Performance management as a constituent part of public sector strategic oversight

Performance measurement and performance management methods have been growing in importance since the beginning of the 1990s, as public management in the age of New Public Management reforms has increasingly become orientated towards output management via contracts. Australia and New Zealand were pioneers as the first major countries to adopt this approach in response to the need to restore fiscal balance in the early 80’s. In addition, the UK National Health system (NHS), some US states and some public sector entities in Canada have introduced variations on this theme. There is evidence to suggest that this has led to clear improvements in cost effectiveness and budgetary control.

However, performance management, while becoming a standard topic in the reform agenda of many OECD countries, has also come in for some tough criticism in recent years. On one hand, critics say it creates bureaucratic complexity and on the other, they assert performance management has pragmatic implementation difficulties in the public sector. One observer suggests that “... most objectives in public management cannot be presented in precise figures, because they always emerge multi-dimensionally and frequently require compromise. Performance measurements, especially those provided by management ratio systems, tend to fall ruin to the myth of quantitative measurability”.

Against this background, the performance management methods applied in the UK, Switzerland and Germany are assessed.

Management by objectives

Performance management in a public sector context refers to commissioning or oversight using performance-orientated objectives that are expressed in terms of defined activities (outputs). The core assumption is that policy makers and deliverers learn from performance information and make continuously better decisions on the basis of empirical evidence, with performance in the public sector increasing accordingly.

Defining performance

The foundation of any performance measurement system is its definition of “performance”. Often government programmes have multi-dimensional objectives, many of which are difficult to measure. Performance measurement must provide a system of performance criteria that allow the results of policy delivery to be interpreted in a manner that is not only relevant for decision-makers, but also meaningful to the general public.

which are rather vaguely formulated. Furthermore, there are sometimes several differ­
ent groups being targeted. As a result, articulating what good performance is can be challenging. While it is relatively easy to determine both inputs (HR, money, mate­
rials) and outputs (goods and services produced), it is often less easy to determine the impact that the outputs have on the desired high level policy objectives (out­
comes). A qualitative estimation is often required when the time comes to evaluate the effects of state programmes and policies within a society. This can be because there are many factors that government cannot influence that may affect the outcomes. Or it may be that the causality linking outputs to outcomes is complicated and impacted by a number of different government outputs. It may also be that there is a long time lag between delivering the output and when its effect on outcomes becomes apparent or simply that the policy objectives are couched in such broad terms as to make measurement difficult. An example of this latter point would be the UK 2007 Public Service Agreement goal of “delivering the conditions for business success in the UK”.

We therefore have to differentiate between performance measurement and perform­
ance management. Performance measurement is to be understood here as the regular collection, recording and evaluation of performance data. Hood identifies two different performance measurement systems:

1. Target systems that measure current performance of a period (using previously defined performance metrics).

2. Rankings that measure current or past performance in relation to other comparable entities (ed. often known as benchmarking). The objective here is to inform customers about an entity’s performance or to provide political decision-makers with starting points for increasing performance.2

Performance management, on the other hand, is an integrated strategy with the goal of improving the performance of organisations and the individuals in them. Performance management therefore consists of systematic recording and tracking of performance of public organisations in order to promote a continuous improvement process. Due to the increasing challenge around funding public services, in addition to measuring and managing the quantity and quality of public sector goods and services, much more emphasis is being brought to bear on measuring and managing the cost thereof.

2 Christopher Hood: Public Service Management by Numbers: Why Does it Vary? Where Has it Come From? What Are the Gaps and the Puzzles? in: Public Money and Management April 2007 Vol. 27 (2), 95–102. © 2008 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.
Public Service Agreements

Public Service Agreements (PSAs) are quasi-contracts in which central government departments (and hence many of the bodies they fund) oblige themselves to reach a specific performance level, normally with some degree of correlation with the level of budgetary resources they receive. These were introduced in the UK in 1998 as a performance management instrument by central government. PSAs are agreed for a three-year period by the respective department and the Treasury. Subsequent budget rounds have seen significant reductions in the number and nature of PSAs. They now consist primarily of cross-department goals addressing the major political objectives of government. They include the main target (“aim”), which is operationalised into various sub-targets (“objectives”). The latter then require one or more performance indicators, which must be developed and provided with reference values. The Department of Health, for example, has an “aim” of providing better health, care and wellbeing for all. One of its “objectives” is to increase male life expectancy to 78.6 years, and female life expectancy to 82.5 years. One of the performance targets, for example, is to reduce the percentage of smokers from 28 percent to 24 percent by 2010. Both the targets and the rate of target achievement will be published. PSAs are substantiated by Service Delivery Agreements (SDAs). The vision, the measurement method and the strategy for achieving the PSA targets are described in the SDA. However, there is no description of the resources that will be used in delivering the strategy.

Delivering a PSA implies that a certain level of budget will be required, hence the PSA agreement should be an integral part of the budget setting process. HM Treasury is currently exploring ways to measure the costs of specific delivery outputs that will give an indication of the cost of a given PSA outcome. The results achieved could (and should) then be incorporated into subsequent rounds of budget planning. The PSA system introduces incentives to direct activities of the different entities towards the priorities defined by Cabinet. Better costing methods will also enable better alignment between public priorities and public resources. These goals appear even more significant because the UK system of government is characterised by a diversity of delivery channels, often with numerous entities in the delivery chain.

The agreed indicators and targets are controlled by a complex monitoring system in which the Treasury must be provided with a quarterly report, or more often, as required. The departments are also obliged to provide the UK Parliament with an annual account of the achieved targets.

However, the UK PSA system has received significant criticism since its inception. The main argument is that the over-emphasis on quantitative performance targets results in resources for achieving targets being shifted from one area to another and public services not covered by targets being neglected. Furthermore, coupling target achievement to resource allocation significantly increases the incentive to “sugarcoat” figures. Serious differences, for example, were revealed between the waiting times in UK hospitals reported by providers and those reported by an independent patient survey (reducing waiting times is a Department of Health performance target). There are also examples of incentives that create unintended or even perverse consequences.
Despite this criticism, Public Service Agreements represent an attempt to connect department activities with measurable outputs and outcomes. Individual departments are given tangible incentives to improve service provision, and the public has the opportunity to assess their performance. There has also been significant evolution in the process since its inception. In 2000, for example, 630 high, yet not very transparent performance targets were reduced to some 120 in 2004 and as of 2007, there are now some 30 in number with their prime focus on issues that span more than one department. Departments have been left to propose their own Department Strategic Objectives addressing and measuring all of their activities. Some of these will support the pan-government issues governed by PSAs and the rest are department specific matters. Service Delivery Agreements have been reshaped and published, to prevent individual PSAs from being overburdened, i.e. PSAs articulate what has to be done, and the Service Delivery Agreements explain how to do it and how it will be measured.

Management by performance mandate and global budget

Performance orientation and monitoring results have been core elements of Switzerland’s management modernisation since reform efforts began in the age of New Public Management in the early 1990s. At the federal level, performance orientation is implemented with the “Führen mit Leistungsauftrag und Globalbudget – FLAG” programme (Management by performance mandate and global budget).

FLAG started in 1996 as a pilot project and was integrated as a programme into administrative management after an extensive evaluation in 2001. In 2004 the Swiss government adopted an overall strategy for FLAG’s further development and expansion. The number of twelve administrative entities managed by FLAG in 2004 is to be tripled by 2011. Twenty four are currently within the FLAG programme. These include, for example, the Swiss Federal Roads Authority and the Swiss Federal Aviation Authority.

FLAG’s key instruments are a multi-year performance mandate, a one-year service agreement and the global budget.

The performance mandate incorporates the performance specifications for an administrative entity for four years. It includes a strategy and environment analysis on the basis of which product (output) planning including performance targets is set for the following four years. The government consults the sponsoring ministry and the responsible parliamentary bodies when determining the performance mandate. The mandate essentially defines the scope of performance in accordance with product groups and includes specifications for quality and efficiency of the services to be provided. The performance mandates are published.

The implementation plan underpinning the performance mandate is set out through annual service agreements between the ministry and the FLAG administered entities.

The responsible ministry and the government formulate an annual global budget for the FLAG administered entities on the basis of the four-year performance mandate. The allocated financial resources are no longer structured according to individual

3 http://www.flag.admin.ch/d/1einheiten/1-2-seinheiten.php
types of spending such as HR, tangible resources, investments, etc. They are structured according to product groups. The administrative entities affected are therefore given substantially greater room to manoeuvre with the resources available to them, in exchange for assuming more responsibility for results. FLAG is consequently a decentralising programme, and it also allocates the responsibility for the preparation and selection of performance figures to the individual administrative entities.

Evaluation

Initial evaluation of the FLAG programme suggests that the biggest advances are at the administrative entity level, where, according to the source quoted here, the room to manoeuvre recently granted has been well utilised and has resulted in stronger target orientation. However, this initiative attracts little attention at the political leadership level – in contrast to the PSA system in the UK. The value attributed to the FLAG reform varies depending on the ministry. The initiative also lacks a “promoter” that would advocate it in the political arena. This might in part be due to issues around efficiency measurement. This has resulted in very few ministries being able to report to the government and Parliament on the reactions of target groups to services provided by the ministries, or on the achievement of the social goals within the scope of the performance mandate.

German experience

No coherent approach

A coherent approach to performance management has not yet emerged in Germany. Continuous data recording for the purpose of performance monitoring is not very common in most local or regional authorities.

Federal

At the top federal level, the government has actually managed to get 203 out of 429 lower level federal authorities to conclude target agreements. However, according to Döhler, these are primarily HR and budget-specific parameters which scarcely affect the results of the authorities in question. Added to this is the fact that in Germany’s decentralized federal governmental and administrative system, the federal laws are essentially executed as “own mandates” by the states, in German “Länder” (Art. 84, Para. 1 of the German constitution “Grundgesetz”), and therefore the federal government places constitutional restraints on performance management.

State

At state level, the methods of performance management in both the state ministries’ relationship with the top level state authorities and the middle administration relationship with “special offices” (at local level), are still barely identifiable. Emerging performance management methods do, however, exist in Berlin, where an IT-supported procedure for target effect-orientated management by the name of “ZWOS” has been introduced. The monitoring system was applied in twelve Berlin districts in 2004, beginning in the social, youth and housing policy areas, with a budget of EUR 4 billion.

Local

At local authority level, benchmarking as a performance comparison (therefore promoting “quasi-competition” between entities) in the shape of inter-authority comparison rings has been especially well-received, if for a limited number of authorities. Local authority performance measurements and comparisons, however, are currently

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4 Andreas Balthasar et al., 2001: FLAG Schlussbericht (FLAG final report), Lucerne.
5 Marian Döhler, 2007: Vom Amt zur Agentur? Organisationsvielfalt, institutioneller Anpassungsdruck und Wandlungsprozesse im deutschen Verwaltungsmodell (From ministry to agency? Organisational diversity, institutional pressure to adjust and change processes in the German administration model). In: Marian Döhler (Werner Jann ed.): Agencies in Westeuropa. Wiesbaden: VS Verlag, p. 12–47.
being implemented almost exclusively at a “product” (output) level but do include the resources required for their creation. However, the more “interesting” outcomes expected from administrative activities, especially seen from the local politician’s point of view (e.g. quality of life), hardly play any role at all. Furthermore, the findings of comparisons done by local authorities are mostly unpublished and often are not even made accessible to local authority representatives, which restricts their effectiveness. Consequently there has been almost no interaction between the administrative branch and politics. The results of performance comparisons are generally not used for any kind of political oversight. Furthermore, so far only four percent of all local authorities have taken part in local authority performance comparisons.

In summary it can be said that, in comparison with the UK and Switzerland, the German public sector has relatively little experience in the performance management arena. For both Germany and Switzerland, where performance management is practised, the interest of the body politic in utilising performance measurement/management to drive political outcomes is low.

However, while there is more overall success in the UK and Switzerland, both systems face further challenges. The strict PSA regime in the UK, for example, has resulted in perverse behaviour or provision of misleading data and reports. The causes may well be rooted in the view that some of the objectives of the PSA system have less to do with the systematic improvement of public sector efficiency and effectiveness than they have with central government trying to drive the policy agenda. Both are valid motives, but care must be taken in always assessing what behaviours different measures incentivise.

In Switzerland the introduction of FLAG resulted simultaneously in more autonomy for the relevant administrative entities and more room to manoeuvre in order to improve performance. However, political interest in performance management appears to be rather low, with the result that the Swiss government provides little or no guidance for more administrative or strategic targets and priorities. Nor does the government make many content corrections when “negotiating” performance mandates. The limits of performance management in Switzerland are therefore determined by the body politic’s lack of interest in controls that motivate success in achieving political objectives.

Analysis of the position in the three countries suggests that performance measurement and management in the public sector have considerable support as a means to drive the cost effective implementation of outputs and outcomes, but there remains more to do in engaging politicians and in improving the approaches used to deliver the desired results.

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