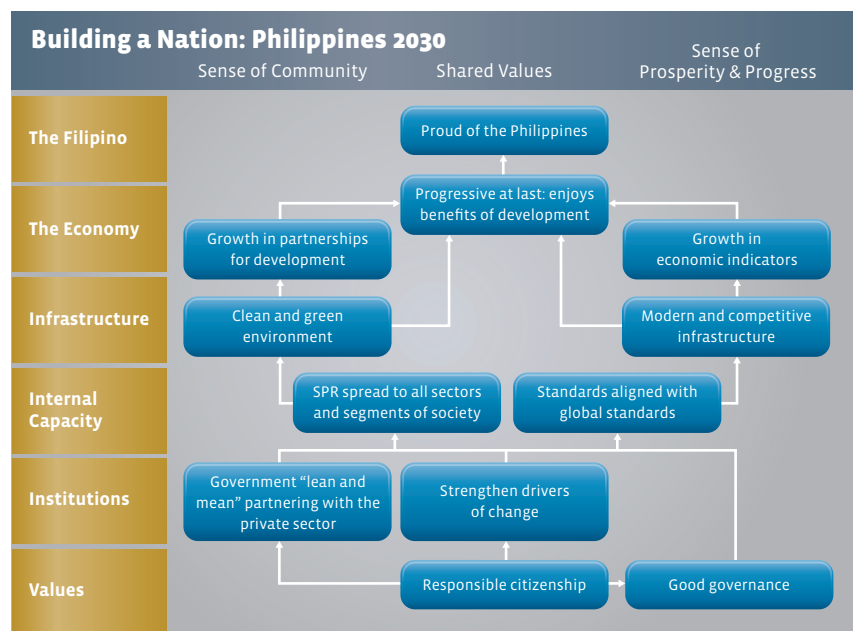
<sup>4</sup> The Local Government Code of the Philippines, enacted in 1991, provides for the devolution or decentralization of power and authority from the national government to local government units (LGUs). This transferred responsibility for delivering health, education, agricultural, and other public services from the federal to the local level, as well as the transfer of records, equipment, and other assets and personnel of national agencies and offices corresponding to these devolved functions.

## From Ideals to Initiatives

With the public generally receptive, the next step was to sell the idea of a governance strategy to the stakeholder that was positioned to advance it most readily. One promising group stood out: eight city mayors who learned of the initiative through the League of Cities of the Philippines. The country's 118 mayors had been invested with new powers under the Local Government Code of the Philippines,<sup>4</sup> and this small group of mayors—dedicated and honest, committed and competent—were eager to test the application of a governance strategy in their jurisdictions.

Eight cities agreed to test and adopt the PGS: Marikina, at the eastern periphery of metropolitan Manila; San Fernando, Pampanga and San Fernando, La Union, both north of Manila on the main island of Luzon; Naga, on Luzon south of Manila; and Cebu, Iloilo, Tagbilaran, and Calbayog, cities on the Visayas islands. Using Philippines 2030 as a basic reference, they formulated their own governance strategy maps (or road maps) for their cities. To begin, each city crafted a charter statement that articulated its core values, a mission statement, and a vision statement. Each city laid out its strategic priorities, connecting them under strategic themes, and proceeded to specify measures of progress, targets for the interim periods leading up to 2030, and a portfolio of initiatives. At a Public Governance Forum held in Manila in 2005, seven of the original eight cities formally unveiled their city road maps to broad acclaim.

Inspired by the acclaim, these seven PGS cities began to cascade their maps in two ways. First, each cascaded its map to the major departments within City Hall (e.g., police, finance, human resources, social services, community relations), which, in turn, committed to creating their own support strategy maps—each with its own detailed measures, targets, and initiatives portfolio. Each city also cascaded its map laterally, across key sectors—chiefly



**FIGURE 1: PHILIPPINES 2030 ROAD MAP**

Effectively a national strategy map, this Road Map shows core values (the equivalent of strategic themes) identified by the initiative: Sense of Community, Shared Values, and Sense of Prosperity & Progress. It also shows strategic priorities and the players (from the individual to institutions) that are the key drivers of change in society.

business, academic, and civic organizations—that were willing to work as a multi-sector governance coalition, an entity many have since formalized. Each sector within the coalition agreed to develop its own support strategy maps. But the component parts of the maps—measures, targets, and an initiative portfolio—needed to be formalized. Moreover, performance needed to be monitored.

To address these two requirements, each city established an Office of Strategy Management, positioned within City Hall as an adjunct to the mayor's office. The cities chose their annual State of the City Address (delivered by the mayor) and City Charter Day as natural occasions for formally reporting departmental and key sector performance. (Because of the emphasis on breakthrough performance, the P in PGS came to stand for "performance," instead of the original "public.")

Within two to three years, a few of the PGS cities managed to move beyond implementing and adhering to the system to achieving breakthrough

results—as verified by external audits. From 2005 (pre-Balanced Scorecard adoption) to 2008, Iloilo City saw local gross income rise from P825.3 million to P1.2 billion; capitalization of the local manufacturing industry increase from P926.85 million to P3.97 billion; and the number of business process outsourcing service providers grow from zero to 12. Public governance no longer remained the exclusive responsibility of top officials, particularly the mayor: it became a shared responsibility among City Hall department heads as well as private citizens in key sectors, as they all began to contribute towards the realization of their common vision for their city. Gradually, the PGS even became an approach towards *democratic* governance, as it welcomed positive, substantive contributions from every level of the population, including grassroots organizations, to elevate the standards of public services and accelerate development. Through the multi-sector governance coalition, the city mayor, members of the city council, and other public officials hold two formal meetings each year

at which they report on progress and difficulties and solicit ideas, suggestions, and commitments to participate in specific initiatives to achieve road map targets. This shift of the public governance system into an instrument of democratic governance prompted more cities to become partners in the PGS program. By 2007, 12 additional cities had become PGS “partners” (participants officially committed to the Renaissance Initiative’s PGS scorecard program), bringing the total to 20. In local elections that year, in 19 out of the 20 PGS cities, the mayors were either re-elected (in various instances with only token opposition), or the candidates they endorsed as their successors were. By 2009, the

required outreach to the nation’s other sectors. While regulatory authorities had begun requiring proof of companies’ compliance with the nation’s new corporate governance rules and regulations—developed in 1999 in response to the OECD’s global corporate governance principles and the Asian financial crisis of 1997—actual boardroom practice was perfunctory. So the ICD began taking decisive steps to raise corporate governance standards throughout the *business sector* by heightening companies’ awareness of governance. The ICD developed a prototype corporate governance scorecard for publicly listed corporations—a more robust means of monitoring the companies’ compliance every

The Management Association of the Philippines (MAP) was instrumental in getting the business sector to take note of Philippines 2030. MAP, the Philippine business community’s most prestigious organization, counts as its members virtually all public corporations, as well as many privately held businesses of all sizes. With its help, a business sector strategy map was developed, which MAP, the government, and analysts used to identify “sunrise” industries—those of particular promise that would be expected to yield breakthrough results through the PGS scorecard effort. Big business’s involvement helped attract the participation of various professional groups, in particular, accountants and nurses. These professions have since formulated their own strategy maps, which outline their contributions to achieving Philippines 2030.

*Not only have compliance levels improved over the years, but a third-party econometrics study showed that enterprises with high corporate governance scores tend to enjoy a share-price premium and generally superior business results.*

number of cities had grown to 40. Two of the original implementers—Iloilo and San Fernando, Pampanga—passed the test for institutionalizing the PGS. San Fernando became the first city to be named to the Maharlika Hall of Fame, an award jointly conferred by the Institute of Corporate Directors (ICD)<sup>5</sup> and the ISA to organizations, public or private, that have achieved breakthrough results by using the PGS to execute strategy. Iloilo was named to the Palladium Balanced Scorecard Hall of Fame for Executing Strategy in 2009, the first organization from the Philippines to be inducted.

### **From Local Government Units to National Government Agencies**

Important as this incipient groundswell of support at the local level was, the broader purposes of Philippines 2030 still

year—and enlisted the SEC and the Philippine Stock Exchange as partners in the initiative. Since then, variations of this scorecard have been developed for commercial banks (with the central bank as the ICD’s partner), for government-owned and -controlled corporations (with the partnership of the Department of Finance and the Office of the President), and for insurance companies (with the partnership of the Insurance Commission). Not only have compliance levels improved over the years, but a third-party econometrics study showed that enterprises with high corporate governance scores tend to enjoy a share-price premium and generally superior business results.<sup>6</sup>

Renaissance Initiative made a similar outreach to the *schools sector*. We made a strategic decision to first target the Philippine Military Academy (PMA). The PMA trains the nation’s military officers, who by law must retire at age 56. In retirement, many officers move on to key leadership positions. The PMA is not only recognized as a leadership training center, but its vision statement proclaims its goal of becoming the premier leadership school in the country. The PMA considered the personal (individual) governance scorecard as a requirement of the institutionalization phase (which includes linking individual performance to the strategy)—and persuaded its cadet corps to create them. This was the first use of the PGS framework at the individual level, and one that was implemented relatively quickly—evidence of how much can be accomplished with the PGS framework in a limited amount of time.

<sup>5</sup> The Institute of Corporate Directors, which I also founded, is a sister institute of the Institute for Solidarity in Asia that focuses on corporate governance. The premier advocacy group in the Philippines working to advance higher (and globally accepted) standards of corporate governance, it works with national regulatory agencies and is accredited by them to train corporate directors.

<sup>6</sup> The 2009 study, “Corporate Governance and Firm Valuation in the Philippines,” was conducted by Yan-leung Cheung of the Hong Kong Baptist University School of Business and commissioned by the Philippines Stock Exchange. The exchange purposely sought econometricians from outside the Philippines to analyze four years’ worth of scorecard performance results of publicly listed companies. The researchers found a strong correlation between high governance scores and company stock price.

From the individual level, the scorecard could now roll up to the level of the family—the last key sector for promoting social change. Indeed, family governance has now been initiated under the broader PGS initiative; it completes the outreach aimed at all four sectors (and key drivers of change): government, business, schools, and the family.

The family scorecard is developed in one of two ways: many individuals who create their own scorecard decide to build one for their family, and Philippine family associations, such as Families for the Family (an NGO), are promoting the practice.

Just as big business helped the PGS take off throughout the business sector, the Philippine Military Academy has had the same “multiplier” or “snowball” effect not only on the school sector, but on the government sector. Its PGS involvement helped pave the way for the Philippine Navy to draw up its own “Sail Plan,” in effect, a strategy map for the Navy that acknowledges the earlier strategy maps that its component units, the Philippine Marines and the Philippine Fleet, had created. The National Electrification Administration, which had been seeking ways to improve its governance, approached the ISA for guidance and soon became a PGS partner. Its buy-in, in turn, proved influential at the top, prompting the Office of the President to mandate six national agencies—the Department of Education, Department of Health, Department of Transport and Communications, Department of Public Works and Highways, the Bureau of Internal Revenue, and the Philippine National Police—to draw up their own strategy maps with governance scorecards. These agencies have since presented their strategy maps at a Public Governance Forum, where they also enrolled as PGS partners. A regular reporting mechanism was recently established for these government agencies to

publicly report their performance through the Office of the President. Four additional national government agencies have been asked to formulate strategy maps; eventually, all 30 national government agencies and key departments will be PGS partners. The goal is that by the time the next presidential administration takes office on June 30, 2010, the national government will be starting from a higher baseline of governance.

### From the Bottom of the National Governance Pyramid to the Top

Given the path of the PGS initiative thus far, and its arrival at the top echelons of national government, it appears that the door is already open toward the formal adoption of the PGS framework and governance discipline at the top of the national governance pyramid. And looking at the mechanism being instituted for regularly reporting on governance performance, based on the measures and targets that these agencies

have committed to under their respective strategy maps—with the involvement of the Office of the President at the center of that mechanism—there is hope that when the new presidential administration takes office in mid-2010, the pyramid will have been scaled. The major components for an integrated, comprehensive national governance strategy map are already in place. Philippines 2030 serves as a broad, universal blueprint; a number of sectoral “anchors” (organizations of influence within their sectors), national institutions, and national government agencies have already become PGS partners; and a base of local government units, business enterprises, schools, and families are already using the PGS as a common governance discipline.

We have by no means reached critical mass; we still need to multiply the number of PGS partners at all levels and in all sectors—in particular, the number of national government agencies—to hit

Philippines 2030			
Objectives	Measures & Targets		
<b>Proud of the Philippines</b>	Confidence index = 80		
<b>Progressive at last</b>	Quality of life = 70		
<b>Growth in productivity</b>	Export growth = 25% per annum	Savings ratio = 25%	EFI = 2.25
<b>Growth in GDP per capita</b>	GDP per capita in PPP terms = 40		
<b>Clean and green environment</b>	Rate of Deforestation = -1,500	Waste management modern by Asian standards	
<b>Modern infrastructure</b>	Road Network = 300,000 kilometers		
<b>Global ethics standards</b>	Professional standards = 30 groups		
<b>SRPs widespread</b>	9 sectors with SRPs		
<b>Strengthen drivers of change</b>	Family movement = 1.5m families	85% of T & 75% of P/S accredited	ISO accredited = of gov't corps
<b>Government “lean and mean”</b>	PGS accreditation = 90 cities		
<b>Responsible citizenship</b>	PGS personal scorecards = 1.0m		
<b>Good governance</b>	PGS corporate scorecards = 1,000		

FIGURE 2: A SUMMARY OF ROADMAP OBJECTIVES, MEASURES, AND TARGETS

TK management, in contrast, is about identifying, avoiding, and overcoming the hurdles that the strategy may encounter along the way. Avoiding risk does not advance the strategy; but risk management can reduce obstacles and barriers that would otherwise prevent the organization from progressing to its strategic destination.

the “tipping point,” where the process itself becomes institutionalized throughout the polity, the economy, and the society. Most importantly, considering the realities of prevailing Philippine culture, a push from the very top would be a necessary *coup de grâce*.

There is as yet no guarantee that this ideal outcome—a top-down, as well as bottom-up, movement—will come to pass. The Philippines, being what it is, never fails to surprise, and all too often for the worse. Nonetheless, we have already gained sufficient momentum to secure higher standards of public governance at various levels: at the personal, individual level, through the spread of personal governance scorecards and, increasingly, family governance scorecards; at the business enterprise level, through a higher-level, performance-oriented corporate governance movement that has adopted the PGS; at the school and university level; and at the level of public governing units, from LGUs to national institutions to national government agencies.

This bottom-up approach to fostering higher standards of national public governance, as illustrated by the Philippines case, looks decidedly untidy. It is fluid, and occurs where opportunities arise; its trajectory is far from systematic. Nonetheless, the fact that this movement continues to gather momentum underscores the underlying pressure that will continue to rise until as a matter of formal national policy it eventually reaches the very top of the national governance pyramid. This grass-roots pressure for good governance has been building for a long time, and thanks in part to the PGS movement, perhaps soon it will be difficult for those in top national leadership positions to disregard or resist such pressure.

Breakthrough results are already evident in those LGUs and corporations that have adopted the PGS and adhered to its disci-

pline for three or four years. Those results are attracting attention. Between 2005 and 2008, San Fernando, Pampanga saw investment capital mobilized through public-private partnerships increase from P19.15 million to P147.89 million; processing time for business permits shrink from two weeks to two hours; and the number of scholarships rise 27-fold, from 243 to 6,471. The number of cities instituting the PGS has grown from the original eight to 40—testament to the potential awaiting those that follow suit. But then, one might ask: what are three or four years in a time horizon that stretches up to 25 years? If breakthrough results can be achieved in such relatively short period of time, what more dramatic transformation can be accomplished through sustained PGS discipline over a much longer period? If separate units in the private and public sector are independently achieving dramatic results through the PGS framework, how much more would they be able to accomplish in a coordinated, integrated, mutually reinforcing manner?

In the polity, economy, and society of the Philippines, given its many divisions and its apathy about national unity, the bottom-up approach may be the only realistic path toward improving the standards of national governance over the long term. It engages those who are looking for constructive alternatives. It offers new avenues of participation—substantive, meaningful participation—for a variety of groups, particularly civic groups, which tend to be vocal about the issues they care about. Those avenues lead such groups to consider the interrelationship of issues, thereby expanding their interest beyond their narrow, partisan, sectoral spheres to the broader imperatives of the common good. Furthermore, travelling on those avenues has forced people to focus on the multifaceted demands of the common national good. These demands require

unity rather than dissension; team work and cooperation through public-private sector partnership; persistence and perseverance in promoting the dignity and welfare of every individual Filipino—the very core of a national governance strategy; and the realization that governance is a duty not of the governors alone, but also of all the governed. ■



*Dr. Estanislao, a former finance minister of the Philippines (1990-1992), is a leader in the corporate and national governance movement in the Philippines and throughout east Asia. He founded the Institute for Solidarity in Asia ([www.isacenter.org](http://www.isacenter.org)) and the Institute of Corporate Directors in Manila ([www.icdcenter.org](http://www.icdcenter.org)).*

### To learn more

For more on the use of strategy maps to shape national agendas, see the following BSR articles:

- *Strategic Agendas: A New Tool for Economic and Social Development*  
September–October 2007 (Reprint #B0709B)
- *Promoting Economic Development: Strategic Agendas in Action*  
November–December 2007 (Reprint #B0711D)
- *Brazilian Industry Association Shapes National Agenda—With the BSC*  
July–August 2006 (Reprint #B0607B)
- *Why Strategic Agendas in Government Matter to Business*  
September–October 2007 (Reprint #B0709C)

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# One Government, One System of Governance: Reflections on the Work of Dr. Estanislao

*By David P. Norton, Director and Founder, Palladium Group, Inc.*



During the 18 years since Robert Kaplan and I introduced the Balanced Scorecard (BSC), the use of BSC-based performance management systems has grown in both scale and complexity. From departments to business units to conglomerates, these systems have become the engine of performance management for organizations of every size and type. The creation of a common performance management process for national governance represents, in our view, the ultimate use of the BSC.

Logic argues for one government, one system of governance. Reality shows that the use of multiple performance management systems throughout a government's agencies creates barriers to coordination, teamwork, and knowledge transfer that make the execution of that government's agenda near impossible. Complexity is to blame for this intractability.

The BSC approach to performance management provides a solution for this problem: simplicity. It begins with a philosophy: having executives who are focused and can mobilize their people, having strategies that are measured, organizations that are aligned, people who are motivated, and governance that is strategic. This philosophy is embedded in a strategy management system that facilitates change in a purposeful, coordinated way.

A common approach to governance requires buy-in throughout the organization, particularly at the top. How we achieve this buy-in is an art. Among those of us who study, design, and implement performance management systems, Dr. Estanislao is a hero. In his article, we see

the work of one such artist involved in building a governance system for the Philippines. On the surface, this is a classic case study of managing change; Dr. Estanislao defines the need for change through the eyes of the citizens and then organizes a leadership coalition that develops a vision, measures, and initiatives.

While the article describes a process of orchestrated changes in the most complex of environments, what is particularly noteworthy is Dr. Estanislao's role as change agent. His leadership at every step comes through forcefully. From his own personal vision for the Philippines to the construction of a multi-sector governance coalition to his "show the value" awards program, he has given us a true role model for managing change.

The challenges facing the Philippines are immense. A performance management system alone is no guarantee of an improved quality of life for its citizens. Yet benefits are already accruing as the movement continues to grow. We thank Dr. Estanislao for sharing these experiences with us. ■

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