

Public Management and Governance

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Performance measurement and management in public sector organizations

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INTRODUCTION

Sir Humphrey: Minister, you said you wanted the administration figures reduced, didn't you? *Jim Hacker:* Yes. *Sir Humphrey:* So we reduced the figures. *Jim Hacker:* But only the figures, not the number of administrators. *Sir Humphrey:* Well of course not. *Jim Hacker:* Well that is not what I meant. *Sir Humphrey:* Well really Minister, one is not a mind-reader, is one? You said reduce the figures, so we reduced the figures.

(Yes Minister 2.1: 'The Compassionate Society')

Performance management is about both measurement and management, about information and action (Hatry, 1999; Morley *et al.* 2001). The aim of this chapter is to explore the concept, the potential and the practice of performance measurement and management in public sector organizations.



LEARNING OBJECTIVES

- To be aware of the evolution of performance measurement and management in the public sector
- To understand the key concepts in performance measurement
- To understand the key concepts in performance management
- To understand the main lessons learned in performance management
- To be able to identify the main traps in performance management

THE EVOLUTION OF PERFORMANCE MANAGEMENT

The new public management (NPM) actively emphasizes the significance of performance measurement as a management tool in government (OECD, 1997). Indeed, accurate performance information is needed for the implementation of management instruments such as

performance pay, performance contracts or performance budgets (Hatry, 1999). However, NPM did not originate the idea of measuring government performance. In both Europe and the United States, there had already been long-standing performance measurement initiatives (Bouckaert, 1995a). As early as 1949, the first Hoover Commission in the United States aimed at shifting the attention of the budget from inputs towards functions, activity cost and accomplishments.

More important than efficiency in carrying out given tasks were initiatives, imagination and energy in the pursuit of public purposes. Those purposes were political and the administrators charged with responsibility for them, as well as many of their subordinates, had to be politically sensitive and knowledgeable.

(Mosher, 1968, pp. 79–80)

This increased influence of civil servants cumulated in the development of planning and management techniques and systems such as the planning programming budgeting system (PPBS), and afterwards, management by objectives (MBO) and zero-based budgeting (ZBB) (see Chapter 8).

In the late 1980s and 1990s, there was a new emphasis on performance management, mainly because of rising fiscal deficits but often also inspired by ideologies of keeping the state as small as possible (see Chapter 3). In this phase, the main objective of performance measurement was to identify how to increase efficiency and/or to cut spending. By the mid- and late 1990s, government performance was increasingly seen as a key component of the competitive advantage of national economies and a contributory factor in overall societal performance. Minimizing the public sector was no longer the dominant public management reform strategy (Pollitt and Bouckaert, 2000). Effectiveness and quality concerns gained importance in many countries (see Chapter 11). For example, in 2000 the UK central government removed the compulsory competitive tendering regime in local government and replaced it with a Best Value approach, in which the quality of services has to be assessed (see Case Example 10.1).

Thus, the focus of performance measurement and management has changed over time in accordance with the dominant understanding of what constitutes 'government performance'. In times of shrinking public budgets and a discourse of the need for less government, as in the 1980s, performance measurement and management tends to focus on inputs and efficiency. At present, the decline in trust of public institutions is pushing performance measurement systems towards measurement of quality of life indicators and the quality of governance (see Chapter 13). In this respect, performance measurement and management are children of their time, with a new generation emerging about every decade.

KEY CONCEPTS IN PERFORMANCE MEASUREMENT

The input–output model of performance measurement

This section will look at how different types of performance may be measured. There are a number of levels at which performance measurement can operate – it may refer to the measurement of inputs, outputs or outcomes, and it may focus on economy, efficiency or



CASE EXAMPLE 10.1 THE MOVE TO BEST VALUE IN THE UK

The new direction of performance management in the United Kingdom is well illustrated by the current local government modernization programme, many elements of which have acted as pilots for the modernization programme in the health services and other parts of government. The first part of this programme, the 'Best Value' initiative, was introduced in local government in 1997 to replace the much-hated CCT legislation, first as a pilot initiative, then as a statutory duty, from 1 April 2000.

In practice, Best Value means (DETR, 1999a):

- Every part of the council's budget must be reviewed at least once every five years.
- Every review must apply the '4Cs' methodology to the service or the cross-cutting issue, which consists of the following steps:
 - Challenge the need for the service and the way it is carried out
 - Consult with all relevant stakeholders
 - Compare the performance of the service with other providers
 - Compete – test the competitiveness of the service.
- As a minimum level of comparison, each authority has to compare its performance with other comparable authorities against each of the 'Best Value performance indicators' (of which there are around one hundred in the case of the largest local authorities). These indicators include some which measure inputs, volume of activity, volume of output, productivity levels, unit costs, number of users, percentage of schoolchildren passing exams at 16 and 18, user satisfaction levels, reliability levels, numbers of complaints and so on – in other words, the whole spectrum from inputs to outcomes and from efficiency to quality.
- Each local authority must publish a plan to improve its performance significantly. Initially, these plans had to ensure that, within five years, each service would reach the performance level which the upper quartile of authorities achieved in 2000. (In 2002 this was amended to give more emphasis to 'stretch targets' agreed by each local authority with government departments across a range of priority issues.)

effectiveness. We can integrate these concepts in an input–output model of the policy and management cycle – see Figure 10.1 (Bouckaert *et al.*, 1997).

The input–output model gives a systemic view of the functioning of an organization. It starts with the strategic objectives (*field 1*). These are general 'end purposes' that are usually derived from the organization's mission statement or general policy documents. The next step in the policy cycle is to infer more specific and measurable targets from these general strategic guidelines (*field 2*). These are the operational objectives. Next we enter the management cycle, i.e. the daily operations of the organization. The management cycle consists of the inputs that go into the organization, the activities for which the inputs are used and the output that is realized by the activity (*fields 3, 4 and 5*). Personnel, infrastructure, finance and premises are some typical inputs. With these inputs, activities are undertaken.

For example, a school will organize lessons and a library will shelve books that may be lent out. The activities result in outputs (e.g. number of students passing exams or number of books on loan). Management should be concerned that the inputs yield the right amount and quality of outputs by organizing the activities in the best possible way. Therefore, the manager's feedback loop focuses primarily on inputs and outputs (*from field 5 to field 3*).

The number of patients treated and discharged from a mental hospital (output indicator) is not the same as the percentage of discharged patients who are capable of living independently (outcome indicator).

Source: Cited in Hatry (1999, p. 15)

When the outputs (i.e. the policy and management products) leave the internal organization, they enter society. The crucial question is whether and what outcomes result from the outputs. A sharp distinction must be made between outputs and outcomes. Outcomes are events, occurrences, or changes in conditions, behaviour or attitudes. Outcomes are not what the programme or organization itself did, but the consequences of what the programme or organization did.

A distinction is made between intermediate outcomes and end outcomes (*fields 6 and 7*). This is a pragmatic but important division between the ends ultimately desired and the interim accomplishments which are expected to lead to those end results (although, of course, they may not) (Hatry, 1999, p.15). Since a long time may elapse between the delivery of outputs and the occurrence of the end outcomes, the causality between the output and end outcome may be difficult to establish. The impact of the external environment (*field 8*) should also be assessed. Finally, the policy maker's feedback loop is the confrontation of the outcomes with the objectives (*fields 1 and 2*) which closes the circle. Finally it should be noticed that the clear-cut distinction between the policy and management cycle is valuable for analytical purposes but will not exist in reality. Managers need policy guidelines and the allocation of resources while policy makers need information on the feasibility of outputs and thus, expected outcomes.

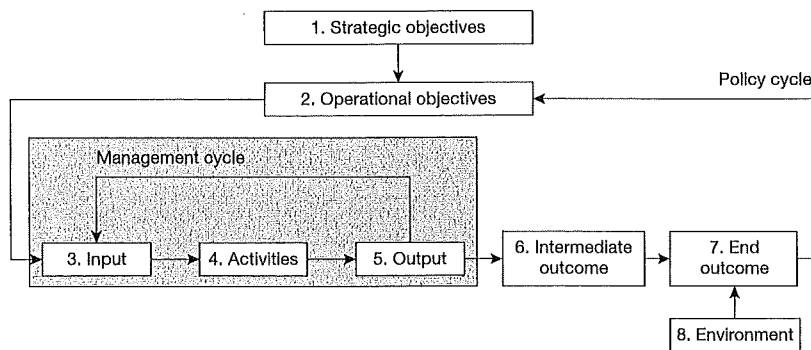


Figure 10.1 The policy and management cycle
Source Bouckaert et al. (1997)

Performance indicators

Different kinds of indicators can be derived from the input-output model – see Box 10.1.

The combination of the boxes in the input-output model allows us to formulate ratio-indicators.

- *Economy* is the cost divided by the input (e.g. the cost per employee, the costs per office).
- *Productivity* is the output divided by one specific input (e.g. bus hours on the road per employee (for public transport), closures per inspection (for food inspection), crimes cleared per police officer day).
- *Efficiency* is the ratio of output to input (or an index of inputs), e.g. crimes solved per police officer. Usually the only index of all inputs which is available is cost, which leads to the specific efficiency indicator of *unit cost* (e.g. cost per discharged patient, cost per crime cleared). Since *all* the costs of all the inputs used to obtain an output need to be calculated in financial terms, this can be properly calculated only if the organization has a high-quality analytical financial system.
- *Effectiveness* is outcome divided by output (e.g. number of complaints received about dirty streets per km of streets which receive regular cleaning).
- *Cost-effectiveness* is the ratio of cost to outcome (e.g. cost per successful college graduate).

Performance standards

A performance measurement system which focuses on the different steps in the input-output model should provide an organization with sufficient information to plan, monitor and evaluate both policy and management. The next step is to lay down standards that establish how well (or how badly) the organization is performing. Standards may be set in different ways:

- Politicians, for example, are sometimes tempted to set a popular standard as a symbol of how good their policies are, rather than as a yardstick for performance. The Kyoto standard for CO2 emissions may be one high-profile example.

BOX 10.1 A TYPOLOGY OF PERFORMANCE INDICATORS

- *Input indicators*: e.g. number of employees, money spent, number of hospital beds, number of public buses.
- *Output indicators*: e.g. number of pupils taught, number of discharged patients, vehicle miles.
- *Intermediate outcome indicators*: e.g. new knowledge, increased skills, number of recovered patients.
- *End outcome indicators*: e.g. increased grades achieved in schools, reductions in unemployment, increased health and well-being.
- *Environmental indicators*: e.g. age structure, economic indicators such as growth of GDP.

- Another standard setting method is to use a scientific norm. For example, there is a scientific standard for the maximum quantities of dioxin allowed in the food chain.
- Mostly, however, the standards are set by comparison, usually either between time periods or across organizations. Time series analysis compares past performance with current performance. Cross-section analysis compares the organization with other organizations. Naturally, a comparison which combines both time series and different organizations will yield the most information.

The process of comparing performance across organizations is known as *benchmarking*. Where benchmarking is used to derive 'league tables', it requires a high degree of comparability between the organizations to be compared – otherwise the comparisons are likely to be regarded as unfair (especially by those shown up in a bad light). This is all the more serious if these league tables trigger government action (e.g. intervention by a higher level of government or loss of budgets). However, such comparisons do not tell us why the differences occur and, moreover, they may often leave out the most interesting comparisons (e.g. with high-performing organizations which are not 'comparable', but whose high performance is potentially transferable).

Statistical techniques for performance measurement

Several techniques might enhance the processing capacity of the organization. *Stochastic Frontier Analysis* is an example of a statistical technique in which the production function is based on the estimation of a priori specified parameters while allowing for some variation by the inclusion of random variables. Techniques such as *Data Envelopment Analysis* and *Free Disposal Hull* are also useful tools for comparing organizational performance both in time and place, while controlling for external variables. These are non-parametric methods in which the optimal production function is determined by the data. These techniques have been applied to compare public sector services such as fire services, local civil registry offices, hospitals, schools, prisons and courts, police forces and so on (e.g. Bouckaert, 1992; HM Treasury, 2000b).

KEY CONCEPTS IN PERFORMANCE MANAGEMENT

Performance measurement becomes valuable only when it is followed by management action – it is justified only if it is used. Performance management can be broadly defined as 'acting upon performance information'. In this section we will examine some of the most important functions of performance information in public sector management. Performance information may be used for different purposes – in the policy cycle, for accountability purposes or in financial management.

The policy cycle consists of four steps, i.e. policy preparation, decision, implementation and evaluation. Performance information may be used in all the different steps of the policy cycle. Analysis of predicted performance (against the background of past performance) can help in the development of better thought-out policies. Objectives are formulated, performance indicators are deduced from the objectives and targets are set. Next, performance information may be used by the management to monitor whether the policy is on track. The

value of the monitoring will be highly dependent on the timeliness and frequency of the measurement effort. Finally, performance information may be used in policy evaluation.

Performance measurement provides a bird's-eye view, upon which action might be taken. However, it should be noticed that performance information often cannot provide all the information one needs for an evidence-based policy cycle (see Chapter 18). It may simply trigger in-depth examination of why performance problems (or successes) exist (Hatry, 1999, p.160). Generally, causal models and more qualitative research are needed to provide this in-depth information. This implies that performance management sometimes needs more information than routine performance measurement can supply. Effective performance measurement is a necessary but sometimes insufficient condition for performance management.

Performance management can also be used for accountability purposes. Different accountability relationships exist between stakeholders (see Box 10.2). Performance information can be used so that stakeholders can hold each other to account for how well they have each performed their assigned responsibilities.

SOME TRAPS AND LESSONS IN PERFORMANCE MANAGEMENT

Performance measurement opens up interesting possibilities for enhancing public sector management and policy making. However, it also contains some traps.

- *Lack of interest of politicians and/or citizens.* The ownership of performance management initiatives usually lies within the administration. Politicians and the public often appear uninterested in the performance information which is provided – until things go wrong. One response to this frustrating situation is to tailor performance measurement to the demand, implying that citizens and politicians should become involved in defining performance indicators which interest them.
- *Vagueness and ambiguity of goals.* This is often inherent in politics, and indeed may well be politically rational: clarifying and making objectives and indicators more concrete might lead to political conflict, in those situations where different stakeholders have different values and expectations. However, managers usually desire clarity of goals in order to maintain strategic direction. The tension between these political and managerial requirements may often be irresolvable.
- *Games playing.* Sometimes organizations have an interest in portraying a flattering image of themselves. Of course, performance information can be functional or dysfunctional for an organization in this respect – some performance information may be very discomfiting. Consequently, where some performance targets are especially important in public relations terms, organizations may be tempted to cheat in their performance reporting.

It appears likely that the risk of data corruption is higher when organizations see performance measurement as imposed externally. Local government, for example, tends to see, and resist, central government attempts at control through performance measurement and reporting exercises. Schools confronted with league tables may 'teach for the test' rather than to impart knowledge. Reported crime detection rates may be increased by spending more time getting

BOX 10.2 A TYPOLOGY OF ACCOUNTABILITY RELATIONS

Accountability of government to citizens and society: Government is responsible for a range of public services and other activities within society. Performance information may be a useful tool to enhance its responsiveness towards society and its citizens/clients. Until now this process of interaction has usually been unilateral (e.g. performance indicators have been published in the annual reports of governments and their agencies). However, this accountability may be more effective if citizens are involved in the performance measurement process in general and particularly in the definition of the indicators.

Accountability of the administration to politicians: The administration oversees the implementation of policies decided upon by politicians – it can therefore be required to demonstrate its performance level to politicians. Indeed, administrators themselves often demand the chance to provide performance information to politicians – often because it may offer an organizational defence against the irrationality (as they see it) of political decisions. However, if performance information is to influence politicians, it must be tailored to their interests and needs. Canadian civil servants, for example, recently took an initiative to make performance information more useful for parliamentarians by focusing on societal and quality of life indicators (Bennett *et al.*, 2001).

Accountability of decentralized agencies to central departments: A third accountability relationship exists between central government departments (e.g. ministries, regional or local offices of national government) and decentralized or devolved bodies (e.g. executive agencies of central government). Government, even when it operates more at 'arm's length', remains responsible for the outputs that are produced by its agencies, although how the agencies produce these outputs is no longer its concern. Consequently, performance information becomes crucial in the steering of these decentralized or devolved bodies. Indeed, in the case of a genuine devolution of responsibilities to an agency, the performance information captured in the management contract becomes the single most important tool for steering and direction. The *Next Steps* agencies in the United Kingdom, for instance, were set up under the terms of a framework agreement with their 'home' government department. Each year a Public Service Agreement, with performance targets, and a Service Delivery Agreement are negotiated between each government department and the Treasury, and one element of this relates to the performance of the executive agencies sponsored by that department. The achievement of these targets is taken very seriously by all the parties concerned, not least because failure could influence the Treasury's attitude to future budget changes. Similarly, performance indicators may be used in intergovernmental relations, for example, where central government exercises control on local authorities through the Audit Commission's Best Value indicators in the UK (Audit Commission, 2000). (This approach is not relevant, of course, in the many countries where local self-government is protected from central intervention by its constitutional position.)

Accountability of individual employees and teams to the top management: Performance information finally may be used to hold internal organizational units or individuals to account for how they discharge their responsibilities. Performance management in this case

can help to motivate personnel to search for improvements (Hatry, 1999). Of course, this assumes that many employees are motivated by the desire to produce good results – in which case the mere provision of performance information combined with more freedom to organize their activities should provide them with sufficient scope to improve. However, on occasion, additional incentives are often used. Monetary incentives ('performance pay') are probably the most notorious example. Although performance pay exists in many public sectors (OECD, 1997), it remains controversial – it is said to be disruptive of team-working, insulting to professionals who believe themselves to be in 'public service' and difficult to calculate because so many external factors impact on the performance of any individual or team.

convicted criminals to confess to their past crimes rather than trying to solve current crimes. The performance figures of a drug offenders' rehabilitation agency may be raised by directing activity towards the easy cases and refusing to accept the more difficult cases. All of these abuses can be tackled partly by effective data auditing, which is a common tool to safeguard the accuracy, reliability and comparability of performance information. However, when incentives are high, abuse may become more ingenious to escape detection.

SUMMARY

This chapter suggests that performance management is possible, but not easy. Performance measurement and management in the public sector have evolved over time, with many ups and downs – they now attempt to cover a much wider range of concepts than forty years ago, from inputs through outputs to outcomes and addressing issues of economy, efficiency, effectiveness and quality. There remain significant difficulties but important lessons have been learned.

Performance measurement is useful only if it improves policy or management. Clearly, performance data must be reliable and should cover the dimensions of performance which really matter. Performance management has often been considered to be about the 'hard' data whereas quality management is often considered as a 'soft' management issue (see Chapter 11). Yet the focus on costs and efficiency at the expense of service quality can be dangerous, as the CCT regime in the UK showed. Indeed, the Citizen's Charter in 1991 may be seen as an implicit admission by the UK government that the emphasis on the 'three Es' – economy, efficiency, effectiveness – had been overdone. There is now an understanding in the UK, and in many other OECD countries, that performance management has to go hand in hand with quality management.

Finally, performance management is probably especially necessary in a turbulent organizational environment. Let us suggest a proof *ex absurdum*: if an organization does not measure its performance, it will understand only tentatively what its impact in society is and consequently its ability to respond appropriately will erode. Therefore, it is important to develop performance measurement systems in order to know at least a little more and to develop performance management systems in order to have a little more control over performance.

QUESTIONS FOR REVIEW AND DISCUSSION

- 1 What are the main types of performance which need to be measured and reported in the public sector? Who cares about these performance measures – and why do they care?
- 2 How can an organization decide whether its performance management system produces benefits at least as great as the costs it imposes?

READER EXERCISES

- 1 Take an annual report from a public agency with which you are familiar. Identify the performance indicators reported in it. Classify them according to the categories in Figure 10.1. Do you think that the balance between these types of performance indicator is appropriate for this agency?
- 2 Take one of the performance indicators identified in the above exercise. Consider how an individual, a unit or a whole organization might find ways of influencing the reported level of that indicator in order to make their work look more successful. For each of these possible abuses, suggest ways in which that kind of behaviour could be made less easy or less likely to succeed.

CLASS EXERCISES

- 1 Identify a case currently in the media where a public agency appears to have been changing its practices or its reporting approach in order to improve its 'league table' position, without necessarily improving its actual level of performance. Discuss how the performance measurement and reporting system might be changed in order to make such behaviour less likely in the future, while still producing useful information for the stakeholders who wish to hold this agency to account.
- 2 Discuss how your class, your tutor and your college assesses performance – of students, of staff and of the organization as a whole. What are the major limitations in this performance assessment? How could they be tackled?

FURTHER READING

Geert Bouckaert (1995b), 'Improving performance measurement', in Arle Halachmi and Geert Bouckaert (eds), *The enduring challenges of public administration*. San Francisco, CA: Jossey-Bass, pp. 379–412.

Harry P. Hatry (1999), *Performance measurement: getting results*. Washington, DC: Urban Institute Press.

Chapter 11

Quality management in public sector organizations

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INTRODUCTION

What is the likelihood that two or more strangers would have the same views when it comes to deciding what is a high-quality public service and what is not? In deciding on what is quality, we might assume that people consider various attributes of a given service or product and assign different weights to each attribute before reaching a decision (Bovaird and Halachmi, 1999, p. 145).

One person might look primarily to the fitness for use of the service, while another might look at whether the service was provided in timely fashion. Realistically, most individuals might be assumed to use some combinations of several factors to assess quality.

Clearly, quality is a complex concept. While it is already a difficult task to assess the quality of products and services, the assessment of organizational quality or of the quality of public policy making is even more difficult. The assessment of governance quality is likely to be most demanding and this area of analysis is really only in its initial phase.

LEARNING OBJECTIVES

- To be aware of the differences of quality management in the public and private sectors
- To understand the key issues associated with quality measurement in the public sector
- To be aware of the major quality assessment instruments used in the public sector
- To understand the key obstacles to and success factors in quality improvement in the public sector
- To understand how the quality of public governance might be assessed