A systems approach to managing performance within the public sector

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Multiple masters, divergent agendas and conflicting priorities make measuring success a significant challenge for public administrators and politicians alike.

Based on our experience and research, Grant Thornton believes a systems approach to performance management will support leaders as they link government agendas with organisational and individual objectives.
With global and local economic climates performing below average and an ever-increasing demand for services, providing ‘more for less’ or ‘value for money’ has become a key focus driving reform.

The term ‘value for money’ has a variety of definitions, however in the context of public service it could be interpreted as the provision of adequate services without wasting limited resources, while ensuring services are also affordable. Generally, ‘value for money’ has the same meaning for managers as Palmer’s joint concepts of efficiency and effectiveness – i.e. lowest cost per unit and providing the right services at the lowest cost (Palmer 1993).

Greater levels of accountability to communities and a focus on increased efficiency and effectiveness has also contributed to the focus on performance management across government operations (Dunleavy & Hood 1994). It is no surprise then that performance measurement and program evaluation are fast becoming the central driver of efficiencies, effectiveness and accountability across today’s public sector.

This escalating focus has coincided with a number of other key transformations in the public sector. For example, the devolution of public services to a range of quasi-government and private sector organisations. This devolution has required the adoption of a wide range of techniques to measure and improve performance within and for the public sector (Van Thiel & Leeuw 2002).

As a result, performance management in the current context cannot be viewed as just the tools and systems developed to manage the performance of individual agencies and public servants, but who are required to manage the performance of service providers.

Traditional public sector performance measurement systems have tended to concentrate on the development of indicators largely relating to economy (inputs) and efficiency (costs) due to the limited ability to measure effectiveness or outcomes.

As a consequence, these systems and tools are often criticised due to the exclusion of measurements of non-financial performance dimensions (Kloot & Martin 2000). Analysis of annual reports show that output and input indicators are used most often, with productivity indicators, quality measurements, and cost prices still notoriously absent (Thiel 2001).
In applying best practice performance management, a combination of accurate and relevant performance data and clearly defined roles and responsibilities supports leaders to clearly define functional, team and individual goals, as well as ensuring that key priorities are in line with organisational objectives.

Unless goals are clearly defined, resource allocation will also tend to be arbitrary and the outcome of internal politics (Goold & Campbell 1987). Defining objectives, goals and targets across agencies will assist in improving public sector engagement and focus, as individuals will know whether they have successfully achieved their goals.

Effective public sector leadership and decision making requires the availability of accurate and relevant information to support decisions, as leaders evaluate and measure a range of government or agency outputs.

In any organisation, if leaders are not clear on their objectives, this results in ambiguity and ultimately poor performance. Effective public sector leaders must balance many activities to develop clear action in the face of contradictory forces.

Leaders must also invest in their people. If there are constraints on how well the team operates then this will limit the overall performance of the organisation. If the attitudes, aptitudes, values, skills and knowledge base of the team do not align with what is required by government, or if they do not support each other, then the agency is at risk of poor performance and delivery (Jackson 1988).

High performing government agencies are typically supported by performance management tools and systems in which managers at all levels of the agency have:

1. **Clear objectives focused on outputs and not activities**

2. **Transparent understanding of each person’s contribution to the wider organisation**

3. **Responsibility for specific results or outcomes**
Unique challenges

The public sector faces a number of unique challenges that make the process of building and implementing performance management systems and tools more challenging than within other sectors.

A primary challenge is that public administrators and leaders often serve several ‘masters’, including those who use the service, those who pay for the service, and politicians and policy makers within the government.

The second challenge is that agencies, and therefore executive teams, often have conflicting priorities. For example, they are expected to increase both efficiency and equity in the delivery of public services. It is therefore often challenging to leave political dimensions out of a discussion of public sector performance.

In government, decision making is not just a simple case of using rational logic to measure performance. Strong policy lobbying from interest groups plays a role. Elected politicians are typically focused on their long-term strategic policy objectives for their respective portfolios, which may not directly align to current legislation, or agency priorities and objectives (Jackson 1988). The public sector also works under considerable pressure from those outside government whose preferences are ambiguous, and dynamic.

Five challenges are clearly evident in measuring and managing performance across government. These include:

1 Measuring Conflicting Priorities

Public policies often have many goals, which are sometimes contradictory. Consequently, performance indicators are typically contested measures within and across the public sector, both between politicians and between politicians and bureaucrats (McGuire 2001).

This tension can complicate the process of implementation, because it is difficult to determine which objectives are most important and to whom.

These conflicting and sometimes ambiguous goals often mean that it is difficult to measure government performance relative to clearly defined and agreed goals, particularly in large and complex agencies such as health or education.

Individuals will also tend to respond to performance management systems in ways that suit their own purposes. This can mean that the way government goes about formulating and deriving its overarching objectives may not necessarily align with the constructs of contemporary performance management systems (Propper & Wilson 2003).

As a result, performance management tools, systems and indicators can often be the unwitting cause of dysfunctional outcomes within government agencies.
2 Focus on the Numbers
   A fixation on financial performance measures is also widely regarded as less than satisfactory. Such performance measures lack the requisite variety to give decision makers the range of information they need to manage processes. Performance measurement systems based primarily on financial performance measures lack the focus and robustness needed for internal management and control (Atkinson & McCrindell 1997).

   Financial measures are also dependent on choice of accounting policy. If policies differ between organisations, cross-sectional comparison is difficult, and if policies change over time, longitudinal comparisons are impossible (Atkinson & McCrindell 1997).

3 Ambiguity of Performance Measures
   The translation by public administrators of ambiguous or nontangible policy objectives into operational goals can often leave room for deviations in policy implementation and agency operations, which in turn leads to poor outcomes.

   It should be noted though, that in some cases such discretionary authority is given intentionally, either because policy makers want to appease multiple stakeholders, or simply to facilitate public administrators executing their policy implementation goals (Torenvlied 2000).

   Managing performance within the public sector amidst these ambiguous performance measures often presents considerable challenges when defining what success looks like - from either an agency, department or individual perspective (Jackson 1988).

4 Overuse of Performance Measures
   Extensive use of performance indicators can also create situations in which agencies and public sector administrators focus only on the key aspects of their work important to key stakeholders or sponsors.

   For example, increasing the efficiency of an agency’s operations leads to positive reinforcement or approval seeking behaviours. Such learning effects and anticipatory behaviour could, in the end, lead to poor performance across the agency.

   According to the Performance Paradox, executive agents will aim all their efforts at meeting the principal’s monitoring demands. It is then no longer relevant whether policy implementation is taking place in the most efficient manner, just as long as it appears to be efficient (Van Thiel & Leeuw 2002).

5 Gaming Performance Outcomes
   Performance management tools and systems can often be ‘gamed’ if performance indicators are not correctly designed to align with a broadly desired set of outcomes. This is typically the case when performance outcomes are too narrowly defined, such as targets relating to truancy rates within education or patient wait times in hospital emergency departments.

   Unintended consequences flowing from poorly defined performance indicators can sometimes result in numbers, but not true service improvements, and less desirable behaviours from staff.

   Individuals may therefore ‘game’ the system, while the introduction of different methods of measuring and rewarding performance may also divert significant agency resources into achieving one or two narrowly defined performance outcomes (Propper & Wilson 2003).
Public vs Private Sector performance

In some ways, performance measures within the public sector are substitutes for profitability measures within the private sector. They are often essentially measures of productivity and efficiency.

It is also often the case that government agencies have difficulty forecasting the exact demand, cost and resourcing required for the delivery of services.

Leadership tasks within most government agencies are often similar to those within the private sector. Some private sector practices and techniques can be easily applied across government. There are however significant challenges associated with applying private sector performance management practices, due to the difficulty in separating the practice of public administration from the political process (Boston & Pallot 1997).

The conflicting priorities of goals and stakeholder expectations also mean that the use of incentive-based performance management systems is less likely to be suitable. These types of systems are better suited to private sector organisations, as they place considerable emphasis on designing roles and work practices orientated toward a handful of outcomes, such as profitability, customer satisfaction and service delivery (Propper & Wilson 2003).

These unique characteristics mean that the contemporary performance management tools and systems deployed across the private sector may not necessarily be as effective in driving performance and measuring success across the public sector (Dixit 2002).

This makes the effective measurement of performance a significant challenge unique to the public sector. It is therefore essential that performance and incentive management tools deployed across government agencies are appropriately designed to facilitate a broader spectrum of both managerial and political performance and accountability (Gutherie & English 1997).
Evolution of performance management systems within the public sector

There is no doubt that performance management tools and systems are required at all levels of government and their purpose may differ depending on the level at which they are implemented (Propper & Wilson 2003).

In certain circumstances, performance management instruments have been used to foster or generate pseudo competition, for example, where purchasers in health care buy care from providers based on measures of performance. They may also be used to improve both accountability and resource allocation in the public sector, for example highlighting ‘failing schools’.

But these performance measures are often not clearly identified separately, and the same tools may be used for different purposes across different levels or agencies (Propper & Wilson 2003).

The application of performance management within all levels of government has traditionally been less focused on the delivery of strategic priorities and more focused on the operational concepts of efficiency, with less of an emphasis on effectiveness (Kloot & Martin 2000).

There has also been a shift away from informal performance assessments based on peer review or sample-based inspection, towards an increased reliance on published performance league tables based on standardised measures (Mannion & Goddard 2000).

Another recent trend is the shift away from the traditional internal audits and controls approach to performance management. Performance data is becoming a critical component used to monitor and evaluate the effectiveness of external service providers. These processes are often a central component of a contracted service level agreement, therefore government needs to ensure that relevant data and information is accurately captured across all parts.

In recent years, we have also seen the emergence of Kaplan and Norton’s balanced scorecard approach to performance management, which assesses performance across four key dimensions: financial, customer satisfaction, internal business processes, and innovation and learning.

These types of instruments focus on linking strategy and performance, and are becoming a central feature of performance management within government and the public sector. As a consequence, agencies are having to find ways to ensure performance measures are tailored to align to policy priorities and strategy across a range of government areas (Kaplan & Norton 1992; Kaplan & Norton 1996).

These approaches typically focus on shifting the culture within agencies, which in turn has a significant impact on performance and innovation with the agency. Previous attempts by government to introduce whole-of-government systems, such as Planning, Programming and Budgeting Systems (PPBS) or Zero Sum Budgeting, have not been particularly successful (Boston & Pallot 1997).
The public sector landscape

While the ultimate test of a private sector firm’s performance is the bottom line profit, measuring the performance of public sector organisations is more difficult and calls for a more complex set of indicators.

Despite the tendency to converge the two concepts, there is a distinction between performance measures and performance indicators.

A performance measure is used when performance can be measured precisely, for example reading data from a dial. As is frequently the case, when there is no ability to precisely interpret a piece of data, then a performance indicator is put in place as an ‘alarm bell’. A performance indicator alerts management to the need to consider the issue further.

Consider for example, if per pupil costs in one school are three times those in another. That piece of data (per pupil cost) is not a measure that one school is three times more efficient than the other. Instead, it is an indicator that further investigation might be required to find out why this measurement is higher for one school versus the rest.

It is more useful to think of performance indicators as mirrors which reflect particular aspects of an organisation’s activities. Each mirror (indicator) is set to reflect a particular facet of activity. The outside world views the organisation (or a department) against these mirrors. People inside the organisation must ask ‘is this a fair and true reflection?’ or ‘does it, like the fairground mirror, give a distorted picture?’ (Jackson 1988).

Performance measurement in government is inherently linked to accountability. As a result, performance measures within the public sector are likely to play a critical role in influencing the judgement and decision making processes for agencies and public administrators alike.

Given the link between accountability and performance, there is a risk of overwhelming public administrators with too many performance measurements, increasing the possibility of administrators losing sight of the bigger picture.

Governments therefore need to design performance management tools and systems that are flexible and capable of measuring performance in relation to a broad (but not too many) range of outcomes and results. Furthermore, performance measurement within the sector needs to allow the flexibility of choosing between alternative strategies and prioritising activities in order to achieve the desired outcomes (Gutherie & English 1997).

Practice Management Theory
This longer-term approach aligns to Drucker’s Practice Management Theory, which argues that organisations tend to be goal seeking. According to this perspective, strategic management can be distinguished from operational management, as it is concerned with the overall management of an organisation rather than the management of individual functions, such as social welfare or defense. It also differs from operational management in that it is concerned with the longer term rather than the immediate day-to-day concerns of running the organisation.

By embedding this strategic approach into performance management systems, public sector performance would be measured against broad organisation-wide outcomes, rather than specific activity-focused results.
Measuring performance within the public sector

Building a systems-based approach
A systems-based approach, which aligns strategic planning and performance management activities around the production of data and information, is becoming more common across all levels of the public sector. (Van Thiel & Leeuw 2002).

This approach also aligns to many government’s current strategies associated with facilitating participatory forms of democracy and active citizenship, such as open data initiatives. (Propper & Wilson 2003).

Unlike traditional top down approaches to performance management and planning, a systems-based approach relies on creativity and self-determination through organisational learning. These strategies are not congruent with traditional performance management systems.

Within a systems-based approach, the role of central government agencies is to "supply the formal analysis or hard data that is required to broaden the consideration of issues, rather than to discover the one right answer" (Boston & Pallot 1997).

Building a systems-based approach to measuring performance starts with public sector leaders and politicians working together to determine a set of primary objectives or strategic result areas (SRAs). It is through the development and articulation of these primary objectives that government is able to establish the nexus between its political objectives and key stakeholders – citizens, departments and other relevant interest groups.

Secondary objectives or key result areas (KRAs) reflect the choices public sector leaders make in relation to how they intend to pursue these primary objectives with relevant stakeholders. Ultimately, KRAs must support the delivery of SRAs.

This is an important distinction in defining aspects of performance management within a systems-based approach. There is an obvious and complementary relationship between results (primary objectives) and determinants (secondary objectives).

A systems-based approach to measuring performance relies on governments setting the strategic priorities and allowing departments to determine the most effective way of achieving the best outcomes in line with these priorities.

This approach does however assume that public sector leaders are designated an appropriate level of authority, autonomy, and resources to effectively execute their plans, with limited guidance from a central planning authority within government.
Traditional vs. Systems-based Approach to Measuring and Evaluating Performance

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<thead>
<tr>
<th>Top down approach</th>
<th>Systems-based approach</th>
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<tr>
<td>Top-down State government and councillor-imposed, control-oriented performance measurement</td>
<td>Strategic, collaborative development of a performance management system involving all stakeholders</td>
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<tr>
<td>Imposition of universal, government-wide measures with little validity for specific agencies</td>
<td>In-house development of valid, specific measures to be used for agency or departmental improvement and benchmarking</td>
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<tr>
<td>Periodic reporting for the purpose of meeting control requirements of senior management, councillors and government</td>
<td>Real-time, up-to-date performance information for all stakeholders to monitor progress, demonstrate accountability and manage outcomes</td>
</tr>
<tr>
<td>A narrowly defined approach with a focus on the measurement process</td>
<td>A system wide outcomes based approach, spanning agencies and including third party suppliers</td>
</tr>
<tr>
<td>Focus on financial measures only</td>
<td>Focus on financial and non-financial measures: a results and determinants approach.</td>
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Adapted from (Kloot & Martin 2000)

Collecting and using performance data

A systems approach to performance management requires data. New information systems that support this approach to performance management are being established across many parts of governments, such as National Health Information, National Road Safety and the My Schools website. These not only utilise existing data sets, but also generate additional data which can be used internally within government agencies for performance measurement and comparison.

There is a danger, however, that the cost of producing this data may exceed the benefits derived from the improvements in efficiency and performance. Equally, if too much data is provided, then management will simply become overloaded, both in supplying the basic information from which the performance indices are compiled and/or reacting to the measures themselves (Jackson 1988).

Measuring outcomes (gross or net?)

Measuring performance outcomes within the public sector needs to take the nature of public services into account (McGuire 2001). The way government services are produced and consumed (delivered) and the way they are valued by the community have implications for performance measurement (McGuire 2001). Moreover, most government products are intangible.

Performance indicators should therefore reflect quality and reliability rather than “hard” product attributes. Efficiency and effectiveness are not the only important attributes for government services. Dimensions such as justice, fairness, equity, and accountability can also be critically important.

Gross outcomes are essentially a measurement of outcomes of specific programs or projects at a designated date. In the case of healthcare programs, gross outcomes could include the number of individuals who do not die after emergency admissions for heart attacks, or the number of individuals given hip replacements. In the case of education, gross outcomes could include the number of pupils passing examinations at a certain grade.
The advantages of such measures is that they broadly align to the philosophies of a systems-based approach to performance management, and are easy to understand and collect.

These outcomes are typically ‘gross’ in the sense that they do not necessarily measure the actual output of the program itself. For example, pupils may have passed exams in the absence of school inputs, patients may have recovered from heart attacks without medical intervention. If gross outcomes are measured relative to some standard which is set to take account of what would have happened without the program, then they may be useful in assessing the impact of the program.

Gross outcomes also do not typically take into account the context, such as the difficulty of performing the task, or treating a particular individual. They can be subsequently adjusted for observed characteristics and this can partially overcome the problem (Propper & Wilson 2003).

Although widely used within most public sector performance management systems, gross outcomes currently provide little information on the effectiveness of specific programs or initiatives. Furthermore, using gross outcome indicators such as cost can bias activity towards shorter and less intensive programs (Propper & Wilson 2003).

**Net outcomes** on the other hand measure the ‘value added’ by a particular program or initiative. For example, the human capital added by a particular vocationally based training program.

Developing net output measures is typically far more complex than gross outcomes, due to the fact that the outputs of a government program or activity may be multi-dimensional. One way of overcoming this complexity is to calculate the value of net outputs, such as the net earnings gained from participation, so there is a common metric across outcomes.

More generally, measuring value added is fraught with methodological problems. A key problem being the difficulty in constructing a view of what would have happened in the absence of the program. This means that net output measures often require complex before and after evaluations that are expensive, and might be difficult to justify on a regular basis. Collecting the data required may also take a significant amount of time, so net measures may not give those who run the program information when it is needed for decision support.

Assessment of the various alternative approaches to measuring performance within the public sector is also hampered by a lack of experimentation and assessment of government performance management policy itself. Furthermore, new approaches to evaluating performance measures are rarely introduced in a controlled or trial manner, as they are typically introduced as a result of a policy change.

**Unintended consequences of poorly designed performance management systems**

The increased focus on output measurement within the public sector may lead to several unintended consequences that may not only invalidate conclusions on performance, but also negatively influence that performance (Van Thiel & Leeuw 2002).

These consequences could include stifling innovation, leading to the stagnation of new ideas within an organisation, which is often described as organisational paralysis. Another possible consequence is tunnel vision, which occurs when organisations emphasis quantified aspects of the performance system at the expense of unquantified aspects of performance.

Other unintended side effects are sub-optimisation, which occurs when narrow local objectives are defined by managers at the expense of the objectives of the organisation as a whole, and measure fixation, an emphasis on single measures of success rather than on the underlying objective (Van Thiel & Leeuw 2002).

These unintended effects can jeopardise the effectiveness and efficiency of policy implementation.
Case Study: A systems-based approach to performance management

In 1990, the New Zealand government introduced a ‘whole of government’ systems-based approach to performance management.

This started with the development of a strategic management framework that specified a limited number of challenges that the public service needed to address as a whole over a three-year period. These challenges were referred to as ‘strategic result areas’ (SRAs).

SRAs were used not only to guide the overall process of setting budgetary parameters and priorities, but also to inform the specification of annually determined ‘key result areas’ (KRAs) for public sector leaders. More importantly, key milestones were also identified to serve as benchmarks against which the achievement of particular departmental KRAs could be assessed.

Strategic Result Areas set out the contribution that the public sector would make to achieve the government's strategic vision for New Zealand. Together the SRAs and KRAs form the link between the government's long-term objectives and the operational activities of each government department. They also serve to bridge the gap between the broad vision of a future New Zealand (Path to 2010) and the one-year plans for each government department’s budgets and performance agreements.

The Strategic Result Areas identified activities within the sector that needed to be done well over a three to five year period in order to achieve the government’s longer term strategy. These activities were linked into ‘results-focused’ priorities within respective departmental budgets and work plans, and formed part of the accountabilities set down in the performance agreements of each public sector leader (Boston & Pallot 1997).

On the basis of the government’s SRAs, Ministers and Officials confirmed and revised their KRAs each year. The objective was to identify a set of concrete policies and programs that would assist the government in achieving its SRAs.

Where applicable, public sector leaders specified in their performance agreements the particular SRA (or SRAs) to which their department would contribute. This was not always a straight-forward process. Although some of the government’s SRAs related directly to the work of particular departments, in other cases the linkages were much less obvious. The SRAs were linked to the operations of departments, and departmental accountability systems through the KRAs.

The KRAs were not meant to encompass every aspect of a department's business, focusing instead on critical matters. In addition to the delivery of goods and services in support of SRAs, KRAs could include high-priority aspects of management (e.g. structure, governance, investment / divestment, organisational developmental, financial and human resources, key relationships) critical to the department's performance and its strategic capability to deliver goods and services (Boston & Pallot 1997).

Although KRAs were part of an annual contract, Ministers and public sector leaders generally expected that KRAs would support SRAs and took a three-year focus to avoid varying these objectives over that period, except when a significant change in strategic direction was required.

The New Zealand government also stated that progress towards achieving their objectives needed to be defined in terms of observable and verifiable milestones including target dates for each KRA. These milestones formed the basis for assessing public sector leader’s and departmental performance.

This approach to performance management was considered multi-dimensional. The SRAs addressed cross portfolio matters, while the KRAs provided major objectives for individual departments, thereby playing an analogous role to strategic objectives such as profit and market share in private sector companies (Boston & Pallot 1997).

The NSW government has adopted a similar approach with the launch of the State government 2021 Plan in 2011, including both program and operational indicators measuring efficiency (output) and effectiveness (outcomes) along a number of different dimensions.

This allows the NSW State government’s performance information to be aligned to this plan, and used by government and departments to assess performance, determine needs and allocate resources. The publication of these measures supports transparency and accountability.
Designing performance management systems for the future

The first requirement when designing a performance management system is to focus on establishing a clear understanding of what motivates teams and individuals.

There are typically two schools of thought in relation to this: the first espouses an ‘explicit’ or ‘extrinsic’ approach to managing performance. These systems are widely used within the private sector, and are typically oriented around direct financial benefits and human motivators such as pay for performance.

The second, and more commonly used within the public sector, espouses an ‘implicit’ or ‘intrinsic’ approach to performance management and motivation. This approach relies on intrinsic motivators, and sees teams or individuals receiving rewards in the forms of recognition for achievements.

An example of this intrinsic approach can be seen in the publication of school league tables, which associate the reputations of the teachers at that school with good education outcomes, while also attracting better students. These self re-inforcing feedback mechanisms ultimately should lead to better teaching and student outcomes (Propper & Wilson 2003).

Intrinsic performance management tools and systems are typically designed to create ‘competitive pressure’ for improvement within agencies, and are therefore usually designed to empower and motivate public administrators to make informed choices in relation to work practices.

Another key consideration in the design of a performance management system is to consider how best to collect, analyse and evaluate information in order to determine performance outcomes.

The dimension in designing performance management systems focuses on the methods used to collect, analyse and evaluate the performance of teams or individuals.

At one end of the spectrum, performance statistics can be collected using an evidence based approach that relies on site visits and observations, meeting clearly defined quality assurance standards. At the other end are systems that simply rely on the collection of data in order to report on performance, such as truancy rates, road fatalities, etc.

Both ends of the spectrum have their benefits and drawbacks. Collecting observation based information can be expensive and subject to interpretation, whereas data collection can rely too heavily on narrow outcomes, and miss critical information such as culture or the individual circumstances of a particular facility, team or individual.

Accordingly, recent enhancements in data gathering and collection techniques have seen a shift from a narrow range of performance dimensions towards the development of ‘packages of performance indicators’, which reflect a broader assessment of an organisation’s activities and performance.

Advances in information management and data collection have also allowed a shift away from the gratuitous collection of performance data, towards the development of more streamlined and targeted performance indicators (Propper & Wilson 2003).
Together, these two dimensions form the core building blocks for designing effective performance management tools and systems within government. Determining where an organisation sits across the four quadrants outlined in the table below is critical in assessing how to best build an effective performance management system.

![Performance Management System Qualities](image)

**Figure 1: Performance management system qualities**

**Performance based indicators**

By their very nature, performance indicators motivate individuals and cause them to modify their behaviour in order to meet targets. There is however no such thing as an absolutely correct set of performance indicators.

Indicators and measures are judged in terms of their usefulness, balanced against the costs of generating the information they contain. Performance indicators play a number of important roles in that they:

- Help to improve management practice
- Increase the accountability of management
- Provide a basis for policy planning and control
- Provide essential management information by confirming that the intended outcomes of various decisions are being achieved
- Provide information for strategic post mortems when policies and management practices and methods are reviewed
- Can provide the basis of a staff appraisal system (Jackson 1988)

If performance indicators are used to evaluate the activities or productivity of an individual for the purpose of pay or career development, then it is essential that a clear relationship exists between the individual's behaviour and the performance measure. Does the individual, for example, have control over the areas which give rise to performance? It is pointless and unreasonable to hold someone accountable for something that they cannot control. As mentioned previously, the concept of the Performance Paradox refers to the tenuous link that exists between performance indicators and performance outcomes. This phenomenon is often the result of performance indicators losing relevance over time. If this occurs, then the organisation is unable to discriminate between good and bad performance and the relationship between actual and reported performance will inevitably diverge.

Deterioration of performance indicators is caused by four processes (Meyer & Gupta 1994):

1. **Positive learning**: as performance improves, indicators lose their sensitivity in detecting bad performance. Everybody may become so good at performing the task components of the indicator, that the indicator is now trivial or obsolete.
2. **Perverse learning**: when organisations or individuals have learned which aspects of performance are measured (and which are not), then use that information to manipulate their assessments. For example, by focusing all effort and resources into those items that are measured so those specific performance measures go up. This diversion of resources may impact other critical aspects of service delivery within the organisation, or result in no tangible overall performance improvement for the measured area (Smith 1995).
3. **Selection**: refers to the replacement of poor performers with better performers, which reduces differences in performance. Only good performers remain, and the indicator loses its discriminating value. It can be considered a survival of the fittest mechanism.
4. **Suppression**: occurs when differences in performance are ignore.
What this means for governments seeking to measure performance

There is little evidence demonstrating the actual impact or success of public sector performance management schemes themselves. It is important to understand the overall impact these programs and methodologies might have on strategic government policy outcomes, and the costs of achieving these outcomes.

When performance-management schemes are implemented, an approach that includes a pilot program should be used, so that the impact of the new measurements and their efficacy in improving performance can be rigorously evaluated.

There is also scope for the development of targets based on alternative third party information sources, such as the use of general household surveys to measure the health of people living in an area. These would be ‘non-corruptible’ indicators of performance as they are not subject to manipulation by the individuals whose actions are being measured. Their use would help the relevant organisation to focus on what really matters (e.g. crime prevention, illness prevention) and might also encourage them to find out what really matters.

It is still not clear to what extent performance management systems actually help agencies achieve the goals they have been set by policy-makers. There is some consensus that gross outcomes or levels-based performance management systems do not provide a sufficiently accurate picture of the relative performance of public-sector agencies, and that some adjustment needs to be made to these systems in order to account for the contextual diversity of the input data.

A single or ‘one size fits all’ performance management systems is also not sufficient for government. As has been highlighted, public sector agencies frequently have multiple key stakeholders with conflicting goals.

There is however a need for a ‘whole of government’ approach to strategic planning, and a supporting framework that underpins a diverse range of performance management approaches. These approaches must be tailored to the requirements of each organisation, both in terms of what they measure, and also in terms of their form.

The use of performance management tools and systems to improve process or performance within government and public sector agencies does not necessarily require the performance results to be published. The intended purpose for each potential measure should dictate both its form and the decision whether to publicly disclose the resulting performance information.

Performance management systems need to take the special characteristics of the public sector into account. The contested nature of performance indicators requires the use of multiple indicators, referring to different aspects of policy implementation (tangible and nontangible) and reflecting the interests of all stakeholders (politicians, managers, funders, providers, purchasers, and consumers). Moreover, a balance must be found between too much and not enough measure pressure (Van Thiel & Leeuw 2002).
Governments and public sector leaders need to move towards performance management systems that include multiple uncorrelated performance indicators which can be compared across sections of the organisation, or ideally, across government agencies.

Politicians and public sector leaders also need to consider the use of clearly defined targets and comparisons over time, between government departments and/or between different units within a government department. Such approaches to measuring performance need to allow for the expansion of the number of performance measures on one hand, and a reduction of the measure pressure on the other hand. Both excessive and minimalist emphasis on performance indicators can result in a performance paradox.

Performance measures should also seek to minimise the dysfunctional effects and maximise functional effects (Bouckaert & Balk 1991). Performance management systems within the public sector have to be able to cope with paradoxes and ambiguity.

Finally, performance management systems need to leave room for multiple interpretations of policy goals. Funders, purchasers, providers, and consumers have different interests in policy implementation, leading to different emphasis in performance assessment (Van Thiel & Leeuw 2002).

Strategic performance management is more about processes than about documents and plans. Strategic decision making depends on quality information being available (with context) in a timely manner. It is not intended to cover every aspect of the government’s or department’s business, but rather to focus on critical matters which will make a difference to decisions. If this focus on critical matters can be maintained, the system is likely to add significant value, and be used productively.

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**Checklist for Performance Indicators**

- Formulate a clear and coherent plan
- Develop an explicit performance measurement strategy
- Involve key users in the design and development phase
- Rationalise the program/functional structure as a prelude to measurement
- Develop multiple sets of measures for multiple users
- Consider the customers throughout the process
- Provide each user with sufficient detail
- Periodically review and revise performance measures
- Take account of complexities upstream, downstream, and laterally
- Avoid excessive aggregation of information

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