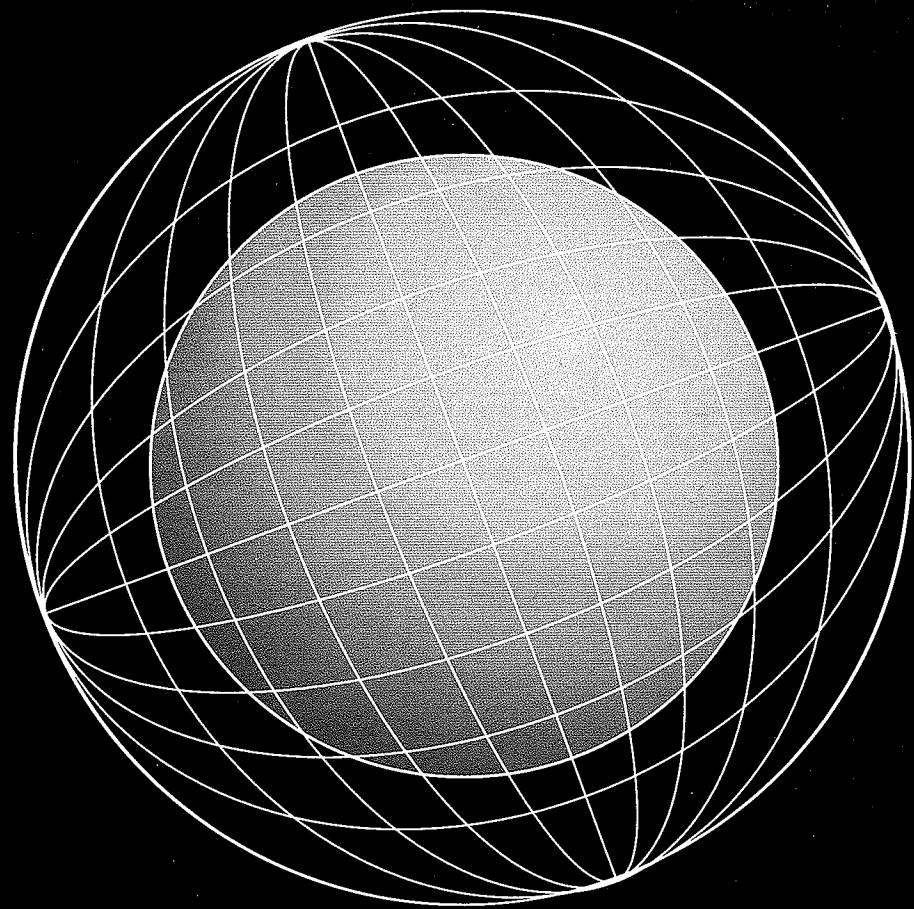
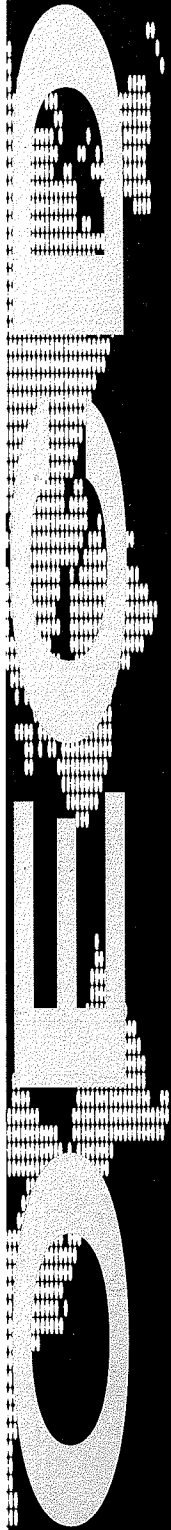


# IN SEARCH OF RESULTS

Performance  
Management  
Practices



**PUMA**



**ERRATUM**

**IN SEARCH OF RESULTS:  
PERFORMANCE MANAGEMENT PRACTICES**

ISBN 92-64-15574-0

The following table replaces the “Table of key performance management issues” on pages 144-145.

**Table of key performance management issues**

Country	Australia	Canada	Denmark	Finland	France	Netherlands	New Zealand	Sweden	United Kingdom	United States	Partial	Primary	Total
<b>I. OBJECTIVES AND APPROACHES</b>													
<b>1. Objectives and Focus</b>													
• Management and improvement	**	**	**	**	*	**	*	**	*	**	3	7	17
• Accountability and control	**	*	*		**	**	**	**	**	*	3	6	15
• Savings		**	*	**	*	*	**	*	**	*	5	4	13
<b>2. Approach</b>													
• Comprehensive	**	**	*	*	*	*	**	**	**	*	5	5	15
• Legislative					**	**	**			**	2	4	10
• <i>Ad hoc</i>	*	*	**	*	*	*	*	*			7	1	9
• Top-down	**	*	*	*	*	*	**	**	**	**	5	5	15
• Bottom-up	*	*	**	*	*	*	*	*		*	8	1	10
<b>3. Institutional arrangements</b>													
• Finance – budget departments	**	**	**	**	**	**	**	**	*	**	1	9	19
• Other central departments				*	**	**	**		**		1	4	9
• Special management bodies			*	*	*			**	**	**	4	3	10
<b>II. PERFORMANCE MEASUREMENT</b>													
<b>4. Performance measurement</b>													
• Indicators	*	*	**	*	*	**		**	**	**	4	5	14
• Measurement systems	**	**	*	**	*	**	**	**			2	6	14
• Qualitative measures	*	*	**	*	*	*	*	*	*		8	0	8
• Processes (Activities)						**	*	**	**	**	2	2	6
• Efficiency (Outputs)	*	**	*	**		**	**	**	**	**	2	7	16
• Effectiveness (Outcomes)	**	*	**			f	*	*		**	5	2	9
• Service (delivery) quality	*	**	**	**	*	*	*	*	**	*	6	4	14
• Financial performance (Economy)		**	*	*	*		*	*	**	*	6	2	10
<b>5. Financial Management</b>													
• Accrual accounting	**	*	*	**		*	**	**	*		4	4	12
• Cost allocation					*	*	**	*	*	*	7	1	9
• Integration of management systems							*	*	*	*	5	0	5
<b>6. Reporting of Performance Information</b>													
• Public availability	**	**	**	**	*	*	**	**	**	**	2	8	18
• Annual reports	**	**	**	**	*	*	**	**	**	**	1	9	19
• Budget reports	**	**	*	**	**	*	**	**	*	*	4	5	14
• Performance contracts			*	**	**	*	**		**		2	4	10
• Local government performance	**				*	**		*	**		3	3	9

Table of key performance management issues (cont.)

Country	Australia	Canada	Denmark	Finland	France	Netherlands	New Zealand	Sweden	United Kingdom	United States	Partial	Primary	Total
<b>III. SERVICE QUALITY</b>													
<b>7. Service quality</b>	*	**	*	*	*	*	*	*	**	**	7	3	13
• Service standards	*	**	*	*	*	*	*	*	**	**	6	3	12
• Service statements	*	*	**	*	*	*	*	*	*	*	9	1	11
• Customer surveys		*	*	*	*			*	*	*	7	0	7
• Quality management (systems)													
<b>IV. PERFORMANCE REVIEW</b>													
<b>8. Performance review</b>	**	**	**	*	**	**	**	**	*	**	2	8	18
• Internal evaluation	*	**	*	**	**	**	**	**	*	**	3	7	17
• Performance auditing			*				**		*		3	1	5
• Quality monitoring units	**	**	*	*	**	**	*	**	*	**	4	6	16
• Programme evaluation													
<b>V. USE OF PERFORMANCE INFORMATION</b>													
<b>9. Performance budgeting</b>	**	**	*	**	*	**	**	**	*	*	4	6	16
• Performance informed decisions							*	*			2	0	2
• Performance-based allocation													
<b>10. Performance pay</b>			*				**		**		1	2	5
• Individual agreements	**	*	*		*	**	*	*	*	*	7	2	11
• Individual performance pay			*	**						*	2	1	4
• Group productivity pay													
<b>VI. RESULTS-ORIENTED MANAGEMENT</b>													
<b>11. Devolution and autonomy</b>	**	**	**	**	*	**	**	**	**		1	8	17
• Relaxation of input controls	**	*	**	*	*	*	**	**	**	*	5	5	15
• Reduction of process controls	*	*	*	**	**	*	**	**	**	*	5	5	15
• Autonomous agencies	*	*					*	**	**		3	1	5
• Risk management													
<b>12. Management reforms</b>	**	*	*	*	*	*		*	*	*	8	1	10
• Benchmarking (process. results)	**	**	*				**		**	**	1	5	11
• Corporate and strategic planning	*	*	**	**	**	*	**		**	*	4	5	14
• Performance contracts	**						**		**	*	2	3	8
• Market testing – contestability													

\* Partial objective/approach/arrangement

\*\* Primary objective/approach/arrangement.

Source: OECD.

# IN SEARCH OF RESULTS

## Performance Management Practices

## ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Pursuant to Article 1 of the Convention signed in Paris on 14th December 1960, and which came into force on 30th September 1961, the Organisation for Economic Co-operation and Development (OECD) shall promote policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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Pratiques de gestion des performances

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$\frac{1}{\sqrt{\pi}} \int_{-\infty}^{\infty} f(x) e^{-x^2} dx = \frac{1}{\sqrt{\pi}} \int_{-\infty}^{\infty} f(x) e^{-x^2} dx$



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## OVERVIEW AND SYNTHESIS

The list of societal challenges for OECD Member countries is impressive in its scope and length. Preparing our societies and economies for meeting these challenges as we move into the next century is a major concern. Several studies show that there is a convergence in approaches being taken by different governments. These measures include budgetary reductions, deregulation, new technologies, new management methods, new tools and criteria for evaluation, decentralisation, devolution, codification, flexibility in budget and personnel matters, service quality and client orientation, and privatisation (Wright, 1992).

A concern for better performance of a government that is competitive with the private sector and with other governments (*i.e.* contestability and market testing) has resulted in a search for systemic incentives for improved performance. To be successful, these incentives need to stimulate and enhance economy, efficiency, effectiveness, and service quality; or, more simply put, enhance government performance. Thus, performance management has become a key element in the reform programmes of many countries; moreover, a results-orientation and cost consciousness have become key criteria of these reforms.

This overview first describes why performance governance is a management framework chosen by many OECD countries. Second, it discusses major elements of performance management being used in the ten Member countries profiled in the case studies. Third, it explores questions of whether the experiences of these ten countries have common denominators, and what lessons may be learned from them.

### PERFORMANCE GOVERNANCE AS PUBLIC SECTOR REFORM

In many OECD Member countries there is currently an ideological and technical discussion on the legitimacy of government in society. Democratic deficits appeared and gaps between the state and its citizens became obvious to politicians and the general public. Service delivery by the public sector has become a key issue in reconstructing the legitimacy of government.

In understanding the implications of this discussion on the development of performance governance, Beetham's four elements of legitimate governance provides a useful framework from which to start:

- First, there is legality, which means that there is a correspondence between decisions and rules according to the principle of the rule of law.
- Second, there is legitimacy of law, requiring that legislative and legal power and the laws and regulations themselves must be legitimate. For example, legal legitimacy may come from constitutional authority or unwritten "societal" agreements supporting the law.
- Third, there is legitimate use of power, meaning that the state and its use of power are oriented toward the general interest.
- Fourth, government must have approval by the citizens, including sometimes citizens disagreeing with those responsible for public policy and public management.

The "general interest" orientation in the third element is prominent in current discussions about performance management reform, particularly regarding policy management and service delivery by departments and agencies. To the extent that economy, efficiency, effectiveness, and quality are being

accepted as operational criteria of general interest, these become essential in supporting the legitimacy of government. Thus, policy management and service delivery have to respect basic requirements which fall under the label “good performance”. The results in many countries is the development of a broad strategy of “performance governance”, of which performance management is a major part.

Three major questions must be answered for a “performance governance” strategy:

- What should be the share of government in society?
- What should be the role of government in society?
- How should government function to ensure performance (taking its share and position into account)?

It is said that a modern state should be a modest state. Indeed, there is a general trend to reduce government's share of social resources (*e.g.* as a percentage of GDP). Combined with a necessity to reduce public deficits, this has resulted in focusing by governments on savings via greater efficiency, budget cuts, hiving-off activities, and active and passive privatisation of state activities.

There also is a general trend to see the *role* of government as less comprehensive in controlling society than was previously the case. Issues of governance in society focus on government as one actor which may not necessarily be above all other actors. Partnerships are important: public/public, public/private, public/not-for-profit. New actors (organised or individual), are active in the process of governance. For example, customers of public services are not just consulted, but are involved in standard-setting, decision-making, and influence evaluations and assessments of service delivery. It can be argued that rigid hierarchies between levels of government, and between the public and private sectors, lose significance to the extent that networks govern interactions in society.

Clearly, changes in the share and position of government have direct implications for its functioning. For example, a reduced size forces a clearer focus on key tasks. Moreover, new actors, new roles, and new interactions require new internal rules, criteria and structures to accommodate the changes. However, the classical functioning of government is not able to keep pace with a fast-changing environment. The governability of complex, dynamic and diverse processes requires new capacities which cannot be offered by traditionally administrative and bureaucratic government structures and methods of operating. There is a need for a synergy of the steering capacity of different autonomous but interacting actors. Networks and enhanced self-steering should guarantee this improved governance capacity. As a consequence, this broader concept of governance becomes a necessary framework and condition for public management (Kooiman, 1993) and ultimately should support the legitimacy of government itself.

Drawing on the elements of legitimacy and the questions discussed above, we can distil the main issues in the trend toward performance governance to three key elements:

- a normative position on the size of government in society; this is a function of societal performance requirements (What should government be doing? What are its key tasks?); this has implications for savings and budget size;
- positioning among different actors in society “to get things done” and define relationships, *e.g.* citizens as customers, private actors, public managers; this has implications for well-performing networks, partnerships, and interactions;
- performance management in the public sector itself, which is about well-performing policy management and service delivery;

Performance management in the public sector is thus a key element in a broader performance governance strategy. The application of performance management in OECD countries, and specifically in the 10 countries profiled in the case studies, is the focus of the rest of the report.

## THE MAJOR ELEMENTS OF PERFORMANCE MANAGEMENT

The major elements in performance management are its objectives, approaches, institutional arrangements, and performance information systems. There are different objectives in developing, implementing, pursuing,

and evaluating performance management. Different countries apply different approaches to introduce performance management innovations (top-down versus bottom-up; comprehensive versus incremental; *de facto* versus *de jure*; *ad hoc* versus systematic). They also take different options in setting up institutional frameworks to implement innovations (role of finance and budget departments, of other departments, and of special management bodies) and to guarantee these objectives (market-type mechanisms and/or internal management; degree of consolidation of policy cycles and/or devolved and decentralised autonomous entities). The performance information systems also vary but generally consist of a performance measurement system (*i.e.* on activities, outputs, outcomes, quality), adapted financial management cycles (budgeting, accounting, auditing, reviewing and evaluating), reporting mechanisms and status of performance information (degree of public availability, annual reports, budget reports, corporate plans, performance contracts), mechanisms to use this performance information (performance budgeting and performance-related pay), and results-oriented management support techniques (risk management, benchmarking, and market testing and contestability).

## OBJECTIVES

The three key issues which appear in the modernisation process explain why there are three different, yet related, objectives for the performance management system.

- The desire *for* improvement in internal functioning results in an objective of continuous improvement in performance. Improving operations and service delivery implies a review of structures, functioning and interactions of institutions in a way that allows for ongoing adjustments and improvements. This may require a performance-oriented information system and more flexible management tools and techniques. New divisions of responsibilities will also require more flexible internal mechanisms of accountability and control.
- The new ways of interacting with partners in the societal network results in an objective to improve mechanisms to distribute and clarify responsibilities and control. This objective is heightened where relationships are less hierarchical and involve new actors and, as a consequence, requires new strategies to enhance accountability, particularly external accountability.
- The need for fiscal restraint (*or* reduction) results in an *objective* to realise savings by *shrinking* activities and budgets and *increasing* efficiency gains. For example, the need to reduce the percentage of GDP taken by the public sector is found in most Member countries, as is the requirement to reduce the national budget deficit.

All ten countries involved in this study show each of these objectives in their performance management framework (although with different emphases). Management and internal improvement gets more attention in Australia, Denmark, Finland, the Netherlands, Sweden, and the United States. Accountability and control are emphasized in France, New Zealand, and the United Kingdom, and also in Australia. Savings appear to be a major focus in Canada, but are also important objectives in Finland, New Zealand, the United Kingdom and the United States.

Given these relative priorities, the next important question is how these objectives are implemented (or planned to be implemented) in the different countries. For example, is there a deliberate and pre-designed policy of public sector reform? This would mean that there is a causal link between managerial strategies and answers to performance problems; a timescale with steps and next steps to be taken; a monitor and control system to influence and adjust the modernisation policy; a pre-designed evaluation system with pre-determined criteria to assess the degree of success or failure; and ongoing or *ex post* evaluation. It also implies that there is a consistent and coherent implementation of the modernisation strategy.

Reality is less systematic. New Zealand seems to be the most systematic in this regard. In general, it appears that the more centralised the process of change, the more homogeneous and structured will be the process of modernisation. However, in other countries there is no link, or at maximum a *de facto* convergence of a variety of reform initiatives. For example, the service quality reforms are probably among the least organised. Yet, the *ad hoc* effects are mitigated by the general trend and atmosphere of supporting change. A bottom-up strategy with many degrees of freedom to implement these objectives

is not as weak and divergent as might otherwise be predicted. However, over the long term the **degree of sustainability of change** is probably higher in situations where the approach is top-down and implementation is mandatory.

## INSTITUTIONAL RE-ARRANGEMENTS: FRAMEWORKS FOR PERFORMANCE GOVERNANCE

A concern for better performance, (*i.e.* enhanced economy, efficiency, effectiveness and service quality) results in a search for systemic incentives for improving performance. This means putting internal pressure on managers and external pressure on organisations through market-oriented systems. Creating such an incentive system implies a shift in the performance management framework from administration to management, and from bureaucracies to markets. Key elements of the management and market models are discussed below.

### Making managers manage

The management model is predicated on an internal culture of making managers manage, as opposed to the administrator model which values compliance to pre-set rules and regulations. A shift to the management model is aimed at empowering managers, requiring them to take responsibility, providing them with degrees of operational freedom, and ensuring accountability. To support real cultural change, a range of techniques must be used, including, for example, corporate planning, target-setting, devolved resource management, performance monitoring and reporting, and regular evaluations using benchmarked criteria. In some cases, contracts may be used to turn efficiency gains back to the manager's activity or the larger organisation.

### Letting managers manage

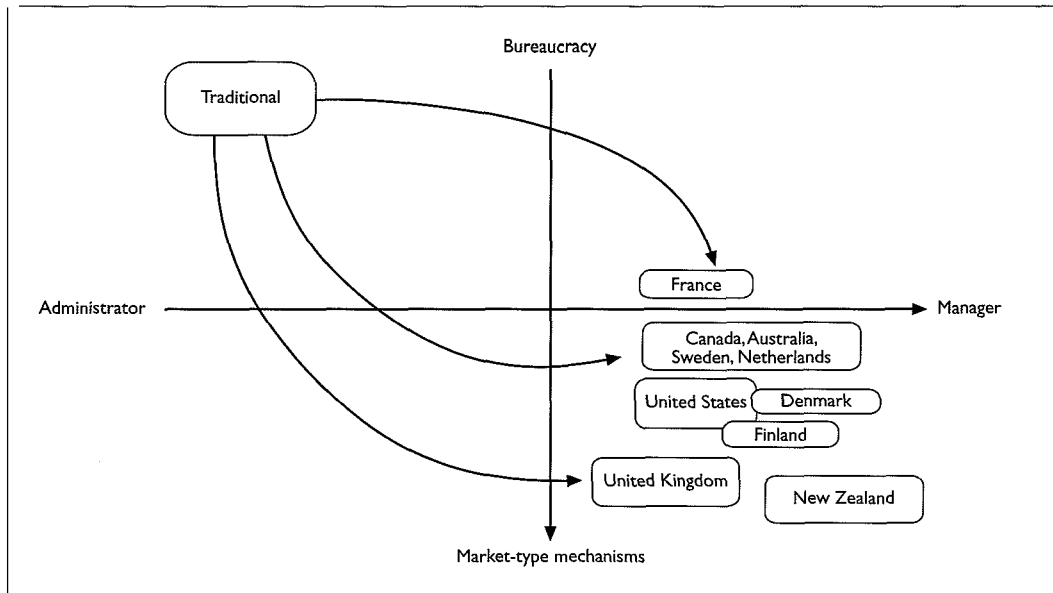
The market model is based on market-type mechanisms, as opposed to the bureaucratic model, which operates the public service on a monopoly-provider basis. The aim is to let managers manage on terms similar to their private sector counterparts. To promote a performance orientation, the system is subject to market disciplines such as competitive tendering and contracting out, cost recovery, and accrual accounting (including capital costs). It may even go so far as to result in total privatisation of the activity. In some cases performance standards are enforced through individual or institutional performance contracts which exchange operational and/or resource flexibility for accountability for pre-set results targets. However, in the public sector, a significant part of any efficiency bonus is generally allocated back to the government rather than to the contracting organisation.

This combined shift means that traditional administrator-dominated bureaucracies are being replaced by manager-dominated and market-oriented organisations. Practices in the United Kingdom highlight that both elements, *i.e.* letting managers manage (increased flexibility) and making the managers manage (accountability by central mechanisms), must be present for a successful incentive system.

A matrix positioning the ten case study countries along two continuums – bureaucracy versus market orientation and administrator versus manager orientation – allows for a measure of relative degree of performance-oriented priorities (see Figure 1). A strong administrator/bureaucracy position would represent a highly traditional public service, while a strong manager/market position would suggest a highly flexible (private sector) operating model. A country's position on this map reflects only the general model it has adopted in terms of choice of direction and does not account for every aspect of its reforms. The positions are relative rather than absolute, and indicative rather than precise.

The United Kingdom (compulsory competitive tendering) and New Zealand (purchase agreements, contestability) reflect the most explicitly the market-oriented approach for entry into the manager/market quadrant. Only after taking a market approach did they incorporate the managerial model into their traditional bureaucracies. France seems to show some hesitation in adopting the market orientation, but has shifted to a managerial approach within the bureaucratic environment (*"centres de responsabilité"*). Australia, Canada, Sweden, the Netherlands, and the United States emphasize managerial approaches and seem to prefer this dimension for entry into the manager/market quadrant, with only

◆ Figure 1. *Bureaucracies and markets, administrators and managers: a mapping of country shifts*



Source: Text.

very limited emphasis on market-type methods. Finland is moving from internal management to a higher focus on market-type mechanisms, partly because of the political and economic environment. Finally, Denmark, seems to be moving from a more market-oriented approach to a greater focus on internal management.

### Disconnecting policies and decentralising organisations

The combination of more market (external) incentives and management (internal) incentives triggers new choices about two important performance governance issues:

- The size and relationship (or hierarchy) of organisations. Within the organisational structure should national government centralise clusters of activities or decentralise and use related mechanisms like devolution and subsidiarity?
- The links between policies and policy components of programmes. In the organisational structure should central government consolidate or decouple clusters of policies and policy components (preparation, decision, implementation, evaluation)? Moreover, to what extent should policy management be co-ordinated to maintain a whole of government view point?

In centralised approaches there is still an organisational hierarchy (functional or line) between the centre and the periphery. At most there is detailed control over resources (finance and personnel) and policy implementation arrangements. At the minimum there is still some control over financial and personnel decisions. On the other hand, decentralisation, devolution or subsidiarity involves considerable autonomy in resources and policy implementation. In the decentralised system there is also a preference for organisations carrying out homogeneous sets of activities and thus preference for smaller organisations.

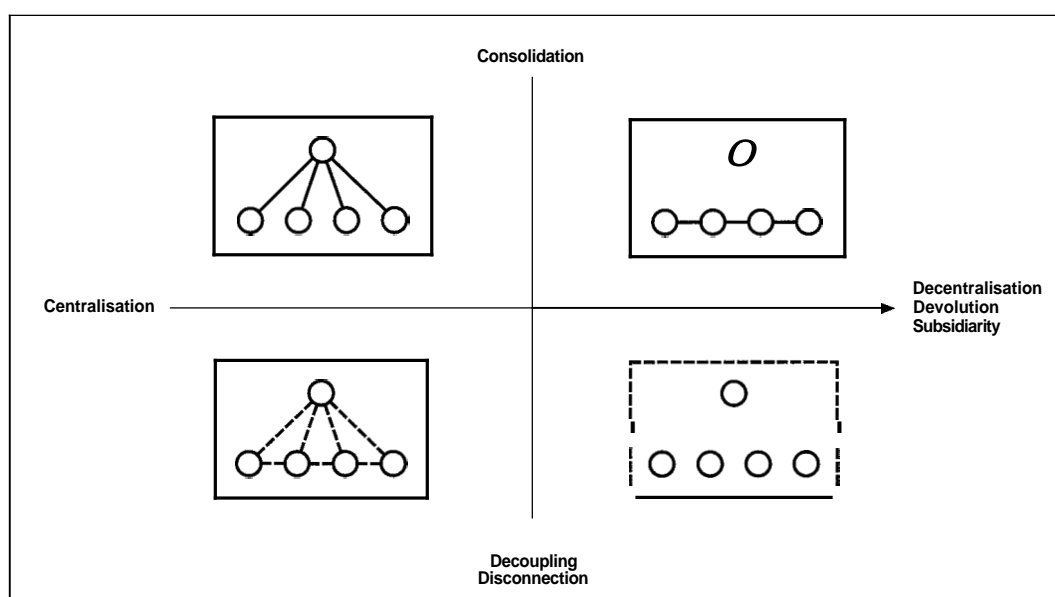
Under a consolidating approach there is an effort to integrate programmes at the level of policy development, implementation, and evaluation. On the other hand, in decoupling and disconnecting

policy activities this desire for integration is almost absent. At most there is an attempt to integrate some of the policy-making and some of the evaluation. But this is more wishful thinking than reality, mostly because power relationships hinder co-operation (*e.g.* as between ministries and agencies).

Establishing a matrix for organisational and policy-making relationships along these two continuums, consolidation versus decoupling and centralisation versus decentralisation, four positions are possible (the four models are presented in Figure 2):

- **centralisation and consolidation:** there is a strict hierarchy of organisational departments with central control over resources and with centralised policy management (as in a large traditional bureaucracy);
- **decentralisation/devolution/subsidiarity and consolidation:** there is organisational autonomy but centralised policy management, including across-the-board programmes, higher-level policy connections and short- and long-term links between higher-level and lower-level objectives;
- **centralisation and decoupling:** resource management (budgetary and personnel) is centralised, but there is autonomy for implementing resource decisions and little policy integration;
- **decentralisation/devolution/subsidiarity and decoupling:** autonomous organisations carry out homogeneous activities (*i.e.* there are no cross-agency programmes), and policy development, implementation and evaluation are not connected in practice.

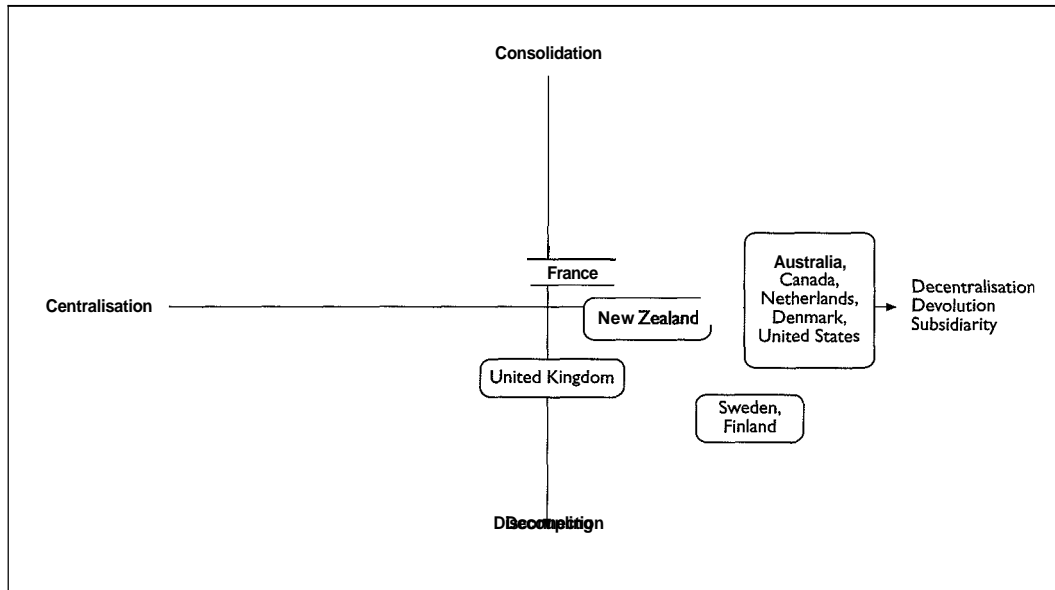
◆ Figure 2. **Consolidation versus decoupling, and centralisation versus decentralisation, devolution, and subsidiarity**



Source: Text

Placing the ten case study countries in this matrix, there appears to be a trend from consolidated to decoupled organisation of policies, and from a centralised approach to decentralisation, devolution or subsidiarity of activities. Observing practices in Member countries, their suggested relative positions in the matrix are presented in Figure 3.

◆ Figure 3. *Consolidation versus decoupling, and centralisation versus decentralisation, devolution and subsidiarity: mapping of some member countries*



Source: Text

In Nordic countries (*e.g.* Sweden and Finland) there is a long tradition of autonomous agencies, with an operational split between ministries and agencies. This agency tradition means that it has not been considered necessary in these countries to change institutional arrangements as part of modernisation reforms. The Swedish experience highlights that autonomy itself does not necessarily lead to performance-based management. Managerial autonomy can co-exist with an input-oriented system and accountability mechanisms focused on compliance with rules. The objective of reforms has been to make existing institutional arrangements more results-oriented.

### Organisations versus programmes linking lower- and higher-level objectives

The shift toward decoupling and decentralisation creates some management problems. The strategy in many countries of establishing single-purpose organisations, market-type mechanisms, decoupling policy and implementation, and devolving and decentralising, changes relationships between organisations and individual programmes. As a result, there are potential dangers such as cutting links between related activities and organisational narrowing through resource and purchase contracts (losing the “big picture”). The more narrow the organisational units, the greater the need for mechanisms which link lower-level performance (implementation) to higher-level performance and objectives. For example, some countries use correcting mechanisms to reduce the potential loss of central information and feedback due to autonomous organisational structures. Correcting mechanisms may include:

- Organisational or budget consolidation: in Australia, management spans programme areas, while budget appropriations are specific to organisations. The potential conflict is mitigated by portfolio budgeting in mega-departments. Another strategy may be through organisational consolidation in traditional bureaucracies, as with “centres de responsabilité” in France.



- Policy area consolidation: in New Zealand, Key Result Areas and Strategic Result Areas specify long and medium-term objectives and attempt to bridge the gap between policy development and implementation.
- Information consolidation: In Sweden and Finland ministries consolidate information and overview agency performance, because financial, personnel, and information autonomy otherwise result in disequilibrium between ministries and agencies.

Interestingly, the United Kingdom does not appear to focus on the need to link higher and lower levels (or perhaps does not perceive this as a problem). Their system relies on top-level output targets for financial performance and service quality to offer sufficient oversight for agency performance. Yet, there have been concerns about maintaining probity in operations: for example, a failure by higher levels of management to intervene soon enough when decentralised management was acting inappropriately. In this regard, the role of United Kingdom's ministries in policy development and their relationship with agencies may need clarification. Recent initiatives aim at addressing this issue.

In conclusion, the general trends from bureaucracy to market, from administrators to managers, from centralisation to decentralisation, devolution and subsidiarity, and from consolidated policies to decoupled policies, combine to result in complex performance and accountability relationships. These changes require a more comprehensive performance management, and probably also a system of performance governance in order to protect the issues of legitimacy raised earlier. Operationally, strengthening performance management means a change to:

- General strategic review, rather than *ex ante* control.
- A centre which devolves operational responsibility and holds those in charge accountable, rather than central organisations which control from the centre (*e.g.* finance, personnel, day-to-day operations).
- An autonomous "periphery" which accepts responsibility and is accountable for its performance, rather than a central organisation whose accountability is confined to ensuring compliance.
- A contract-oriented and results-focused steering of activities, rather than steering focused on inputs and administrative law. Performance-oriented steering techniques may include performance budgeting, accrual accounting, performance evaluation and auditing, performance contracts, benchmarking and other performance monitoring systems.

## APPROACHES TO IMPLEMENT PERFORMANCE MANAGEMENT INNOVATIONS

Approaches to implementing performance management innovations may be top-down or bottom-up, comprehensive or incremental, *de facto* (relying on existing legislation) or *de jure* (involving new legislation). In addition, some countries set up special management improvement bodies to run the reform programme, while others manage reforms within existing organisations.

### Top-down versus bottom-up, comprehensive versus incremental, systematic versus *ad hoc*

The discussion of top-down versus bottom-up implementation may involve a trade-off between legitimacy and effectiveness of performance management. It is easier to use a top-down approach if the goal is to affect large parts of the budget. Top-down experiments allow for an *ad hoc* start which can then be broadened and deepened to cover all organisations; moreover, it is easier to standardize elements of performance management (*e.g.* performance measurement). A central top-down approach also provides a ready mechanism for measures to be enforced. The price for a top-down approach may be in reduced legitimacy of the reforms.

Alternatively, a bottom-up approach requires more effort to co-ordinate and develop some level of commonality of approach and implementation. The advantage may be that the support for reforms may be higher among departments and agencies, which in turn may increase the likelihood of effective implementation.

These observations also apply to reforms within organisations. For example, some countries use consultations with staff and co-determination as an integral part of establishing the legitimacy of a performance measurement system. Those who use a top-down approach are more likely to focus on technical validity, reliability, and homogeneity, and to enforce implementation from above.

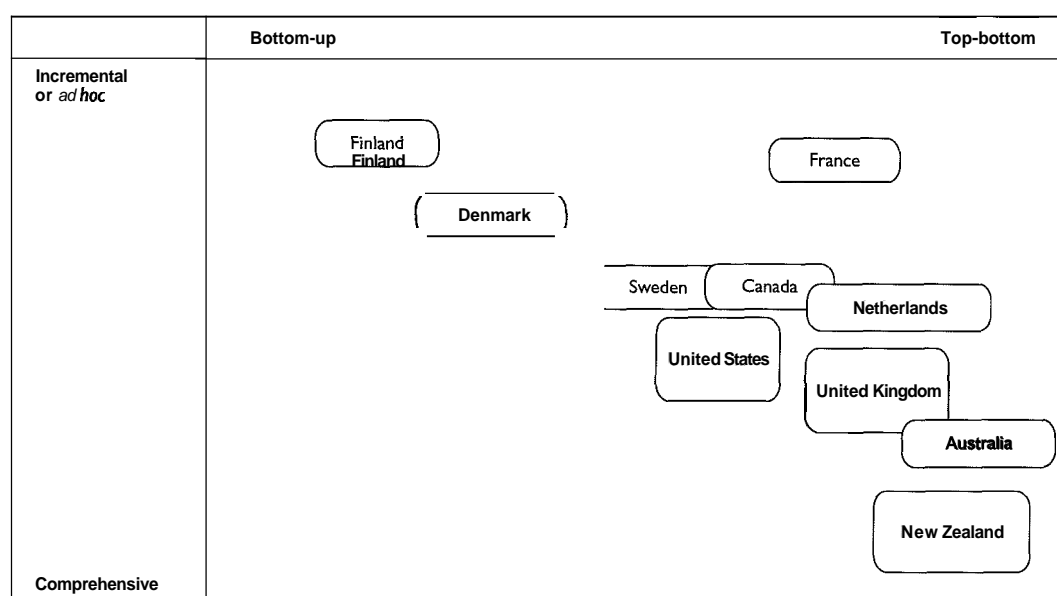
In Finland, for example, performance measurement development is very decentralised, with few or no formal requirements. Each ministry has been required to develop its own productivity and quality programme, but there are no prescriptive requirements. Each agency within a ministry analyses its own objectives, products and services, and selects relevant measures, which then are negotiated and agreed upon with the relevant ministry.

The United Kingdom uses a more combined approach, where the Audit Commission enforces performance measures for local government from above, but the measures are developed in consultation with local authorities. In Sweden, a dialogue between ministers and agency heads influences the use of performance measures, although recent changes make the target-setting more centralised. In Finland and Denmark, there appears to be a “Nordic” approach of agency autonomy combined with incentives from the top. New Zealand is a rare example of a strictly top-down approach to planned and comprehensive change in performance management.

There is also a great degree of variation in systematic versus *ad hoc* approaches to reform. At one extreme New Zealand has the most exhaustive, comprehensive and systematic approach. At the other extreme, Finland and France have taken a very incremental approaches using pilot projects and experimentation.

The range of countries on the double scale of bottom-up versus top-down, and incremental and *ad hoc* versus comprehensive is represented in Figure 4.

◆ Figure 4. *Tactics and strategies of change: top-down versus bottom-up and size of change*



### **De facto versus de jure programmes**

Another variable in implementing reforms is whether they are based on clusters of *de facto* initiatives supported by existing legislation or by sets of new legislation supporting future activities. Clustering converging initiatives under one label (*e.g. le renouveau du secteur public* in France) helps to combine energy and efforts for change with political support and marketing of the changes. This is important because the more ambitious the change and greater the number of departments that are involved, the greater is the need to present this change as an explicit programme to provide momentum, maintain cohesion to core objectives and to minimise opposition (internal or external) to effects on individual programmes or departments.

As with other reform variables, there are a range of country experiences. In the United Kingdom, the reform strategy has followed a clustering model, which maintains cohesion and momentum by linking the reforms and reform goals. For example, the Financial Management Initiative (FMI) of the early 1980s was followed in rapid succession by the Next Steps Programme, the Compulsory Competitive Tendering Programme, Competing for Quality, and the Citizen's Charter. In Denmark reforms have also been *de facto* rather than *de jure*, but have avoided the kind of high-profile centrally initiated programme of change that was used in the United Kingdom. In France, where there is a strong legal tradition making it more likely to rely on *de jure* reform programmes, circulars and laws are key elements in the change process. Yet, charters have also been used and have had a positive influence on the momentum for change (*e.g. Quality Charter, Deconcentration Charter*).

There are also different approaches in the use of legislation to support reform, from broad legislation to more detailed and distinct pieces of legislation covering specific topics such as finance or personnel legislation. In New Zealand, reform began with the 1988 State Sector Act, a comprehensive legally-based strategy which changed the operating and performance management structure of the public service through annual performance agreements. The reform agenda was then further developed with the 1989 Public Finance Act, which removed input controls and further developed of the concept of performance. Legislation may be used to create a framework for initiatives (*e.g. in Denmark*), or require initiatives to be taken (*e.g. requiring performance information as in the Netherlands Government Accounts Act*).

### **Institutional arrangements for implementing innovations and establishing routines**

In implementing performance management reforms there is a whole range of new tasks for existing departments. In some countries, new units, departments or institutions have been created to carry out these tasks. Again, experiences with determining the institutional arrangements to support reform vary by country, but there are some commonalities in approaches. These arrangements are depicted in Table 1.

In general, finance and budget departments are the key institutions used to guide changes in performance management. For example, in Australia the Ministry of Finance is responsible for the Financial Management Improvement Programme (FMIP) and Programme Management and Budgeting (PMB). Inside the finance department there may be management reform units and budget units. It is not surprising to find that several countries have created new units within the budget or finance department to support performance management reforms. Some countries merge the budget and management units (*e.g. United States and Australia*) to bring a focus on performance through budget staff, although there is sometimes an impression that budget staff do not accept (or give priority to) performance management concepts. Even where ministries of finance are involved in performance management, the degree of involvement varies among countries. Other countries, such as Finland, keep the budget and management responsibilities separate so that the Ministry of Finance is not directly involved in result agreements between the parent ministry and its agencies.

Some countries also give line or central departments responsibility for some performance-related or other complementary matters. For example, in Finland and the Netherlands, the Ministry of the Interior guides the reforms in the local and regional government sector. The French Ministry for the

Table 1. Institutional responsibilities for reform

Type of organisation	Organisation/Country
Existing personnel departments	<ul style="list-style-type: none"> <li>• Ministry for the Public Service and State Reform (France)</li> <li>• State Services Commission (New Zealand)</li> </ul>
Existing <i>finance/budget</i> departments	<ul style="list-style-type: none"> <li>• Ministry of Finance/Treasury Department (all countries)</li> </ul>
New units with existing personnel departments	
New units within <i>finance/budget</i> departments	<ul style="list-style-type: none"> <li>• Directorate for Administrative Development (Norway)</li> <li>• Agency for Administrative Development (Sweden)</li> <li>• Policy Evaluation Department (Netherlands)</li> <li>• Public Management Institute (Finland)</li> </ul>
New units within the Cabinet Offices	<ul style="list-style-type: none"> <li>• Commission for State Reform (France)</li> <li>• Efficiency Unit/Next Steps Team/Citizen's Charter Unit (United Kingdom)</li> <li>• Ministerial Committee for Public Management (Finland)</li> </ul>
New institutions	<ul style="list-style-type: none"> <li>• Scientific Council of Evaluation (France)</li> <li>• Audit Commission (United Kingdom)</li> <li>• Management Advisory Board (Australia)</li> <li>• Management Improvement Advisory Committee (Australia)</li> </ul>

Public Service, the New Zealand State Service Commission and the United Kingdom Office of Public Service are involved in promoting and implementing performance management reforms.

There is concern, however, that traditional government departments may not always support a performance-oriented culture. Where this is the case, it is necessary to establish new expert management bodies as a complement to traditional tasks within existing departments. In countries which use this arrangement, new institutions function as “think tanks” on procedures and systems for reform (innovation, support of implementation, evaluation) rather than on substance, which remains the competence of line and central departments. This division of responsibilities is important for the legitimacy, enforceability and sustainability of change.

Country experiences with implementing reform also highlight that training and supporting workers in the process of reform are important features in implementing changes and creating cultural change needed to make reforms part of the routine work environment. Many countries have developed training-related activities to assist organisations in transferring (or building) know-how and skills, transforming culture and changing attitudes.

In conclusion, there are several variables countries must choose from in designing an approach to implementing performance management reforms. While the choices may be strongly linked to cultural or institutional factors, they are choices nonetheless, each with its own implications for the strategies needed to build momentum and support to successfully initiate reforms and sustain them over time. Examples provided by the ten case study countries show that:

- The range of implementation approaches covered the continuum, from top-down, to structured bottom-up with some guidance from the top, to almost pure bottom-up. The direction of the reforms is combined with the amount of flexibility for implementation. The more top-down and mandatory, the more comprehensive the change is likely to be, even where preceded by pilot projects; the more bottom-up and discretionary, the more ad hoc the changes and the less cohesive the reform programme.
- Central finance or budget departments take the lead in most of the case study countries.

- There are often complementary functions, or even competition, between central finance or budget and central personnel organisations for reform-related activities.
- The role of new specialist management bodies is indispensable to the extent that the new tasks are not taken on by traditional departments
- Sustainable change appears to require a balanced development of major initiatives, supported by legal frameworks, and with existing institutions backed up by new institutions for particular tasks such as innovation, training, feedback, and evaluation.

## PERFORMANCE INFORMATION SYSTEMS

The backbone of performance management is a performance information system. A performance information system contains data and information which is audited and which is related to financial management and policy cycles.

### Content of performance measurement systems

The content of performance measurement systems depends on the philosophy of change. There may be more emphasis on outputs (New Zealand) or outcomes (Australia and the United States), on financial results, on producer-determined measures or service quality or on client surveys for customer satisfaction (Denmark). Each frame of emphasis has its pros and cons. For example, some observers of the New Zealand situation have suggested potential dangers in focusing on outputs rather than on outcomes. An output focus may lead to efficient production of the wrong products and services. However, in New Zealand it is considered too difficult to hold managers accountable for outcomes because the cause-effect relationship between executive or departmental activities and outcomes is often difficult (if not impossible) to determine. It is easier to measure outputs, to trace their causality and therefore to hold executives and departments accountable. However, outcomes are considered to inform policy analysis and policy choices. Other countries are also aware of the possible dysfunctional effects of certain indicators. The more limited the set of indicators, the higher the chance of having a dysfunctional effect.

In Finland, client or user surveys are used to measure performance. Initially, surveys were conducted on an *ad hoc* basis. More recently, in some ministries more systematic customer feedback systems including annual questionnaires have been established. Again, however, efficiency (output) measures are emphasized more than effectiveness (outcome) measures. In Denmark, surveys of both users and non-users of services have played an important role in monitoring and measuring service quality. The Danish system includes both surveys carried out at an agency or programme level and general comparative surveys covering a number of agencies and sectors.

Performance measurement systems are constantly evolving. In some countries emphasis on continuous improvement is part of a national service quality strategy (The Citizen's Charter movement in the UK; the Service Standards Initiative and the Quality Services Initiative in Canada). In other countries, service quality is only one piece of a broader management improvement strategy that is centrally directed or only implicitly present at the agency level (general guidance from the department of Finance in Australia; a citizen's handbook, a Quality Award, one-stop shops, and city ISO-9000 system in Finland; purchase agreements in New Zealand).

The elements of a performance measurement system are determined by the type of service to be measured. First, tangible services are measured, followed by person-related services, and finally the least tangible services (*e.g.* provision of policy advice). Countries with a tradition of measuring performance are gaining experience in measuring these less tangible fields of activity. For example, the Finnish experience suggests that measuring performance of research institutions and administrative agencies is problematic because of the complexity and long horizons for the work. On the other hand, New Zealand and the United Kingdom have started initiatives to measure service areas such as policy advice. In New Zealand, they are also developing measurement systems for research and regulatory functions. To make

such activities more tangible, quality of policy advice is operationalised through proxies such as quantity (completion), coverage, timeliness, cost and a checklist of quality characteristics.

An important variable in designing a measurement system is the extent to which performance indicators cover an organisation's total span of activities or expenditure. However, this important quantitative measure says nothing about the quality of the indicators. In general, country experiences show that there are more activity-related measures than output measures, and more output measures than outcome measures. A study of the budget in the Netherlands showed that in the aggregate the use of performance measures had increased from explaining 43 per cent of the budget in 1991 to 66 per cent in 1993. However, when broken down at the agency level, the differences were dramatic. For example, performance measures explained a mere 4 per cent of budget for the Ministry of Foreign Affairs and the Ministry of Home Affairs, up to nearly 80 per cent for the Ministry of Justice and the Ministry of Education and Science. This uneven application across the public service can be found in many countries that have allowed discretion over the development and use of performance measures (*e.g.* Canada). More extensive information on the content, development, conditions, and evolution of performance measurement systems can be found in other OECD publications (*e.g.* OECD, 1994, Part One).

For all the above reasons it is difficult to compare the relative importance of performance measures in the performance management frameworks in Member countries, let alone to generalise about stages of development and integration. Yet, there are some major common trends which can be found in the implementation of performance measurement. Measurement is becoming more extensive in Member countries, including more levels (*i.e.* local to central/federal) and more fields of coverage (*e.g.* tangible activities such as garbage collection, to intangibles such as foreign affairs). Performance measurement is also becoming more intensive because more management functions are being included. These management functions go beyond simple monitoring to include decision making, controlling, and even providing accountability. Moreover, such measures are not reserved for higher management, but are applied also at the programme or service-delivery level, making middle management pivotal in their development and use. Performance measurement is also being used as a tool for external accountability to members of legislative bodies, and even to the public.

### Audit of data and information

It takes time to develop a performance measurement system and to integrate it into a management system. No OECD Member country considers developing a performance measurement system as easy. On the contrary, it is perceived as an exhausting exercise which needs constant monitoring and controlling. The difficulty of the process reinforces the need for a permanent audit, review or evaluation of these systems by executive as well as legislative bodies. Indeed, review, evaluation and audit of performance measurement systems normally improve their functioning.

Audit of performance-related data and information is an essential step in the production of useful performance information. These audits are also an integral part of substantive performance audits, reviews, and evaluations. Moreover, auditing can be applied to various stages of performance measurement. There may be a focus on performance information such as the choice of measures (appropriateness and validity), the collection and the processing of data (reliability), the quality of information (accuracy and completeness), the standards and criteria for judgement, the interpretation and explanation of results, the relevance and adequacy for decision-making. Examples from countries highlight the variety of approaches and responsible authorities.

In New Zealand, performance information is subject to audit. The 1989 Public Finance Act requires an audited report which includes a statement of service performance. The Audit Office uses a short-form audit report on whether the information "presents fairly". This audit opinion covers accuracy and completeness but not formally appropriateness or validity of measures.

In the United Kingdom, financial statements are audited by the National Audit Office, but agency performance information is not audited. The overall results of agency performance information are surveyed each year in the Next Steps Review published by government. In the local government sector the Audit Commission reviews the performance information systems and the interpretation of indicators

adopted by authorities, but does not formally express an audit opinion on performance results. However, it does draw attention to authorities whose performance information is considered inaccurate or unreliable.

In Australia, a review of the Senate Standing Committee on Finance and Public Administration was critical of the quality of performance information. The committee suggested that a more prescriptive approach by the Department of Finance and stronger mechanisms for audit and evaluation would result in a more systematic and consistent review of reported performance. The Australian National Audit Office may also review the adequacy of information available for decision-making as part of its performance auditing role. In Canada, the Auditor-General reviews the adequacy of a department's procedures for monitoring and achieving economy and efficiency, as well as their procedures for measuring and reporting the effectiveness of programmes.

While the processes may vary, the results of these audits and reviews are quite similar across countries. In many Member countries it has been suggested that:

- targets tend to be set around measurable rather than important fields of activity;
- measurement development may be too rushed;
- financial targets may be given higher priority than, for example, service quality;
- trade-offs between quality and efficiency may be unclear;
- general targets may not always have clear indicators;
- there may be an overemphasis on achieving targets, with possible goals displacement effects;
- time series are absent; and
- links between inputs-activities-outputs-outcomes-targets are not systematic.

### **Internal and external performance audits**

Issues of accountability and control may have an impact on the use and content of performance audits. For example, the use of market-type mechanisms (*e.g.* market testing, privatisation, contracting out, vouchers) may influence accountability mechanisms such as audits. Because the market paradigm assumes a "natural" performance, some observers argue that government should not require performance audits in market environments. They argue that inspections and contract regulations are all that is needed to ensure the focus on clients. Any government requirements outside the marketplace would be dealt with by directives set out in performance agreements or results targets. They argue further that non-market-based budget allocations such as intra-governmental contracts (individual and institutional), decentralisation, devolution, or subsidiarity require performance audits because they lack the "natural" mechanism to focus on performance and guide managers. These issues can also be applied to a wider policy debate concerning political accountability.

In many countries the nature of audit is changing due to public management modernisation. For example, the combination of internal and external contracts, performance measurement and risk management results in a need to increase the level of performance auditing. The internal audit (Canada), self evaluation (Australia), or self review (Denmark, New Zealand), within the executive part of government, is present in many countries. This necessitates a balance and complementary between internal and external reviews for sustainable performance management. In Sweden, auditing of annual reports is meant to improve quality of performance information and make it more useful in central management processes.

External audits are natural complements of internal audits and, indeed, most countries have some kind of procedural or substantive external performance audit or review. In countries having a well-developed internal and external performance review (*e.g.* United States, New Zealand, Sweden, United Kingdom and Finland), a crucial problem is whether the direction of the performance focus of the two audits is converging or diverging. Both external and internal reviews are important in performance management, and external audits require well-developed internal audits or self reviews. Yet, if they develop in different directions, or if one is too large and the other is too small, difficulties will arise. A

key element for sustainability of reforms is coherence in internal and external performance management initiatives, including performance auditing.

Whether there is a converging or a diverging trend in auditing will be determined by whether changes are supply- or demand-driven, or both. A potential mismatch between different positions is often a result of competing philosophies and interests of parties involved. For example, a department, a ministry of finance and an audit office may have different interests. In many countries operational departments and ministries of finance are involved in both supply and demand for performance information, while audit offices often are outside this field of interest. However, where audit offices are involved, it does make a significant and positive difference in ensuring a convergence of interests.

In New Zealand complementary internal and external performance review (self-review and audit office reviews) is supporting the sustainability of the reforms. The Australian National Audit Office reflects the emphasis on self-evaluation (internal) as part of its review (external) of evaluations and the evaluation capacity of departments and agencies. In Canada, departments will become more involved in self-assessment by evaluating their own programmes, but within a strong budget-cutting environment (external review). The Canadian public service also promotes internal audits as a catalyst for sharing good management practices and as a training opportunity for potential leaders. The Canadian Office of the Auditor-General also has a role in reviewing performance through evaluating the mechanisms for monitoring effectiveness (rather than actual effectiveness).

Depending on the number of different actors involved in aspects of performance auditing, initiatives from a variety of institutions may be converging (as in Canada), diverging, or not linked at all. However, in creating linkages, it also is important to beware of creating new performance management bureaucracies. For example, cost awareness, which is part of performance management, also applies to the development of a performance measurement system. In New Zealand, the Treasury and State Service Commission concern over increased red tape has resulted in steps to reduce burdensome reporting requirements. In Australia, there is a concern that a combination of performance-oriented initiatives, including corporate planning, programme management, and performance measures, have result in numerous and complex reporting systems.

In conclusion:

- it is difficult to simultaneously reduce compliance and expand performance audits, and therefore to avoid (performance) audit deficits and (financial and compliance) audit surpluses; and
- it is important to develop arrangements to guarantee converging mechanisms for *performance* auditing, being aware, however, of the risks of creating over-bureaucratic or duplicative reporting requirements.

## Policy and budget cycles

One of the main linkages between policy and budget cycles is performance goals. A traditional policy cycle is made up of preparation, resource allocation, implementation, evaluation and decisions arising from the evaluation. A traditional budget cycle (broadly defined) consists of the budget proposals and decisions, the financial reports (implementation), and the audit (evaluation and review).

In general one could argue that under performance management, input-oriented budgets are turned into performance budgets, cash-based accounting systems are changed into accrual based cost accounting systems (with a balance sheet and operating statement) or performance reporting systems, and compliance and financial audits are complemented by performance audits and evaluations. When this happens, budgeting becomes a management tool, rather than simply a spending tool. As such, it is also interacting with internal management systems, such as implementation and evaluation. For this reason, budgeting is expanding to become a key element of either a broader managerial system or a financial management cycle of budgeting, accounting, and auditing (Rubin, 1988; Rabin, 1992).

Many countries have experimented with performance budgets. In Finland, results-budgeting is in use for the whole state administration, and since 1995 the running costs of all agencies have been allocated according to the results-budgeting system. In Sweden, the new performance budget process has resulted in improved annual reports that show more clearly what was achieved and where perform-



ance can be improved. This system of performance reporting was originally linked to a three-year budget cycle with in-depth budget requests to be submitted every third year (recently the triennial cycle was made more flexible).

Some countries are going beyond results-based budgeting to develop accrual-based budgets. Accurate information on costs of outputs is essential to performance measurement and central to using output measures in the budget process. A required step in developing accrual-based budget is to develop the accounting system that focuses on costs rather than expenditures. For example, in New Zealand, accrual accounting showing the full cost of programmes and activities, including capital costs, is used in resource management and financial reports, as well as in budgeting. In Finland, accrual accounting is seen as an important part of results-oriented reforms. The current accounting reforms aim at extending accrual accounting across the State administration by 1998. Swedish agencies use accrual accounting to measure and report costs. Other related reforms include the use of interest accounts to make agencies more responsible for cash management and a loan model for investments in fixed assets. In addition, France, despite its tradition of RCB (*rationalisation des choix budgétaires*), acknowledges the need to improve cost information in order to make performance information more comparable.

Among OECD Member countries, there seem to be the following strategies in developing financial management instruments to support performance management:

- Budgeting, accounting and auditing are developed separately or are not explicitly linked; which depends on where the initiative is taken (*i.e.* inside or outside the executive power), and how closely different processes are related. For example, the Dutch Ministry of Finance is developing performance related budgets, while the Court of Auditors is evaluating performance.
- The accounting system is used as a pivot point for the budget and audit system. Sweden focused first on performance budgeting. Now, the performance accounting system is planned to become a pivot point which will determine the budget and audit approach.
- Simultaneous development of budgeting, accounting and auditing. In New Zealand budgeting and accounting developments and audit have been an integrated part of performance management. Australia has also made a serious effort to develop these tools simultaneously.

The choice of these strategies is probably determined by external variables, rather than by intention. Therefore, it may be questionable to describe them as strategies; in fact, they may be more accurately thought of as patterns of development.

Auditing is also a key stage in performance management encompassing all changes in budgeting and accounting. Many countries develop programme evaluation and review exercises which can be linked to the policy and budget cycles, in addition to organisational auditing practices.

In conclusion, experiences with linking performance management to the policy and budget cycles show that:

- All case study countries have some amount of performance information in the budget cycle; the depth differs from country to country depending on the strategies and stages of development of performance budgeting, performance accounting and performance auditing, and on the different managerial links between budgets, accounts and audits.
- The guiding and steering capacity of performance audits is believed to be stronger than that of compliance audits.

### **The use of performance information**

Comparing performance and assessing results is a crucial step in performance management and making performance count. Approaches differ among Member countries. However, there are some commonalities:

- performance measures are only relevant if there are consequences for over- or under-performance against targets;

- in most countries performance information does not directly affect the budget; however:
  - performance information may affect elements of budget implementation such as individual or group pay level;
  - at the organisational level, performance information may influence flexibility in finance and personnel matters.

## Performance budgeting

Decisions and budget allocations are a crucial stage in the budget cycle. There are two possible advantages for an organisation of taking a performance orientation in the budget process:

- the size of the budget may be related to past performance; and
- making targets explicit and providing performance information may provide budgetary stability and result in longer-term budgetary commitments.

That said, in most cases the shift from an input-focused budget to a performance-oriented focus does not result in a mechanistic, cause-effect relationship between budget allocation and performance. Rather the link is indirect, although country experiences vary in the degree of the relationship.

New Zealand has the closest link between allocation of resources and performance, although this focus is in terms of outputs and not outcomes. The content of the purchase agreements for outputs between ministers and departments is reflected in the budget appropriation. Budgets are prepared on an accrual basis (including capital costs). Information about expected performance (outputs) and financial performance of each department is published in separate departmental reports tabled along with the budget request. In the United Kingdom the link is looser. Here agency performance targets are intended to be objectively measurable, and policy and operational decisions, including budget allocations, may be made partly on the basis of agency performance against the targets. At the other end of the continuum, the relation between performance management and budgetary issues in Denmark has not been clear and even co-ordination has been limited.

In Australia past results feed into decision-making processes such as priority-setting, although allocations are not directly based on results. A review of the use of programme evaluation (1994-95) found that evaluation results supported 77 per cent of new policy proposals and 65 per cent of savings options. Also, 68 per cent of Cabinet deliberations were influenced by evaluation results. However, at the departmental level there seems to be no real link between resource agreements and agency self-evaluation. A linkage would result in comprehensive resource agreements related broadly to agency funding and performance rather than only to operational aspects. As at present, there is an effort to tighten the links between performance agreements, work plans, corporate plans, programme performance statements and annual reports. This should guarantee a more logical accountability flow.

Finland has been developing results-budgeting and related management systems that have been spread to the whole state administration. Since 1995 agency running costs are budgeted according to a results-budgeting system. As part of the budget process, departments and agencies have been required to prepare annual reports with performance information on results agreements among agencies and their ministries. However, the Ministry of Finance identifies prioritising between objectives as a difficulty. In its assessment of the 1990-93 performance-based budgets it found links between performance targets and costs to be inadequate, as well as some other difficulties with performance measures.

The use of annual reports is gaining popularity as a vehicle for linking budget and performance information. In Australia, Sweden, Finland, and Canada there is a shift from performance (oriented) budgeting toward a stronger focus on annual reports. One reason for the shift is that the focus on budgetary constraints forces decision-makers to focus more on line item reductions, than on performance-related allocations.

Some countries have also tried multi-year budgets as a means of focusing on providing the financial stability needed to take a longer perspective on performance objectives (*e.g.*, Denmark, Canada, Sweden). However, this goal appears to be difficult in times of budgetary squeeze where

financial uncertainty makes it difficult to commit resources over time. In Denmark, financial stability is provided on a more limited basis to selected agencies in exchange for targets for specific improvements and increased performance. However, this attempt at financial stability also caused problems, both because its content was not clearly defined, and by tying up resources, the agreements reduced the flexibility for new initiatives and for cuts in public expenditure. In Sweden, the economic recession undermined the ability to make three-year budget commitments to agencies.

In conclusion:

- inputs are still important as a budgetary guideline;
- the link between performance and the budget is indirect and often influential rather than direct and automatic; and
- budgetary pressure moves the use of performance information more to the *ex post* evaluation.

### **Performance-related pay**

One common incentive for improving performance is to provide financial rewards or job stability to those that achieve individual or organisational performance targets. However, in some countries performance-related pay is under pressure due to financial constraints (*e.g.* Canada). In New Zealand, sanctions in chief executive performance agreements relate mainly to tenure and performance pay related to the executive's employment contract with the State Services Commissioner. In Denmark, employees share productivity surpluses and there is a special evaluation scheme for managers. In the United Kingdom, tenure and performance pay for agency chief executives is linked to the Annual Performance Agreement. Performance pay will be established as a key aspect of performance management at all levels of staff. In Australia, several actions were recommended to improve individual incentives for programme performance, varying from simple recognition of a job well done, to performance appraisal and performance pay, to workplace bargained performance-related staff awards. In Finland, the Ministry of Finance has developed a group-based productivity bonus system which is closely linked to performance. In some agencies the approach has resulted in improved management with greater involvement of all agency personnel.

### **Financial and administrative flexibility**

In general, performance contracts and changes in rules and regulations try to make performance count. As an incentive to manage better in order to perform better, agencies and managers have increased flexibility in allocating personnel and financial resources and in rewarding personnel. At the activity level there is flexibility in organising tasks and functions, as in Sweden, Denmark, Canada, and Australia.

In Australia, organisational incentives promote the effective use of resources. Departments may carry forward into future budget years unspent running costs, and overspending is deducted from the next year's appropriation. There are also incentives for departments to generate revenue and realise surplus assets through negotiating resource agreements with the Department of Finance to retain a percentage of such revenues. In Denmark, some agencies are given a block appropriation covering both salaries and running costs. This gives the agencies substantial flexibility to allocate resources. Agencies are free to use minor additional revenues, and some have net appropriations giving them flexibility to generate revenues through new initiatives. Agencies may carry up to 10 per cent into the next budget year.

The development of performance-related incentive systems appears to be much more *ad hoc* than other initiatives to develop performance, such as performance measurement or auditing systems. The pressure to improve performance while limiting resources means that the public service needs to find ways for managers and workers to make more efficient use of resources. Indeed, the larger the reduction in resources, the greater the need for flexibility in allocating and managing those resources. In this regard, resource, administrative and personnel flexibilities and global budgets are an important aspect of a performance management strategy. However, it may be that the division of roles and activities

A range of results-oriented management techniques have been developed or expanded in order to create leverage for more effective performance management. Some of these techniques are performance contracts, risk management, benchmarking, and market testing and contestability.

In the UK, a framework document specifies each agency's general mission and the responsibilities of the minister and chief executive. A complementary annual performance agreement between the minister and chief executive sets out performance targets for the agency. Setting targets is the responsibility of the minister. Agencies are held accountable through quarterly reports to the minister and annual reports to Parliament.

In Australia, resource agreements relate to particular aspects of running costs rather than to programme performance. For example, there might be an agreed reduction in running costs (staff) as a result of funding a new computer system. Corporate planning, programme management and budgeting, and associated performance measures are intended to reduce the risk of inadequate accountability due to poor goal-setting.

In Canada, departmental business plans are a key document in defining responsibilities and determining accountability. The business plans are to include: challenges, directions and objectives for the estimates year plus two years; strategies, actions and costs; goals, targets and performance measures to assess programme results; and performance information focused on significant services or products.

In Denmark, the contract management approach is seen as a major contribution to performance management. Four-year contracts incorporating agreed performance targets are negotiated between specified agencies and parent ministries and are monitored annually by the Ministry of Finance and the parent ministry. On the other hand, in Sweden, the relations between ministries and agencies are not based on formal performance contracts, but rather on regular dialogues between ministers and heads of agencies concerning goals and results.

Benchmarking is a specific tool which some countries (*e.g.* Australia but also Denmark and Finland) are using to compare their performance to a reference organisation. In Australia, benchmarking for best practices is expected to be an integral part of the management plans of all major service delivery agencies. Many departments and agencies have benchmarked various operational processes and results against other agencies and relevant private sector organisations. In Denmark and Sweden, national statistics on productivity and output levels are published, comparing individual local authorities across a range of measures. These serve as a benchmark and a starting point for local decisions, rather than to judge relative levels of performance. As in Australia, benchmarking may even be based on international comparisons.

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countries (Puoskari, 1996; Naschold, 1995; Ministry of Finance, 1993). In addition, international comparisons provide insight into what countries are considered to be reference countries (Trosa, 1995).

## **TYPES OF PERFORMANCE MANAGEMENT**

Assuming that the three major objectives of performance management (i.e. management and improvement, accountability and control, and budgetary savings) determine significant aspects of the modernisation process and influence the choices for implementation of the performance management policy, these three objectives may create different typologies of performance management.

All Member country cases have all three objectives, but in different degrees of intensity. Moreover, the relative intensity will change over time according to political priorities or external influences such as an economic crisis or serious budget deficit. Performance management based on these objectives assumes a logical implementation, which means that the method of implementation (performance information system, financial management techniques, and result-oriented support techniques) will tend more toward one objective than to the others.

### **Performance management emphasizing the management and improvement objective**

To the extent that an explicit strategy of improvement determines the choice of methods, techniques and approaches will tend to be based on the following elements:

- The pressure for competition will make more use of market testing, contestability, and benchmarking.
- Information systems will need to be complex to fit the different internal needs, down to a very detailed level. The focus will be on corporate plans and strategic planning. To the extent that there are strategic elements at stake, or there is a competitive environment, much of the performance information may remain confidential, with only certain summaries made available for external purposes.
- Performance budgeting will focus on outputs and/or outcomes to stimulate result-orientation.
- Performance accounting will focus on increasing the awareness of costs.
- Performance audits will first be organised as self-evaluations within a strategy of self-improvement.
- The incentive system should be constructed to stimulate and motivate improvement, including allowing a percentage of gains (of economy, efficiency, or effectiveness) to be retained, performance pay, and flexibility (allocation of resources, procedures, structural arrangements).
- A bottom-up approach, based on volunteering, will be used and may be complemented by some top-down guidance. Many initiatives will be *ad hoc*.

### **Performance management emphasizing the accountability and control objective**

Here the central perspective is different. The emphasis will be on a different range of key methods and techniques.

- There will be a need to make, monitor, control, and evaluate performance agreements. Therefore contracts will be a tool to organise mechanisms of accountability and control.
- Simple and transparent performance information systems will feed information into contracts and their accountability and control functions.
- Performance indicators will be publicly available and become part of a general dialogue.
- There is a focus on audit, with a special attention on the audit of data and performance information. Internal and external audits, and their relationship, are important for the upgrading of accountability and control procedures.

- Only when accountability and control mechanisms are determined is there a possibility to consider incentives such as sharing in budgetary gains, performance pay and increased flexibility.
- A top-bottom approach will be advisable since it is important that basic mechanisms are covered by general arrangements. A legal framework allows mandatory and comprehensive approach.

### Performance management emphasizing the savings objective

Again the central precepts are different, requiring a different set of strategic elements.

- The major difference is the focus on the input side of operations.
- Performance information will be an annex more than a key element in the budget process.
- Information systems will focus on the expense and cost elements.
- Market testing will be used to look for the cheapest, but not necessarily the best, solutions.
- Only a small percentage of the gain will be returned to those who realised the savings.
- The approach should be top down, mandatory and systematic, because savings are not spontaneously proposed by those concerned.

Are these three types of performance management compatible? Since the objectives are complementary and mutually reinforcing, the methods, techniques, and approaches should be complementary and mutually reinforcing as well. Yet, the savings type probably will not be taken up voluntarily. Therefore, a bottom-up approach will not be of much use in that case. This argument is reinforced by the Swedish experience, where a bottom-up approach to performance management has been perceived as not fully effective in achieving significant budget reductions.

The management and improvement type requires vast amounts of data and information that must then be distributed internally to managers. Here the performance information system is complex and demanding, and remains mostly confidential when there is a strategic or competitive element involved. On the other hand, the accountability and control type needs only a simple and transparent information system which can also be publicly available. Although the one does not exclude the other, and the simple could be derived from the more complex, there is a potential conflict.

There may also be a circular reasoning in using motivating mechanisms to support two objectives. Flexibility and autonomy, budgetary rewards, and performance pay are introduced to enhance performance. Improved performance is rewarded by giving more flexibility and autonomy, budgetary rewards and performance pay. According to one type of performance management, flexibility and autonomy is a pre-condition, while according to the other it is a possible consequence. In other words, management and improvement (objective one) and accountability and control (objective two) may mutually reinforce each other in some respects, while also weaken one another in other respects. These contradictions, or trade-offs, should not be exaggerated. Experience shows mixed types of performance management are often used simply because there is a mix of objectives and a variety of implementation strategies which must be taken into account. In practice, combined models should have the potential to mutually strengthen performance management.

### ELEMENTS OF EVALUATION AND LESSONS FOR THE FUTURE

Is it possible for other countries to draw lessons from the experiences from the ten Member countries discussed in this report?

Several elements inhibit a generalisation from the ten case study countries. First, the ten were not chosen randomly, but selectively **because** they focus on performance management. It is likely that there are systematic features which make these countries different from those that are not included in the study. This makes the issues, problems and solutions with respect to performance management different in the non-case study countries. Second, the limited time dimension since implementation of reforms in the case study countries makes it difficult to assess the long-term effects of performance

management. Third, few countries have themselves evaluated their performance management, which makes it difficult to validate this research.

Cultural, political, and administrative differences also make generalisation difficult. Different administrative and political cultures focus on different elements and have different institutional and procedural arrangements. There is an Anglo-American tradition which is different from the Nordic, the continental, and the Latin approaches. The practical and theoretical influence of the Anglo-American paradigm is significant and very much oriented toward performance management. The Nordic model is different from the Anglo-American model, but the history of welfare and subsidiarity also create a focus on performance. These two models also seem to contrast with continental (state of law) and Latin traditions, which appear to operate under more legal-governed and rule-adhering public service cultures.

As a hypothesis, Table 2 depicts different clusters of countries according to their cultural and administrative features and their management approach.

Table 2. Clustering OECD Member countries according to their management focus

	Anglo-american	Scandinavian	Continental (State of Law)	Latin
<b>Performance Management</b>	<i>New Zealand, Australia, UK, Canada, USA, Ireland</i>	<i>Sweden, Finland, Denmark</i>	<i>The Netherlands</i>	
<b>Mixed Management</b>		Norway	Austria, Germany, Switzerland	Belgium, France
<b>Rule and Norm Management</b>				Portugal, Spain, Greece, Italy

Although there are some significant differences, there are some general conclusions for other countries from the case studies.

The choice of a performance management strategy is generally considered to be a positive element in a modernisation process. In countries that have implicitly or explicitly evaluated the performance management reforms, efficiency, cost awareness and effectiveness are said to have improved. Enhanced clarity about responsibilities of the political, the ministerial and agency levels, and the related transparency about accountability are also considered to be an advantage.

Despite the many benefits, there remain problems of setting priorities and devising incentives. Managerial flexibility, decentralisation and devolution are considered to improve efficiency and effectiveness. Yet, decoupling of policy from service delivery should not lead to ignoring the relationship between policies and organisations. Elements of competition and contracts also improve performance. In addition, many countries admit the difficulty in developing good performance information systems. However, many cases show that giving internal emphasis to information systems such as through internal consultation, self-audits, and involvement of stakeholders, does result in better performance information.

New developments in performance management strategies relate to correcting and adjusting previous choices. For example, there is a general strategy to improve performance measurement systems. The quality of the measures also should be improved. Moreover, there needs to be a more systematic use of performance information in areas such as budget formulation and workplace pay bargaining to ensure these measures will be better integrated in the existing procedures and reporting of performance information (internal and external). Existing performance management projects and

practices are being expanded across government activities including being exported across levels of government (*e.g.* agencies to ministries), and to a wider budgetary range (*e.g.* from current expenditure to money transfers). Self-evaluation seems to be another key element which will enhance knowledge, ownership and the practice of performance management itself. Supporting methods such as contracts and benchmarking will be expanded to increase performance. Finally, there is a general acceptance that the process of developing performance management itself should be evaluated.

In conclusion, in developing a strategy for performance management, the many issues and approaches, questions and concerns, distil down to several key principles:

- it takes time to develop good performance measures;
- countries must define objectives and develop practices that correspond to the objectives;
- basic approaches to implementing performance management (*e.g.* top-down versus bottom-up; comprehensive versus incremental; systematic versus *ad hoc*; *de facto* versus *de jure*) must be selected according to the needs and situations of each country; and
- performance management must make a difference and "account for something".



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## AUSTRALIA

### SUMMARY

Australia has emphasized performance information as an integral part of its public management reforms. These reforms have focused on devolving management responsibilities at the same time as ensuring accountability through setting objectives and reporting on performance. Performance information is required to be reported by every department and agency in its annual report to Parliament.

Considerable emphasis has also been placed on evaluation of programme effectiveness (outcomes) through a requirement for ongoing evaluation plans from departments and their integration into the management and budget process.

Changes to the budgetary process to provide additional managerial autonomy with in firm requirements to manage within allocated resources and increased accountability for performance have been a key aspect of performance management.

A commitment to improving service quality and reorientation of programmes to achieve a stronger client focus were central elements in recent government decisions. Work is now proceeding on the development of government service charters.

Considerable emphasis is being placed on benchmarking of performance, through several different initiatives. Contestability in its various forms, including, market testing and competitive tendering and contracting out, is receiving substantially increased attention as a means of improving the economy, effectiveness and responsiveness of services.

The purchaser/provider distinction is being employed to restructure the delivery of social security and labour market programmes, leading to a separation of service delivery and policy provision in the Departments of Social Security and Employment, Education, Training and Youth Affairs.

### OBJECTIVES AND APPROACHES

The main objectives of performance management are to improve accountability and results of the public sector. Improved public sector productivity and efficiency, as well as enhanced responsiveness of the public service are important goals. Performance management focuses more on assisting reallocation of resources, putting them to more effective use, rather than finding direct savings on the budget.

Considerable work has been undertaken to clarify and expound the accountability concepts underlying the reforms, resulting in an official statement on accountability in the public sector. This statement sees public sector accountability in a broad context which includes Parliament and the external review processes. It also restates as a fundamental principle of the Australian system of government that responsibility for policy rests with the government, not with unelected officials. Thus public servants are accountable to the government of the day which is in turn accountable to the Parliament.

This concept of accountability does not imply simply providing information or answering questions, but includes setting goals, reporting on results and there being consequences of getting things right or wrong, including rewards or sanctions as appropriate. Proper accountability is perceived to be threatened by failure to specify the goals and purposes of organisations and programmes. Corporate planning, programme management and budgeting and associated mechanisms are intended to reduce this risk. There is also a threat to accountability from too many or too complex reporting mechanisms.

Performance management practices have been developed over recent years through more than a dozen major reform initiatives. These initiatives combine a wide range of approaches which have been implemented across the public sector. These comprehensive reforms have been developed at the top, but their implementation has been flexible, giving individual departments the responsibility for developing performance measurement and management systems.

Although the performance management reforms cannot be characterised as legalistic, it is considered necessary to provide a solid legal basis. A new Financial Management and Accountability Bill is under consideration by the Parliament. In addition to addressing financial controls, the bill seeks to strengthen both internal and external accountability by requiring chief executives to:

- establish audit committees within their agencies;
- implement fraud control plans; and
- be called to account for their performance in managing their agencies efficiently, effectively and ethically.

The Department of Finance has major responsibility for developing and implementing the main programmes of performance management, including the Financial Management Improvement Programme (FMIP) and Programme Management and Budgeting (PMB). The Management Advisory Board (MAB) and its subordinate committee, the Management Improvement Advisory Committee (MIAC), play a major role in management reforms and promoting best practice across the Australian public sector. Recent initiatives by MIAC include benchmarking exercises with regard to personnel services and financial management, work on contracting in the Australian Public Service (APS) and the development and use of quality measures. MIAC has also established "APS Innovations On-Line", an electronically accessible data base of promising and innovative practices within the APS.

## PERFORMANCE MEASUREMENT

Measurement and benchmarking of performance is a central element in the Australian reforms. Departments and agencies have put substantial effort into developing measurement systems over the past few years. The measures are of all types, both qualitative and quantitative, including output, workload, input and service quality measures, but the emphasis is clearly on the development of outcome measures. Government departments and agencies are required to issue financial reports on an accrual basis which focus on the net cost of providing services. This is seen as an extension of work being done on improving performance information.

The Department of Finance has commissioned two independent reviews of performance information in recent years ("Effective Reporting in Programme Performance Statements" prepared by Sue Funnell, May 1993 and "Performance Reporting in Commonwealth Annual Reports" prepared by DGR Consulting, February 1995). Both reviews identified problems with performance information.

The main conclusion of the 1995 review was that, in general, the quality of performance information provided in annual reports was poor. The majority of reports focused on descriptions of the activities and initiatives undertaken by agencies rather than on outcomes achieved. Consideration of social justice also focused on activities undertaken.

The 1993 review had also found that there was insufficient focus on outcomes. It also found that there was a great variation in the way objectives, strategies, performance information and outcomes were defined and reported and that there was not enough comparative information to give a rounded picture of programme performance, *e.g.* over time, against targets, against other programmes, and against benchmarks.

A review by the Senate Standing Committee on Finance and Public Administration, ("Estimates Committee Documentation and Procedures", April 1991) was critical of the quality of performance information but also suggested that there had been major benefits, leading to "public reporting of a huge volume of information about the purposes, philosophies and outcomes of every programme and sub-programme". The report noted some information was inaccurate, gave a distorted picture of performance or did not appropriately measure the agency's success in meeting its objectives. The

Committee suggested that a more prescriptive approach by the Department of Finance and stronger mechanisms for audit and evaluation would result in a more systematic and consistent review of reported performance. The content and focus of the information provided to Parliament in the context of the budget has been developed and amended as a result of dialogue between the parliamentary committees and the Department of Finance

A major review of performance information commenced in 1995. The Performance Information Review (PIR) is a systematic and comprehensive process covering all Commonwealth departments and some agencies. The purpose of the review is to establish the quality and clarity of objective and performance information and, where necessary to propose improvements or a strategy for making improvements. In each department, every programme will be examined down to the level at which the performance is publicly reported, usually the sub-programme level.

Four departments were reviewed in 1995-96, the then Department of Health and Human Services, Immigration and Ethnic Affairs, Health and Regional Development and Veterans' Affairs. A number of improvements to performance information in these departments have been implemented as a result of the review, and strategies for further improvements are under way. Ten departments are participating in the review in 1996-97 and the remainder will participate in 1997-98.

Annual reports are now the key performance reporting document and are required to provide information to enable Parliament to make a fully informed judgement on the performance of an agency. As part of the move to a May budget (four months earlier than previously), annual reports now include performance information previously included in budget documents known as programme performance statements. The guidelines for annual reports have been recently reviewed so as to focus the reporting on outcomes and reduce the amount of activity-related information that had been required under previous guidelines.

Benchmarking for best practice is now expected to be an integral part of the management plans of all major service delivery agencies. As a result a considerable number of departments and agencies have benchmarked various operational processes and results against other agencies and relevant private sector organisations. Other significant activities in benchmarking include:

- Benchmarking of performance of federal and state government business enterprises through the use of standardized performance indicators.
- A benchmarking review for four major service delivery agencies examining common areas of activity such as claims processing, debt control and accounts processing.
- Development of comparative performance indicators for various services delivered by state governments as part of a review of federal/state government service provision. The performance of different providers has been published in a major comparative benchmarking publication, which will be regularly updated.

## SERVICE QUALITY

Although there is no central initiative on service quality at the Commonwealth level, service quality is a consistent message in ministerial and central agency statements and publications. A considerable amount of work on establishing service standards, client consultation mechanisms, improving access and providing greater choice has been carried out by a number of agencies, particularly those delivering large social welfare programmes.

Quality has been regarded as an implicit part of performance management and information rather than as a separate component of programme performance. The Department of Finance is providing guidance on improving the quality of services through publication of two documents: *Quality for our Clients: Improvement for the Future* and *Service Quality Standards in the Australian Public Sector* and by facilitating the exchange of information on promising practice.

The government has recently initiated work to develop, in co-operation with consumers, Government Service Charters. The charters will include performance criteria which will provide consumers with information on their rights and the level of service they can expect from agencies.

## **PERFORMANCE REVIEW**

An evaluation strategy has been in place since 1988. The main objectives of the strategy are to:

- provide a better information base to assist departmental managers in improving programme performance;
- assist government decision-making and prioritisation, particularly in the budget process; and
- contribute to improved accountability to Parliament and the public.

Departments are required to evaluate all major programmes on a 3-to 5-year cycle and to develop a Portfolio Evaluation Plan which shows the timing and key issues to be addressed in each evaluation. All new policy proposals put forward in the budget process must be accompanied by an evaluation plan. The results of evaluation are expected to be made publicly available.

The evaluation strategy stresses self-evaluation by departments and agencies. The Department of Finance oversees the process and negotiates with departments on evaluations included in Portfolio Evaluation Plans. The Department of Finance participates in some evaluations and provides advice on evaluation techniques.

The need to evaluate policy advice activities, as well as programmes and service delivery, has also been addressed. Five Policy Management Reviews (PMRs) were conducted between 1992 and 1995, all in central agencies. The reviews focused on particular case studies and were conducted by eminent persons external to the relevant department. A high-level colloquium held in 1995 to review the approach found that PMRs are a legitimate management tool and line departments have since announced their intention to conduct such reviews. The need for ongoing performance monitoring of policy advice activities to complement periodic evaluations has also been recognised and is being addressed as part of the performance information review referred to above.

The Australian National Audit Office (ANAO) also has a role in reviewing performance. Reflecting the emphasis on self-evaluation it may review the adequacy of such evaluations and the evaluation capacity of departments and agencies. In 1991 ANAO reported on the implementation of programme evaluation across the APS. It followed this in 1992 and 1993 with a more detailed examination of programme evaluation in a number of specific departments. Current legislation provides for performance audits which involve an examination of economy and efficiency of functions and procedures. "Across-the-board" performance audits of activities common to more than one agency may also be undertaken. In practice, performance audits may extend into effectiveness issues through examining intended and unintended programme impacts. However, there is no mandate to review government policies. Approximately 30 per cent of the Office's resources are currently devoted to performance auditing, with an objective to increase this to 50 per cent.

## **USE OF PERFORMANCE INFORMATION**

### **Performance budgeting**

Changes to budgetary processes have been a key part of performance management. Performance information is extensively used to inform budget decisions, evaluations are used to support new proposals and savings, and special resource agreements are used as a complementary tool in the budget process.

The changes to the budgetary process have emphasized the provision of performance information for the department's own budgetary management, for negotiations with the Department of Finance, for Cabinet consideration of the budget and for reporting to Parliament. A forward estimates system indicates envisaged allocations three years ahead.

New policy proposals are required to be accompanied by a statement of objectives, performance measures and a plan for future evaluations. A review of the use of evaluation in the 1994-95 budget process found that evaluation results supported 77 per cent of new policy proposals and 65 per cent of savings options. Cabinet deliberations were influenced by evaluation results for 68 per cent of the

proposals. This was a significant increase over the results of a similar survey for the 1993-94 budget process.

Resource agreements are agreements between the Department of Finance and other departments or agencies for the provision of resources in return for some action, an undertaking to act, or for some other consideration. They provide flexibility beyond what is normally available in the budget process and are a complementary management tool to the budget process. Typically they cover issues such as the treatment of receipts from user charges, realisation of surplus non-property assets, funding of work volume driven programmes, funding of property costs and management of running costs demands which fall outside the budgetary arrangements for running costs.

The number of resource agreements has more than doubled since 1991, raising a number of new issues. In particular there is little link between resource agreements and agency evaluation. There is potential for this link to be established and developed. This would result in comprehensive resource agreements that relate broadly to agency funding and performance rather than only to aspects of the agency's operations. While there is a degree of innovation in existing agreements, there remains considerable scope for their use to be expanded.

### **Performance pay**

The need to enhance leadership and develop a culture of continuous improvement is stressed in the Australian reforms. Performance pay of senior levels has been a feature of the Australian environment for the last few years, aiming at improving productivity by offering rewards for individual performance and allowing sanctions for consistently poor performers. A recent workplace bargaining agreement has resulted in the restriction of performance pay to the highest performers whilst maintaining performance appraisal across the board and increasing the flexibility of chief executives to set pay rates for individual senior executive positions, within current bands.

## **RESULTS-ORIENTED MANAGEMENT**

Departments have received substantial budgetary devolution through global allocations for running costs (salaries, operating and property costs). The main effects of these changes have been to provide greater flexibility to agencies, to simplify the operation of running costs and to strengthen budgetary consideration of running costs bids. While significant devolution of budgetary and personnel management decisions from central to operating departments occurred some time ago, devolution within agencies has been more uneven. Increased autonomy has not been combined with radical organisational changes and policy-making has not been decoupled from service implementation through the creation of special executive agencies, as is some other OECD countries.

However, recent decisions by the government will lead to the creation of a service delivery agency providing social security and labour market assistance which will be separate from the existing Departments of Social Security and Employment, Education, Training and Youth Affairs, respectively. These departments will in future be focused on the provision of policy advice and operate as purchasers of services. The service delivery agency will operate under a series of service agreements with relevant national policy departments.

Departments make their own decisions on the use of running cost allocations. In return for this flexibility they must manage within the amounts provided and indicated in the forward estimates system. Departments may carry forward unspent running costs to future years (within limits) and any overexpenditure represents a borrowing against subsequent years' allocations. Incentives are also provided for departments to generate receipts by realising surplus assets. All receipts below \$ 10 million can be retained by an agency and a resource agreement may be negotiated with the Department of

Finance for a share of any receipts above this threshold. A review of the running cost arrangements was conducted in early 1995 and resulted in the following changes:

- increased flexibility for agencies in the use of running cost funds, mainly through increasing carry-over and borrowing limits to 10 per cent and inclusion of superannuation costs in running costs budgets;
- restricting bids for increased running costs to the annual budget and requiring agencies to absorb part of the budget bid running costs; and
- strengthened cash limiting through restrictions on the additions that can be made to running costs budgets outside the budget process.

Corporate plans are an important element of performance management, serving to increase the focus on outcomes and more strategic management. They should map a department's future development and set objectives and priorities. The experience is, however, that while some plans emphasize high-level strategic objectives, others are more operational, focusing more on detailed annual objectives.

Cross-programme approaches to service delivery and programme design have emerged because of the increasingly complex business of government, rising client expectations about more individualised services, and greater focus by managers on policy objectives rather than just inputs or outputs. Cross-programme approaches span a range of activities which attempt to better integrate programmes at the design, delivery and/or client feedback stages within agencies or across agencies. They cover issues from one-stop shops to co-location of services, from administrative integration to programme integration.

A number of Australian agencies are experimenting with cross-programme approaches, but little analysis of the strength and weaknesses of the initiatives has yet occurred. Issues arising from this activity include the impact on accountability, the use of information technology and adequacy of performance information systems. A Management Advisory Board project was begun in June 1995 to provide an overview of the activity being carried out, to bring to light promising practice and to identify barriers and incentives to employing cross-programme approaches.

Contestability is seen as an increasingly important tool within the Australian resource management framework. It offers flexibility to managers and users of services by opening up the prospect of alternative and better ways of doing business, usually through the prospect of competition. It does not necessarily imply the transfer of services to the private sector but in several cases has resulted in services once delivered by the Commonwealth now being delivered by a different arm or level of government (local or state). Benefits include increased accountability and improved customer responsiveness and service or product quality.

Examples include the market testing the Department of Defence's commercial support programme, commercialisation of the Australian Government Health Service and eligible job seekers having the right to choose between government or private case managers.

Purchaser/provider arrangements are not new in Australia. The financial relations between the Commonwealth and the States have long reflected a broad purchaser/provider type model, the purchaser being the agent who decides what will be produced or delivered and the provider being the agent who produces or delivers the agreed outputs or outcomes, but is not necessarily responsible for, or even involved in, deciding on the need for or relevance of the service. The purchaser/provider arrangement is seen as reinforcing the focus on results and providing an opportunity to consider the scope for contestability.

Some examples of recent Australian purchaser/provider relationships are the Australian National Training Authority, which purchases training services from different service providers; a number of health programmes under which services are purchased on behalf of the elderly and other disabled people with multiple care needs; and case management initiatives of employment and training services and health and related services.

More recently the government has decided to implement a purchaser/provider arrangement in the area of labour market programmes. Labour market assistance will in future be supplied by a contestable, and after an interim period a fully competitive, market in which private, community and public sector agencies will compete. The relevant department will act as the government's purchasing agent.

## LESSONS LEARNED AND NEW DEVELOPMENTS

A major review of Australian public management reforms carried out by a 1992 Task Force concluded that:

- the direction of the past decade of reforms has been correct;
- they have been well accepted and have had many positive effects, as well as some costs, especially in implementation; and
- more needs to be done, especially to extend them throughout the Australian public service, and to incorporate them throughout the administrative culture.

The review included surveys of 30 agencies, a survey of 10 000 staff (63 per cent responded); a survey of 2 400 users of programmes and services; 40 specific submissions, 46 case studies and 10 research reports; and interviews, seminars and workshops.

In considering individual incentives for performance, the Task Force noted that simple recognition of a job well done is widely perceived by staff as sufficient reward. At more senior levels this is supported by performance appraisal and performance pay. The review also considered that workplace bargaining can provide performance-related rewards to staff at other levels. It recommended that good risk management, not riskless management or risky management, should be rewarded. Workplace bargaining was seen by the review as a way for staff to benefit from productivity increases by receiving some of the benefits from such gains for salary and/or programme budget increases.

The review also concluded that reforms to budgetary and financial management have yielded an improvement in effectiveness and efficiency. This has been achieved through a greater results orientation, managerial flexibility and devolution.

Recent government decisions have implemented further reforms to secure flexibility and a capacity to adapt to new challenges. These include greater focus on performance, responsiveness to clients, standardization of processes in relation to changes in information technology and the shifting roles of purchasers and providers within the public sector (*The Changing Role of the Australian Public Service: The Trends and Issues for the Future*, by Dr. Sylvie Trosa, Public Sector Papers 1/96, June 1996).



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## CANADA

### SUMMARY

Canada has a history of a variety of management initiatives seeking to induce government departments to clearly define their missions and measure their results. However, use of performance measures has been uneven, with departments and agencies having considerable discretion over their development and use. Recent reforms aim at making performance management more comprehensive, without issuing over prescriptive requirements.

Performance management mechanisms so far have included the annual assessment of deputy ministers (heads of departments); the Shared Management Agenda, an annual agreement between departments and the Treasury Board on major issues to be addressed and improvements made in the coming year; and annual departmental management assessments of senior management groups in each department, used as input into the first two mechanisms.

There have been significant recent developments. The new Expenditure Management System includes requirements to develop strategic business plans and improved performance reporting to Parliament. The first phase of the Expenditure Management System that began in early 1995 included Business Plans, Departmental Outlooks and a focus on results. The second phase, the Improved Reporting to Parliament Project (IRPP), applies results focus in reports to Parliament. The aim is to ensure consistency among the performance information used by managers of departments, for resource allocation in the budget process and by Parliament.

Major emphasis has been put on publishing and meeting service quality standards. Efforts to improve client satisfaction and the quality of accessible, affordable, responsible services date back to the late 1980s. Since that time the government has introduced a series of initiatives to develop a service-oriented culture within the federal public service. Its aim was to develop innovative ways to encourage efficiency and to improve programme delivery.

Service delivery organisations have been given greater autonomy to provide services in new ways, and new organisations have been created enjoying more flexibility and authority than traditional departments, *i.e.* Special Operating Agencies and Alternative Service Delivery Agencies.

The Program Review, which began in 1994, examines federal activities to rethink what the federal government should do and how it does it. Other review initiatives include new policy statements on review, internal audit and evaluation, and the President of the Treasury Boards report to Parliament on Strengthening Government Review.

### OBJECTIVES AND APPROACHES

The basic objectives of performance management are to ensure flexible and client-centred service to the public, while reducing the budget deficit and downsizing the public service. The new expenditure management system aimed at achieving budget reductions to reduce Canada's budget deficit to 2 per cent of GDP in 1997-98, which has already been surpassed.

There have been various reform initiatives, both in the field of service quality and performance measurement. Recent reforms, such as business planning, performance reporting to Parliament and service quality initiatives are more comprehensive than previous reform efforts. However, implementation will vary across departments and agencies as these initiatives are tailored to specific departmental

mandates and cultures. The basic framework for performance management, and most initiatives, are developed at the centre, but departments and agencies have considerable discretion over the development and use of performance management instruments. This has enabled them to initiate local programmes.

The Treasury Board Secretariat has the overall responsibility for performance and financial management, and develops and manages reform initiatives.

## **PERFORMANCE MEASUREMENT**

Attempts in the 1960s and 1970s to use performance measurement had limited success, in part because departments “sought to measure anything and everything and overwhelmed the budget office with mountains of often conflicting, ambiguous and sometimes irrelevant information”. The Operational Plan Framework (OPF) was established in the early 1980s as a descriptive underpinning for government budget estimates. The OPF for each department articulated objectives and results to be achieved to meet the objectives and identified “indicators” or “measures”. The increased Ministerial Authority and Accountability (IMAA) initiative (1986 to 1991) sought further refinement of performance targets and associated indicators and achieved some success.

Under these initiatives performance measurement tended to be primarily in programmes processing large volumes of routine work. Some of these measurement programmes are well developed and actively used in departmental management, to support work planning and internal resource allocation. Several operational departments have also used performance measures and targets to support resource requests. Different types of measures are used, but service quality, efficiency and financial measures are most common. Financial measures are relatively well developed, but the quality of other measures is more variable. Both indicators and more complex measures are used, but the emphasis is on formal measurement systems. More qualitative measures are also used, especially in relation to programme evaluations.

There has been a steady movement towards a stronger results-based culture over the last three years, with plans for more to follow with the proposed development of government-wide performance indicators. Departments are organising themselves for better performance measurement and accountability and performance information is used in departments for a variety of purposes:

- management of programmes and business lines for decision-making and continuous improvement;
- to ensure there are sound administrative and financial controls and information systems;
- Business Plans and improved reporting to Parliament for accountability purposes; and
- communicating with clients and the citizens of Canada on actual achievements of federal programmes and policies.

The Business Planning process helps identify the results that departments expect to achieve and helps ensure appropriate review and accountability provisions to measure performance. Performance may be measured in terms of what is being delivered (for example, activities or outputs such as a new policy), or in terms of the actual impact of the business line on Canadian society or individuals (for example, sustainable jobs and economic growth). In some cases the appropriate results may be outputs; in other cases, “impact-type” information on federal activities is best. There is a need for continuous attention to ensure that performance and accountability aspects continue to be improved in the Business Planning process.

One approach being taken is the Planning, Reporting and Accountability Structure (PRAS), which is replacing the OPF. The PRAS is a single department-wide framework that links corporate objectives, the results expected and performance indicators with reporting practices. Such accountability frameworks help ensure that information on performance is available for managers, central agencies and Parliament. When these frameworks are part of everyday operations, they are used as management tools to make sure things are on track. Environment Canada has a well-developed departmental accountability frame-

work in place. Agriculture and Agri-Food Canada, Industry Canada and the Public Service Commission of Canada have begun similar initiatives.

Programme managers will be made responsible for measuring programme performance and making performance information available to colleagues, so best practice can be followed more widely in the public service. This will encourage managers to benchmark their results against the results of other public units.

Key documents to ensure accountability for performance to Parliament are the public accounts, which describe financial results; the President's of the Treasury Board Report on Review, which examines review activities; and new Departmental Performance Reports, which report on results for the previous fiscal year and previous years.

The new Departmental Performance Reports result from the Improved Reporting to Parliament Project (IRPP) which aims at providing the Parliament with better information about government performance, and make the Parliament better equipped to discuss and influence government priorities. The information now provided in Part III of the budget estimates will be split up in two documents: a Departmental Plan, covering proposed expenditures for the next three years and a Performance Report, which will account on what has been achieved. The Departmental Plans should be built on the same structure as the Business Plans that are reviewed by the Treasury Board, and can in some cases be virtually identical. The purpose of the new reports to Parliament is to enable it to examine and influence future plans and priorities and ensure accountability. The approach was tested in 1996 with six pilot reports by the following departments: Transport Canada, Revenue Canada, Indian and Northern Affairs Canada, Agriculture and Agri-Food Canada, Natural Resources Canada and Fisheries and Oceans Canada.

Departments, the Treasury Board Secretariat and the office of the Auditor General are working together to make financial management more effective. The Financial Information Strategy is being implemented to improve the quality and timeliness of financial information to Parliament, departments, central agencies and programme managers. The objective is to give departments flexibility to meet their management needs, while ensuring full accountability for their financial results. Full accrual accounting is being introduced and the central accounting system is being upgraded to produce more timely and accurate government financial statements.

## SERVICE QUALITY

The 1993 Service Standards Initiative encouraged departments and agencies to develop and publish service standards. Effective service standards must be meaningful to individuals, based on consultation, attainable and challenging, affordable, owned by managers and employees, published, measured, reported and subject to review and revision. Service standards therefore serve as an important management tool allowing governments to continually improve service delivery in the face of fiscal restraint. Two-thirds of twenty-five departments surveyed in 1995 were well advanced in terms of putting service standards in place.

The quality services initiative, a strategy to measurably improve client satisfaction with the services delivered by the federal government, was approved by Cabinet in June 1995. It comprises the following: client involvement, leadership, employee involvement and innovation. The initiative builds on work that has been ongoing in departments, such as the service standards initiative, and is intended to enable departments and agencies to continuously improve the quality of services provided. The quality services initiative requires that departments report on their quality services activities in their Business Plans in fiscal year 1996-97. The following reporting elements are required: a 3-5 year outline of specific actions that will be taken to improve the level of client satisfaction and the quality of services delivered to Canadians; a comprehensive client consultation strategy; and a training strategy.

A series of Quality Services Guides have been developed to assist departments in implementing their quality practices and activities. In 1995 nine guides were developed by over 100 volunteers from various departments and agencies. To date, four additional guides have been developed by employees in the same manner. The guides are developed in such a way as to allow departments to progress at

their own rate, recognising the diverse challenges faced by management in departments and agencies. A list of the guides is provided in the Key References section of this chapter.

In October 1996, as part of the federal government's participation in Canada Quality Month, the president of the Treasury Board released a service pledge to 5.4 million Canadians, by means of an insert in all federal government cheques. A variation on the Declaration of Quality Services Principles that was released in 1995, the service pledge sets out service delivery principles to which the government is committed. The Service pledge states:

The Government of Canada is committed to delivering quality services to Canadians that:

- are prompt, dependable and accurate;
- respect dignity, individual rights, privacy and safety;
- comply with the Official Languages Act;
- are good value for money, and consolidated for improved access and convenience;
- communicate applicable rules, decisions and regulations;
- are regularly reviewed and measured against published service standards;
- are improved wherever possible, based on client suggestions, concerns and expectations.

Emphasis has also been placed on the development of consolidated or "clustered" services in partnership with other levels of government. One such case is the development of the Canada Business Centres.

## PERFORMANCE REVIEW

Treasury Board Manual on Review, Internal Audit and Evaluation, (May 1994), sets out new Treasury Board requirements for performance measurement and review, by departments and agencies, and provides more specific policy guidance on internal audit and evaluation. The review policy seeks "to ensure that the government has timely, relevant and evidence-based information on the performance of its policies, programmes and operations including the results they achieve; and uses this information to improve the management and cost-effectiveness of policies, programmes and operations, and to account for results".

### Requirements for departments include:

- conducting internal audits according to established standards in areas of significance or risk;
- conducting evaluations of key policies and programmes according to established standards;
- establishing performance monitoring practices, including client-oriented service standards, to ensure that departments and managers have and use credible information on key aspects of programme performance;
- conducting other types of reviews such as policy, regulatory, programme and operational reviews, client surveys and special studies to meet specific informational needs of departmental managers at all levels; and
- using internal audit, evaluation, performance monitoring and other reviews in a co-ordinated and complementary fashion.

The policy on internal audit emphasizes the need for a participative and forward-looking approach that involves "advising managers on developing policies and systems, managing risks and establishing essential controls at reasonable cost. Senior management will recognise internal audit as a catalyst for sharing good management practices and as a training opportunity for potential leaders". Evaluation is seen as adding value by focusing on what is really working, what is not, and by finding innovative ways of achieving government goals more cost-effectively. The approach thus emphasizes highlighting best practices and providing constructive advice, rather than fault-finding reports that stress the need for

controls. It also notes the need to be careful and strategic about what to measure because people will change their behaviour based on what is measured.

The Office of the Auditor General has a major role in reviewing performance in the public sector. The Auditor General Act of 1977 requires the Auditor General to report to the House of Commons on cases in which he has observed that “money has been expended without due regard to economy or efficiency, or satisfactory procedures have not been established to measure and report the effectiveness of programmes, where such procedure could appropriately and reasonably be implemented”.

The Auditor General’s mandate does not extend to direct assessment of programme effectiveness, although it does of economy and efficiency. Assessment by the Auditor General of the adequacy of departmental performance management mechanisms is part of the mandate. Examples are recent major reviews of the adequacy of programme evaluation across departments and of government-wide internal audit arrangements. Audit criteria for assessing the general adequacy of departments’ procedures for measuring and reporting effectiveness include whether results of effectiveness measurement are considered in programme decisions and whether there exists adequate organisational capability and management practices to measure programme effectiveness.

## USE OF PERFORMANCE INFORMATION

### Performance budgeting

None of the performance management mechanisms have been directly budget-related. The relationship between performance measures and the budget has tended to be “influential and indirect” rather than “direct”.

The Expenditure Management System is used to define government spending plans and priorities and is an approach to achieving fiscal targets while departments deliver essential programmes and services. A key feature of the system is resource reallocation from existing spending to meet new requirements. An important part of reallocation requires knowing how well programmes are performing. As a result, review and performance measurement is being integrated more efficiently into this system.

Business plans are to be used internally for dialogue on the budget estimates proposed in February each year. Thus the trend is for a stronger but not direct or mechanical link between performance and the budget. The new Departmental Plan in the spring and Departmental Performance Report in the fall will also feed directly into the budget process. The spring Plans to Parliament will draw upon the Business Plans that set out management and operational strategies for departments to adapt to the new fiscal environment while delivering on key service targets. The fall Performance reports aim to encourage more Parliamentary interest in performance issues.

The Program Review, which began in 1994, examines federal activities to rethink what the federal government should do and how it does it. Although centrally driven, the review involved participation by departments and agencies. The Review was designed to avoid the across-the-board types of cuts that in some cases have left resources too tight to adequately deliver programmes and services. Instead, the approach was to eliminate certain programmes so as to adequately resource the remainder.

The review involved asking six key questions about each programme:

- does it serve the public interest?
- is it a legitimate and necessary role for government?
- is the federal role appropriate?
- can partnerships be used to deliver the service? (is there a role for the private or voluntary sectors?)
- are there opportunities for efficiencies?

- is the programme affordable? Does it fall within the government's overall priorities?

The Program Review is considered to have succeeded in many fronts by ending inappropriate programmes; changing how other programmes are delivered; and improving the efficiency of continuing activities. It has helped the government reduce its spending significantly, *i.e.* \$7.2 billion reduction in expenditure over three years.

### **Performance pay**

Performance pay arrangements have been in place in Canada for many years but all performance pay was suspended in 1991 due to budgetary pressures. It is now being reintroduced. Most schemes were based on individual pay covering mainly senior managers. There were also separate schemes for Deputy Ministers (heads of departments in the Canadian public service) and other groups.

### **RESULTS-ORIENTED MANAGEMENT**

Service delivery organisations have been given greater autonomy to provide services in new ways, to ensure cost-effectiveness and responsiveness to clients. Controls in relation to the management of resources have been significantly reduced and departments may, subject to certain restrictions, reallocate resources across activities. Provisions for allowing departments to retain savings and use revenue produced by user fees have also been introduced. Organisations receive block appropriation for all running costs, including staff expenditure, and separate controls in relation to staff expenditure have been eliminated. Special Operating Agencies (SOAs) and more recently Alternative Service Delivery (ASD) Agencies have been set up, enjoying more autonomy and flexibility than departments.

Special Operating Agencies (SOAs) were first initiated as pilots at the end of 1989, and there are currently 17 in operation employing over 3 per cent of public servants. The essential elements, increased management flexibility and authority, development of strategic and business plans, accountability for results and performance reporting indicate a strong emphasis on performance management. SOAs operate as contractors with responsibility for achieving results, combined with the authority to do what is reasonably necessary to achieve the results within the boundaries of the contract and law.

In pursuing their own performance improvement, departments are asked to look at alternative, more flexible service delivery arrangements such as special operating agencies, crown corporations, partnering arrangements with the private sector, devolution to the provinces, commercialisation of ongoing services, and privatisation of government services that no longer serve a public policy purpose. A steering committee on Alternative Service Delivery (ASD) has been established by the Treasury Board Secretariat to provide advice and assistance to departments.

Although the experiences with SOAs have been positive, it is not clear whether they are sufficiently different from traditional departments to support flexible and innovative service delivery. The basic goals of more flexible service delivery are thus being developed further under the Alternative Service Delivery initiative. The main idea behind ASD arrangements is to design special approaches to serve the client efficiently. The government is considering a wider range of service delivery options to achieve programme and policy objectives and eliminate overlap and duplication with provincial and territorial initiatives. Three new agencies reflect these goals and are currently being put in place: a Parks Canada agency; a single food inspection service; and a Canada revenue commission.

The new Expenditure Management System aims at achieving budget reductions to reduce Canada's budget deficit. Its key features are:

- integrating decisions on new initiatives with the budget process;
- emphasizing ongoing review of programmes and ensuring that all new initiatives and cost increases will be financed through reallocations;
- introducing departmental Business Plans to focus on strategic changes;
- providing flexibility to ministers and departments to help them manage within approved resources;

- improving information on programme performance to aid decision-making and accountability; and
- provide information to Parliament and its committees to enable them to review future expenditure and priorities.

The requirement to develop departmental Business Plans is a central element of the Expenditure Management System. The Plans outline strategies for managing the department to meet expenditure targets and new government priorities. These business plans are to include:

- major challenges, directions and objectives for the planning period;
- the Estimates year plus two future years;
- strategies, actions, associated costs and the flexibility's required to deal with major changes;
- associated goals, targets and performance measures to assess programme results and management strategies during the planning period; and
- performance information focused on services or products affected by significant change.

The emphasis will be on departments running their own operations, Treasury Board setting the basic parameters but leaving the detailed planning to departments. Departmental managers will be accountable for planning the direction of the organisation and planning how to meet deficit reduction targets. Business planning is geared towards implementing new programmes through reallocation of funds from within the existing departmental budget. The new business plans will allow more internal flexibility including easier reallocation of funds by individual Ministers. Reallocation of funds between Departments will continue to be considered annually as part of the budget process, but otherwise only under extremely unusual circumstances, such as major natural disasters. The Business Plans are formally confidential. Some departments have dealt with confidentiality by also issuing a public Business Plan, excluding confidential material. Other departments have held the whole Plan confidential. This is considered to limit its usefulness to management.

Improved Reporting to Parliament Project is closely related to the Business Plans. The 1996-97 estimates go beyond accounting information and include an enhanced focus on performance and results reporting to Parliament.

## LESSONS LEARNED AND NEW DEVELOPMENTS

The overall results of performance management reforms, are considered positive, both in relation to turning around the deterioration in the fiscal situation and reducing waste and inefficiency. The government is improving the delivery of services through alternative service delivery initiatives. However, it is recognised that many improvements are necessary, both in relation to performance measurement and other more general performance management practices.

In the past the Auditor General has criticised the government and particular departments for inadequate performance measurement. Obstacles to use of performance measures included inadequate incentives for their use, lack of relevance of the measures for real decision-making, lack of timeliness of the information, the plethora of information available, and sometimes the cost of collecting it.

The 1995 annual report to Parliament by the President of the Treasury Board "Strengthening Government Review" underlines the importance of a "...management culture that is fact-based, results-oriented open and accountable". The government is committed to define results to achieve; give managers the resources, tools, information and guidance to achieve results; and measuring and demonstrating actual achievements.

According to the annual report the key accomplishments of performance management have been:

- the Program Review led to important decisions in the budget and changes that have been actively implemented by departments;
- performance measurement and review have been integrated into the new Expenditure Management System, policy development and programme delivery; and



- extensive review of programmes and activities have been carried out leading to improvement in information on performance and strengthened review capacity of many departments.

A 1996 review of Business Planning (Managing Better Vol. 2: A Review of Business Planning in the Government of Canada, Treasury Board of Canada Secretariat, January 1996) finds that Business Plans are generally considered to be of a high standard, and excellent statements of departmental strategy improving many department's commitment to results. However, the concept of Business Planning is still evolving, and there have been some problems in implementating the business planning. The departments were, for example, invited to identify the flexibility needed to carry out their strategies. This led to expectations by some departments, but only limited flexibility has yet been provided through Business Planning.

The review makes a number of recommendations for the second cycle of Business Planning:

- the focus should be on strategy and performance commitments and the amount of detail should be minimised;
- the substance of the Plan should be widely communicated and used within the department;
- performance commitments should cover budget targets, structural adjustments within the department and performance of key services;
- departments should use business lines defined in the Plans to organise their operational, human resources and financial planning within a consistent management framework;
- a new Business Plan should be prepared whenever circumstances change substantially;
- the Business Plan should be separate from and guide the detailed Operational Plan.

The recent Getting Government Right initiative aims at ensuring that resources are devoted to the highest priorities and securing affordable services, while responding to the public demand for better and more accessible government. This is to be achieved by involving clients in decision-making and by using modern and practical service delivery tools. Quality management principles and practices should be a part of the overall strategy of government departments.

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Treasury Board of Canada (1994b), *An Overview of Quality and Affordable Service for Canadians: Establishing Service Standards in the Federal Government*, December.

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Treasury Board of Canada Secretariat (1995), *Quality Services: An overview*, October.

The following guides have been developed in the *Quality Services* series to date:

- |                                     |   |
|-------------------------------------|---|
| - Client Consultation               | - Benchmarking and Best Practices   |
| - Measuring Client Satisfaction     | - Communications  |
| - Working With Unions               | - Benchmarking and Best Practices – An Update                               |
| - A Supportive Learning Environment | - Effective Complaint Management  |
| - Recognition                       | - Who is the Client – A Discussion Paper                                    |
| - Employee Surveys                  | - Manager's Guide for Implementing the Quality Services Initiatives (Draft) |
| - Service Standards                 |   |



## DENMARK

### SUMMARY

Performance management has been a central element in public sector reforms since the launch of the “*Modernisation Programme*” in 1983. The objectives of the programme were to increase efficiency, improve motivation and job satisfaction of staff, and improve service quality. Although the focus and methods of reforms have evolved, these objectives are still as important as they were over a decade ago. The following three interrelated approaches to performance management have been most prominent in the last years:

- *Performance measurement* has been promoted through various initiatives to support the budget process and improve efficiency and service quality.
- The creation of *contract agencies* commenced in 1992. Contract agencies have been given special conditions through *performance contracts* with their ministers. The contracts define flexibility and set performance targets, and in many cases provide multi-year budgets.
- A number of initiatives have been introduced to improve *service quality*, both at central and local levels of government.

Since the change of government in 1993 the focus of performance management has shifted and the priorities are somewhat different. The former coalition stressed freedom of choice by users and market mechanisms as instruments to promote performance. The present government puts more emphasis on improving performance through good relations with employees. It sees the public sector as an asset to the society, but only if it provides good quality services.

The government is quite decentralised, and the proportion of public services provided by local government is high. Information on performance management available from the central level of government is limited, as many of the initiatives to promote performance are being developed at the local level and are not centrally monitored or controlled.

### OBJECTIVES AND APPROACHES

The objectives of performance management are to increase:

- management capacities of agencies;
- a focus on clients and service quality;
- a focus on results; and
- political control over policy.

Budgetary savings were a major objective of the former coalition, but the current coalition puts emphasis on reallocating resources within the budget, rather than on overall savings.

A report by the Ministry of Finance (*Welfare for Citizens: Effective Public Institutions*, 1995) defines three major principles of reforms:

- The minister must set objectives and priorities. The minister is accountable to Parliament and the public and must therefore set overall targets for the quantity and quality of services.
- Effective institutions require interaction between management and staff. Reforms will only succeed if the public employees take their share of the responsibilities.

- Objectives must be set and results must be achieved. The financial control systems will focus on objectives and results with emphasis on measuring productivity and service quality.

Separation of policy and management, which is part of the reforms, is not seen as leading to reduced political control. On the contrary, it is meant to strengthen the control over objectives and results. Also, the separation does not mean that agencies have no influence over policy: the minister must develop strategies and objectives in dialogue with the agencies.

The Danish approach to performance management is based on *ad hoc* initiatives and experiments, rather than implementing comprehensive changes across the public sector. Departments and agencies are encouraged and given incentives to participate. Once experiments have proven their value, they are implemented more generally. Bottom-up initiatives are actively supported through the development of best practice guidelines and assistance to departments and agencies. Reforms are generally initiated within existing legal framework, which usually provides sufficient flexibility to devolve authority or introduce new requirements.

The “tool-kit” illustrates the Danish approach to performance management. The Ministry of Finance has prepared about ten different tools (guides, standardized schemes, etc.) that guide and assist government agencies in their reform efforts. The tools were developed in connection to the reform strategies defined in *Welfare for Citizens: Effective Public Institutions*. The strategies behind individual tools are thus based on the government’s reform policy. The tools should support bottom-up reform efforts, within the overall reform framework. This approach of using a structured bottom-up approach to implement the overall reform strategy, is an important challenge to the relatively decentralised Danish public sector.

The Ministry of Finance has overall responsibility for performance management reforms and develops the general reform initiatives. However, the individual ministries enjoy high degree of autonomy and have the primary responsibility for implementing the reforms. The Agency of Financial Management (formerly the Accounting Directorate), which is part of the Ministry, has been given more general responsibility in financial and performance management. The Agency has status of a public corporation (it has to recover costs from clients) and of a contract agency. The emphasis is on assisting agencies and departments in their own reforms and improvement initiatives, especially in relation to the “tool kit” and new businesslike financial statements and annual reports.

## PERFORMANCE MEASUREMENT

The use of performance measurement has been promoted through various initiatives. New initiatives aim at making performance measurement more systematic, without issuing prescriptive requirements. There have basically been three closely connected approaches to performance measurement:

- General requirements in relation to the budget process and more recently in relation to improvements of financial management and annual reporting. The requirements are not very prescriptive, giving flexibility in development of performance targets and measures.
- Specific requirements in performance contracts.
- Various initiatives in relation to service quality improvement.

Performance measures emphasize quality as measured by customer surveys, as well as more traditional indicators relating to efficiency and outputs. Efficiency measures are seen as possibly not broad enough and thus restricting the dialogue about results. It is considered important that the performance targets are related to overall strategies and that they cover all important activities of an agency.

The Ministry of Finance has increased the emphasis on developing performance measurement in relation to service quality, encouraging departments responsible for customer-oriented service to develop service and quality targets. In relation to this the Ministry of Finance published a guide (*Success Criteria and Result Evaluation: A Management Tool in Modernisation*, June 1991, in Danish) on the use of success criteria and result evaluation as a management tool in state institutions. The guide stresses not only

performance measurement but also setting priorities, defining objectives and targets and implementing strategies for improvement.

Experiences from the contract management project show that it is possible to measure and document performance. It can, however, be difficult to develop good performance measures or indicators in some areas, especially measures of effectiveness. Performance is thus often defined in relation to completion of projects or initiatives (*i.e.* process measures) which may or may not give an indication about the performance of the agencies. Some of the contract agencies have developed special measurement systems. The best results are gained by engaging the staff in their development. Some measurement systems are used in relation to productivity pay for groups of employees.

There is a growing emphasis on strategic management in relation to contract management and performance management in general. Initially, definition of performance targets was (at least partially) seen as a goal in itself, making managers focus on performance. Strategic management and planning are now seen as a precondition of meaningful performance targets. It is considered that the departments have to be more active in formulating the strategic foundations for performance targets. The contracts can be in two phases to enable this, the first phase defining strategic objectives and the second phase defining performance targets.

Agencies have been required to report some information on programme performance as part of the annual request for funding. This information has not received much attention in the budget process or in agency management and has generally not been published. These requirements are being replaced by requirements for performance reporting in annual reports (*Business Accounting in the State*, Ministry of Finance, May 1995, in Danish). The annual reports will include both accrual-based financial statements and performance information. They will describe the agencies' objectives, strategies for achieving them, targets and results. The purpose is to better integrate the use of performance targets and measures with financial information and the basic strategies of agencies. This project started as an experiment, limited to few public corporations and agencies, but has been extended to cover all public corporations, contract agencies and agencies receiving net-appropriation.

Performance requirements were recently incorporated into the four-year budget framework. The Finance Bill of 1994 required for the first time that ministries draw up output and performance measurement schemes to cover a 10-year period. The new requirements involve detailed information on the principal purposes of programmes, definition of main activities, and productivity (or unit costs) for each activity. If possible, information should also be provided about demands for service, the degree to which the demands are met, and effectiveness.

Performance information is generally available to the public. All performance contracts are published, and assessments on the how agencies are doing compared with performance targets have been published. New annual reports containing performance information will also be made public.

Local governments make extensive use of targets and standards, but emphasizing client opinion surveys rather than formal performance indicators. National statistics on service standards, productivity and output levels are published by the Ministry of Local Government each year, comparing individual local authorities across a range of measures. These serve as a benchmark and a starting point for local decisions, rather than a judgement on relative levels of performance. Local governments have recently been required by law to publish information about service quality every other year.

## SERVICE QUALITY

Service quality initiatives are an important part of performance management both at the central and local levels. Initiatives include service standards, service statements, client surveys, quality management and one-stop shops.

In a report (*Fresh Approach to the Public Sector*, Ministry of Finance, June 1993) the "citizen's right to quality" is underlined. The report suggests that citizens are entitled to explicit, intelligible and verifiable information on public services. Greater comparability and transparency is to be achieved through league tables, providing information on the standard of service that individual organisations commit

themselves to delivering. These would include goals and results (such as educational performance), implementation of rights (such as types of programmes offered, parents' influence, pupils' influence, etc.), and other elements (such as professional qualifications and skills of teachers, facilities, pupils/class, costs/pupil).

Considerable work is being done on service standards, focusing on developing statements of service entitlement which set out the nature and level of service clients can expect to receive. The statements aim to provide a short and clear description of the key features and standards of a public service, and to provide users with information about their entitlements, service goals, results, and the means of obtaining redress. Local authorities have also been active in raising service standards through customer enquiry centres aimed at providing speedy, convenient and accurate information. Timeliness, accessibility and accuracy measures have been emphasized along with measures of customer satisfaction.

Client surveys have played an important role in monitoring and measuring service quality. These are both specific surveys carried out at an agency or programme level and general comparative surveys covering number of agencies and sectors. Comparative client surveys have been commissioned in a number of cases by the Ministry of Finance to cover broad areas of public activity and to establish a time series of information to identify trends. These surveys can reveal priority areas for improving service quality. Such surveys were carried out in 1993 and 1994 covering 49 different public services. The services are evaluated by both users and non-users. The results of these surveys can create a dialogue between the Ministry of Finance and other ministries and institutions about opportunities for improvement.

There is a considerable interest in Quality Management, and a number of agencies have or are seeking certification of their quality management systems. Some of the performance contracts require agencies to set up quality management systems.

## PERFORMANCE REVIEW

The performance of agencies and programmes is reviewed through a range of approaches, including self-review by agencies, programme evaluation (by a range of actors) and performance auditing by the Auditor General's Office.

There is an emphasis on internal evaluation of performance. Agencies are to develop their own review mechanisms and establish methods and systems for evaluating their performance. The Ministry of Finance has prepared a guide on self-analysis (*Effective Public Institutions: Self-Analysis*, Ministry of Finance, August 1995, in Danish). The purpose of strategic self-analysis is to identify possibilities for improvement and future development. Self-analysis is meant to be a practical tool for clarifying visions and strategies, areas of improvement, development projects, and priority-setting.

Programme evaluation is carried out on *ad hoc* basis and there are no requirements for a regular evaluation of major programmes. However, many programmes are reviewed through the two main forms of evaluations:

- general reviews covering general aspects of performance, including organisation, processes, human resources management, use of information technology and effectiveness.
- Reviews carried out in relation to the preparation of the budget, focusing on financial performance, efficiency and possible savings.

The reasons for evaluations can be related to budgetary problems, a need for changed priorities or improved performance. Evaluations can be initiated by different actors, but many are initiated by the Ministry of Finance in co-operation with the relevant line ministry. A special group is usually appointed to define the objectives of evaluation, monitor the process and discuss the findings. The evaluations are carried out by the Ministry of Finance but often with assistance from private consultants or the Agency of Financial Management. The purpose of evaluation is to provide an in-depth analysis of not only the performance of the programme, but also priorities, organisation, management, management systems etc., i.e. reasons for the level of performance and opportunities for improvement.

The Auditor General's Office allocates about 20-30 per cent of its resources to performance auditing. It focuses on reviewing the adequacy of systems for measuring and monitoring efficiency and effectiveness, rather than on measuring efficiency and effectiveness *per se*.

## USE OF PERFORMANCE INFORMATION

### Performance budgeting

In the past, performance measurement was not well connected to other management processes. A 1991 survey of 15 agencies showed that departments explicitly specified objectives and targets to only a limited extent. About half of the agencies and institutions had an internal management system based on objectives. Some of these used their systems for activity and performance budgeting and accounting. The survey concluded that new forms of and requirements for separate reporting of performance should be implemented. Recent initiatives aim at making the use of performance measures more systematic and integrating their use into existing processes, such as the budget process, contract management and annual reports of agencies and other institutions.

Accrual-based financial statements and performance orientated annual reports are meant to improve information on costs and performance. It is expected that this improved reporting can inform the budget process and establish a closer link between performance and allocation of resources. This is a part of a larger reform of the structure of the budget and revision of published budget information.

One particular element of the Danish approach to performance management has been to create incentives for improved performance by making long-term budget agreements (3-4 years) with contract agencies and other public organisations. Financial stability is provided in exchange for targets for specific improvements and increased performance. The Ministry of Finance guaranteed the agency budgets of the first contracts, *i.e.* contract agencies were held outside of overall expenditure limits (and therefore also outside demands for savings) of the departments.

However, this financial stability also caused problems, both because its content was not clearly defined (*i.e.* it was not clear whether the agencies were only exempted from direct cuts or also from general adjustments in financial management that could have resource implications) and because the agreements reduced the flexibility for new initiatives as well as for cuts in public expenditure. The guarantee by the Ministry of Finance was not consistent with the framework budgeting approach practised in Denmark, as it reduced the flexibility of the Ministry of Finance and the responsibility of the line departments. The content of long-term budget agreements has now been specified, and responsibility for providing budget guarantees to agencies has been moved to line ministries. The Ministry of Finance will therefore no longer guarantee the budget of contract agencies, and individual departments will have to decide whether they will guarantee the budget within their own expenditure limits. The result is that some of the latest contracts do not guarantee the budget over the period of the contract.

### Performance pay

There has been considerable interest in performance pay in Denmark. This relates both to sharing of productivity gains among employees and to assessment schemes for senior managers. Performance-related pay is being extended to an increasing number of managers and staff through different arrangements:

- Performance-related individual contracts with executive directors. The pay is related to the achievement of performance targets. Criteria include both effectiveness and development. This arrangement covers only a part of the executive directors.
- Short-term contracts (3-6 years) for senior managers have been introduced. The purpose is to increase mobility and the flexibility to hire better qualified managers. Such contracts usually give 20-30 per cent higher wages than the traditional contracts.



- Productivity gains can be shared among groups of employees. There must be a formal system for measuring and distributing the productivity gains.
- Local pay allowances can be given to individuals and groups on the basis of performance. The size of the allowances is restricted by one per cent of the total wages paid by the agency. For managers the allowances can be up to two per cent of the total wages of managers.

## RESULTS-ORIENTED MANAGEMENT

Responsibilities have been *devolved to agencies* through two related approaches:

- general devolution across the public sector, and;
- providing special conditions through contracts, corporatisation, etc.

General devolution involves increased flexibility for organisations, in the fields of budgeting, financial management, human resources management, etc. Agencies usually have one block appropriation for salaries and one for other running costs. Some have only one block appropriation covering both salaries and running costs. This gives the agencies flexibility to move resources from one category of expenditure to another. All agencies can freely use minor additional revenues, and some have net appropriation giving them flexibility to create revenues through new initiatives. Agencies can carry over up to 10 per cent to the following financial year. The Ministry of Finance requires an explanation if savings exceed 10 per cent.

The *contract management approach*, involving the creation of autonomous contract agencies, is seen as a major contribution to performance management in Denmark. It involves many of the central elements of performance management:

- devolution of authority;
- definition of objectives and targets;
- performance measures and indicators;
- accountability for results;
- service quality initiatives;
- performance pay;
- multi-year budgets.

Contract agency status has been granted to 20 agencies (seven agencies in 1992, six agencies in 1993, four agencies in 1994, and three agencies in 1995). The policy is to grant a limited number of agencies this special status each year. The number of contract agencies is not seen as a goal in itself; the contracts are seen rather as a framework for pilot projects that can be developed to cover agencies more generally.

Contracts are negotiated between an agency and the parent ministry. The Ministry of Finance takes part in the negotiations, to some extent in an advisory role. Contracts usually cover a 4-year period but are monitored annually by the Ministry of Finance and the parent ministry. Key targets are set for economy, efficiency and service quality. A small number are developed covering the most important aspects of the activities rather than all aspects of agency performance. The targets must be meaningful to the minister, addressing important political and strategic aspects of the agency's activities. They must also be meaningful to the public, to the agency's management for use in daily operations, and to the employees who have to be motivated to meet the targets.

In the beginning of the project the emphasis was on devolution of authority, and the agencies were called free-agencies. The idea was to create a negotiation situation where more freedom could be achieved in return for higher performance. The emphasis has changed over the years due to political changes and the lessons learned from the project. General devolution of managerial authority, which has occurred since 1992, means that the agencies are now relatively autonomous when negotiations start. The bargaining situation is therefore somewhat different than previously, the ministers have less autonomy to "sell" and may have to "buy" increased performance and clearer targets by increasing

resources. The focus is thus more on coupling resources with results and performance. Contracts are thus now not aimed particularly at increasing agency autonomy, but rather at obtaining results that enable ministers to steer the agencies better.

The first contracts from 1992 expired at the end of 1995. A major evaluation, prepared by a private consultant, has recently been published, covering 13 contracts from 1992 and 1993 (*Contract Management in the State: Experience from 13 Experiments of Performance Contracting*, Ministry of Finance, December 1995, in Danish). The overall conclusion is that contract management is an important instrument for improving the effectiveness of agencies, and the contractual approach can be used to respond to different needs for steering and management. The contracts have been respected from both sides and the agencies have more or less achieved the performance targets. The motivation of the agencies to become contract agencies is high, which indicates positive experience their side. The main motivation seems to be the clear objectives, stability and managerial flexibility provided by the contracts. Contracts have proven to be important internal management tools, and have in many cases strengthened the position of the managers of agencies.

The agencies have dominated the definition of performance targets. It is considered necessary that the departments play a more active role in defining strategic goals. It is especially important to ensure that horizontal interests and strategies are included. The contracts have changed the relations between ministries and contract agencies. The ministries are less involved in micro-management of agencies and more concentrated on overall questions on strategic objectives and resources. The contracts assist in defining more clearly the objectives of the agencies and making the information needs of the parent ministries more explicit. The powers and responsibilities of agencies are thus more clearly defined.

Contracts are especially useful for ensuring implementation of new initiatives or reorganisations. Contracts can thus be used in relation to reorganisation of state agencies, corporatisation, commercialisation and co-operation between and co-ordination of central and local governments. The Ministry of Culture is making contracts with local government and non-profit cultural institutions, setting more precise targets for cultural activities supported by central government. The Ministry of Traffic is using the contractual approach to separate social and commercial roles of public corporations.

There is an increasing interest in comparing the performance of organisations and initiating *benchmarking* projects. There is a special interest in using benchmarking to analyse and compare the performance and processes of regional units of central agencies. International benchmarking is considered useful for those sectors where it is difficult to compare activities and results within the country. Benchmarking is seen as a decentralised strategy where the agencies themselves try to find benchmarking partners or create benchmarking networks.

The former coalition government saw *market-type mechanisms* as an important instrument for increasing public sector performance. Market approaches were an integral part of performance management. The approach of the current coalition is more pragmatic, and market approaches such as market testing and corporatisation are used on selective basis.

## LESSONS LEARNED AND NEW DEVELOPMENTS

The Danish approach to performance management has been characterised by experiments and *ad hoc* initiatives, using incentives from the top to persuade agencies to participate. The overall experiences have been positive. There have been some difficulties in relation to measurement and securing political interest and support of staff, but they can generally be solved.

Contract management is now seen as an important instrument that ministries can use to create specific conditions for agencies. Contract management is no longer an experiment of the Ministry of Finance, but an instrument of the line ministries. It is not considered necessary to formalise contract management through law; the existing legislation provides for sufficient flexibility to provide specific conditions. The contractual approach is increasingly affecting the relations between the purchaser of service (ministries) and other (public and private) entities and making the purchasers more aware of their role.

Target-setting and performance measurement are improving, and bottom-up service quality initiatives are actively supported. There is a need to improve the use of performance information in the budget process and ensure better integration of financial and performance reporting. A new approach based on using annual reports is being introduced to ensure this.

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## FINLAND

### SUMMARY

Performance management in Finland dates back to the late 1960s, when objective-oriented budgeting was first introduced in some agencies. But management by objectives (MBO) thinking did not become a general practice. Although some performance measures were used they did not necessarily have a direct relationship to the budget or management practice in the agencies.

Major public sector reforms were carried out in Finland between 1987 and 1995, introducing substantial changes in financial management, personnel management and the structure of the state sector. Performance management or management by results, together with decentralisation and increased flexibility in personnel management, were central elements of the reforms. A results-oriented budgeting and management system was introduced through a series of initiatives and experiments. Greater autonomy was also provided to administrative units through one-line appropriations for running costs and increased autonomy in pricing decisions. A number of public bodies were converted into either state enterprises or companies through a commercialisation initiative. Most of the reforms have been introduced and implemented gradually over several years.

The results budgeting and management system is now in use throughout the state administration, and since 1995 the running costs of all agencies have been budgeted according to the results budgeting system. Departments and agencies are required to prepare annual reports with performance information which reflect separate results agreements between the parent ministry and the department or agency as part of the budget process. These measures address performance generally, including efficiency, economy and effectiveness.

Strengthening service orientation is one of the major concerns of the reforms, and ministries and agencies are encouraged to develop active quality policies. Some ministries have commissioned evaluations of their major functions. A comprehensive evaluation programme of the public sector reforms has been launched. The State Audit Office is active in performance auditing and also audits the quality of performance information as part of annual financial audits.

### OBJECTIVES AND APPROACHES

Performance management is seen as a tool to instil organisational and cultural changes as part of the general reform of the public sector. The administration is to be made more efficient and service oriented.

The economic crisis of the early 1990s shifted the focus more onto budget reductions than performance improvement. Finland went through the deepest economic recession ever experienced by a single industrialised country during peacetime conditions. In the present government's programme the focus of public sector reforms is on reducing expenditure and renewing the financial relationships between the state and the municipalities. General management reforms are not emphasized as strongly as during the two previous governments.

Performance management has been introduced through series of reforms. Some initiatives have been comprehensive, but important reform projects have also been initiated on an *ad hoc* basis. Many reforms have initially been tested in pilot projects, including service quality, management by results and performance pay systems. The basic policy for reform comes from the top, along with guidance and

principles, but initiatives from the line ministries and agencies are important and the reforms allow for flexible implementation.

Local government, which provides most public services, enjoys autonomy in the delivery of services, and performance targets are not set or monitored by the central government. However, some local governments are active in reforms and the central government encourages and supports performance management initiatives at the local level.

The government sets the objectives and targets of reforms but the Ministry of Finance is responsible for developing and guiding the reforms. It develops new performance measurement and budgetary initiatives and provides general concepts. The Ministry of the Interior guides the reforms in local and regional government. The actual implementation of reform programmes is mainly in the hands of ministries and agencies. The Public Management Institute, a state-owned enterprise, provides consultancy support for training, management improvement and reforms, competing with private consultants.

## PERFORMANCE MEASUREMENT

A system of annual performance reports for all ministries and agencies has been in place since 1993. Targets are set in annual results agreements between ministries and agencies, and the results are reported in annual reports.

Agencies and departments must produce a report on the results of their operations by the end of March each year. Under the *Guidelines for Annual Activity Reports* issued by the State Treasury in 1994, these reports must disclose the results for target areas in at least as much detail as established in the separate results agreements between the ministry and the department or agency. These results must address performance generally, including economy, efficiency, and effectiveness. If there is a direct and easily definable clientele for the activity, information must be provided on how well demand and other factors of customer interest have been satisfied, but the document does not prescribe how this should be measured. The guidelines also provide specific guidance on the types of calculations and ratios that can be used to measure productivity.

The performance information in annual reports is subject to audit by the State Audit Office as part of its annual financial audit. Results may be considered in the budget process (*e.g.* by the parent ministry or the Ministry of Finance). In general the new reports have been positively received and have worked well from a formal point of view, but it is realised that methodological development is still needed.

Common practice has been that each agency takes the initiative in analysing its objectives and products/services and selecting relevant measures, which are then negotiated and agreed upon with the ministry concerned. Where quantitative measures are difficult to develop, such as for policy advice, emphasis is placed on qualitative evaluation by the users of the service. Types of measures used include:

- efficiency measures:
  - labour productivity (services delivered per man-year);
  - unit cost of outputs;
  - output quantity measures;
- service quality measures:
  - output quality (*e.g.* percentage of appeals against decisions);
  - service delivery quality (*e.g.* waiting times);
  - consumer satisfaction measures;
- effectiveness measures (*e.g.* traffic accidents/km., value of consumer time saved).

Accrual accounting is seen as an important part of results-oriented reforms. The current accounting reforms aim at extending accrual accounting across the State administration by 1998. Work is also underway on how to develop accrual based budgeting.

Although the principles of setting objectives and developing performance indicators are generally accepted (and have been used for many years in Finland), effective development and use of these indicators has been more problematic. The main difficulties have involved use of quality measures which have often been too general, and relating outputs to outcomes when measuring effectiveness.

A Ministry of Finance assessment of Performance-Based Budgeting for the years 1990-93 concluded that although there were good and sometimes even excellent efforts, shortcomings remained. The Audit Office's review of results-oriented management in the ministries (1993 with a follow-up report in 1994) found that target-setting, a major component of result budgeting, had been much more difficult than had been expected. Among the findings of these two reviews were:

- inadequate linking of targets with performance and costs;
- the targets were too varied and their content was elaborate but vague;
- targets could not be related clearly to agency activities and operational and financial plans;
- continuity was lacking, making comparison over time difficult;
- the targets stemmed from what an agency has been doing rather than from what it should be doing;
- the breadth of the targets, lack of clarity and the failure to prioritise them made performance assessment difficult;
- even within agencies there were differing performance cultures, so that the presentation of targets may be internally inconsistent;
- indicators used by management were frequently programme effectiveness objectives, which were often difficult to monitor over time; and
- in many cases the targets were not set at feasible levels.

Productivity measures have also had deficiencies and few good ones exist. Productivity targets must be based on the potential gains in each agency's productivity. They should also be benchmarked against comparable public or private organisations. If there is not enough information to set individual productivity targets, the overall productivity requirement given in the guidelines for budget preparation must be taken into account. The comparability of individual agency targets with ministerial targets needs clarification in some cases. Difficulties in prioritising between objectives has also proven to be difficult. This raises the whole question of performance management at ministry level.

## SERVICE QUALITY

Strengthening customer-service orientation has been one of the major concerns of Finnish public management in the 1980s and 1990s. Service quality initiatives include one-stop shops for services; a citizen's handbook outlining available services and how to obtain them; and a Finnish Quality Award to recognise good service. Many of the performance indicators in results agreements relate to improvement in service quality.

The Ministry of Finance is also encouraging line ministries to develop an active quality and productivity policy to strengthen performance-oriented management procedures and to make target-setting more clearly oriented towards improved productivity and service quality. In 1992 all ministries were required to develop comprehensive productivity and service quality programmes. A pilot project demonstrated that quality management techniques such as service delivery standards could be used as an alternative to detailed regulation of public service production.

A working group of the Ministry of Finance, Ministry of Interior and the Association of Finnish Local Authorities studied the roles of different levels of government in improving service quality and the possibilities for replacing existing norms regulating service production with service standards and consumer rights. The three organisations have also jointly examined possible new forms of service production, particularly those which might increase consumer choice and producer competition such as vouchers.



Given the amount of service delivery that occurs at the local level, one unresolved issue is to what extent the national government should or could be involved in local service standard issues. No national service quality standards have been established. However, a project led by the Association of Finnish Local Authorities with participation from ministries, universities and the business sector has been set up to develop proposals for the use of quality management in public services, *i.e.* to develop a quality strategy for public services. There are already some interesting examples of service quality charters at the municipal level, for example in the City of Hämeenlinna.

Many agencies have undertaken client or user surveys. Initially these were implemented on an *ad hoc* basis. More recently in some ministries and agencies, more systematic customer feedback mechanisms have been established including an annual questionnaire.

There are over one hundred multi-service centres or one-stop shops in Finland, offering service to the public on the behalf of more than one public organisation. Many are operated jointly by central agencies and local government. The objective of these centres is to secure availability and quality of service in an efficient way.

## **PERFORMANCE REVIEW**

The focus on management by results requires continuous evaluation by ministries and agencies. Some ministries have recently commissioned one-off evaluations from independent bodies on their major functions. As a further example a ministerial committee has required all government research institutes to be independently evaluated. Work on strengthening the use of evaluations is in progress. In 1995 the Ministry of Finance launched a comprehensive evaluation programme of the Finnish public management reforms between 1987 and 1995. The goal of the evaluation is to assess the ongoing reforms, as well as to give directions for new reforms. The evaluation consists of 12 complementary studies. A final report will be published in 1997.

Finland has two main audit offices, the State Audit Office and the Office of Parliamentary State Auditors. The State Audit Office allocates about half of its resources to performance auditing, focusing both on efficiency matters and broader issues of financial management and programme performance. As part of its financial audits, it audits annually the quality of performance information in agencies' annual reports. The smaller Office of Parliamentary State Auditors puts emphasis on evaluating the performance of programmes and agencies. Most of the work is done through using information and evidence from different sources rather than through direct field work.

## **USE OF PERFORMANCE INFORMATION**

### **Performance budgeting**

There is a close relationship between performance management and the budget process. Finland commenced the introduction of a results budgeting system in 1992 and it became fully operational for all agencies in 1995. The results budgeting system is a part of the overall management by results. Budget proposals are to be linked to performance targets. Actual results are considered in the budget-setting process (*i.e.* by the parent ministry or the Ministry of Finance). Running costs of all agencies are now budgeted according to the results budgeting system.

Agencies' Budget proposals to their ministry are required to be linked to targets for improved economy and efficiency. Results management, including the setting of targets, is considered to be a matter between ministries and agencies, without the need for strong central involvement by the Ministry of Finance. The Ministry of Finance is thus not directly involved in results agreements; its concern is more with overall expenditure management. This means that it is up to individual ministries to use performance information to guide resource allocations. The Audit Office's review of results-oriented management in the ministries found that agencies have moved slowly in developing productivity and economy indicators. As a result the connection between the level of funding and targets cannot be regarded as satisfactory.

### Performance pay

The use of pay by results or bonuses applied on a group basis and focusing on productivity improvements (rather than simply on volume of output) has increased recently in the public sector. The Personnel Department of the Ministry of Finance has developed general principles of a productivity bonus system including measuring productivity on a group basis, closely linked to performance indicators. Although little research data on its effects is available, experiments in several agencies suggest that the bonus system has resulted in improved management, with greater involvement of all personnel in setting performance targets and monitoring and measuring performance. However, there are many issues in measuring productivity, particularly in excluding external effects.

### RESULTS-ORIENTED MANAGEMENT

Greater autonomy has been given to administrative units, including one-line appropriations and autonomy in pricing decisions. Process controls have been reduced through decentralisation and increased flexibility. There has also been considerable devolution of human resources management, covering recruitment, pay and terms of employment.

Central government agencies are relatively independent in their operations. Traditionally a ministry has no power to change or intervene in decisions made by an agency where the exercise of authority and application of law is concerned. The agencies are often large and have a strong position *vis-à-vis* the ministry. Recent reforms in the organisation of the central administration aim at reducing the number of agencies and decentralising some of their tasks to other levels of administration. Some agencies have been turned into corporations with a greater commercial focus.

Annual results agreements are a central element in management by results. Ministries must document the targets set for an agency in a management letter or result agreement once appropriations are approved by the Parliament. Formally these targets are negotiated between ministries and agencies and the Ministry of Finance is not directly involved in negotiations. No central rules have been laid down concerning the format or content of results agreements. The Audit Office's review of results-oriented management in the ministries found that in 1992 only 40 per cent of the agencies reviewed had received documented targets from the ministry. This indicates that the agencies have more influence on setting performance targets than the ministries. The targets specified in results agreements are given in a more summarised way in the budget proposals. Results compared to the targets set in the agreements are reported in the annual report of each agency, and this information is audited.

There is interest in the use of benchmarking in the public sector. A working group was set up in 1994 to organise and advance the use of benchmarking in the public sector and to prepare guidelines. A report on benchmarking in the public sector was published in 1995.

There is considerable interest in using market-type mechanisms in Finland. The possibilities of using provider-purchaser models and vouchers have been evaluated in relation to child care services, education, health care and services for the elderly. Experiments have been made in the use of vouchers in local government. The results of the evaluations and experiments have been considered positive, and further steps are being taken to develop and increase the use of market-type mechanisms. However, market-type reforms in the local government will not be imposed by the central government.

### LESSONS LEARNED AND NEW DEVELOPMENTS

A number of reports have reviewed the implementation of management and budgeting by results, notably the Ministry of Finance's *Assessment of Performance-Based Budgeting for the Years 1990-93* and the State Audit Office's *Summary Report on Audits of Result-Managed Government Agencies for the 1992 Fiscal Year*. The problems which remain in results budgeting are numerous and range from political problems of setting priorities to measuring results at the agency level, and to devising incentives for managers and other staff to focus on results.

As a result the State Audit Office proposed to the Ministry of Finance a special project to organise and improve ministry-level results management. This project, chaired by the permanent Secretary of

the Ministry of Labour (a ministry having a well-developed system of performance management) presented its recommendations at the beginning of 1995 and they are presently being applied by other ministries. The Ministry of Finance also set up a project in 1996 to improve the monitoring of performance and the quality and coverage of performance information provided to ministries and the Parliament.

The ongoing evaluation programme of Finnish public sector reforms will present an overall picture of the transformation of the public sector and provide an in-depth analysis of the success of the reforms. One of the main goals of the programme is to identify further initiatives for improving the performance of the government.

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## FRANCE

### SUMMARY

The French public sector has been shaped by important political developments since the beginning of the 1980's. Important laws, passed in 1982-1983, aimed to *decentralise* and *deconcentrate* the French administration. In the French context, decentralisation means transfer of authority from the central state to regional and local governments. Deconcentration means devolution of competence and managerial autonomy to the local administrative units of central government (which were traditionally called *les services extérieurs* and now *les administrations déconcentrées*), as well as the agencies (*établissements publics*). These changes had primarily political objectives but have been integrated with important managerial developments.

In the late 1980s and early 1990s efforts were made to implement major reforms in the French public sector, mainly through the *Rocard circular (circulaire relative au renouveau au service public*, 23 February 1989). The most important innovation was the creation of *responsibility centres*. The goals of the reforms were to grant more managerial autonomy to responsibility centres in exchange for increased accountability for results. Considerable efforts have been made to devolve responsibilities to the State apparatus at the local level through initiatives such as the Deconcentration Charter (*Charte de la déconcentration*, 1992).

In 1995 new impetus to the reform of the State was given by Prime Minister A. Juppé. Reform efforts are to be strengthened by:

- extending responsibility centres to all deconcentrated services;
- experimenting with “service contracts” based on the experience with responsibility centres;
- expanding the contractual approach in scope and content;
- improving performance measurement; and
- increasing focus on clients and service quality.

Most reforms have been centrally initiated, but they have not been very prescriptive, thus providing flexibility for initiatives by individual organisations. Monitoring of these initiatives has not been systematic and the information on them provided here is therefore limited.

### OBJECTIVES AND APPROACHES

The 1989 Rocard circular had four main objectives:

- to improve relationships between management and staff;
- to strengthen responsibility and accountability;
- to improve quality of service; and
- to introduce mandatory programme evaluation.

New managerial initiatives were introduced during the early 90s, particularly agency projects (*projets de service*) and responsibility centres. The objective of the agency projects was to clarify the missions of administrative units and to motivate employees. One of the main objectives of the Deconcentration Charter was to increase the capability of the *préfets* (centrally nominated state representative at sub-national level) to co-ordinate and oversee national services at the local level.

One of the most important objectives of performance management in France is to increase the accountability of the public sector through performance improvement and clear accountability for results. The quality of service should be raised, particularly to reduce social exclusion and improve the situation of deprived areas. Performance of agencies and local state services is to be measured and the policy functions of the central apparatus of the State are to be rationalised. Better use of resources is also an important objective in a context of decreasing budgets.

The objectives of the new measures following the 1995 circular are to strengthen the reform efforts and the overall strategic management of the reform process. One of the objectives is also to improve performance management at the central level of the State (ministries).

Performance management programmes are initiated from the central level through legal instruments, but they are usually not very prescriptive. The actual content of the reforms is therefore to a large extent determined at the level of local agencies and services. The approach can thus be described as a bottom-up approach within a central framework. The programmes are comprehensive in scope, but based on gradual development towards general objectives rather than imposing extensive and rapid changes across the public sector. The aim of the latest reform initiatives is to make more comprehensive and rapid changes than previously.

In the context of decentralisation and deconcentration of the 1982-1983 reforms, a greater freedom of the local units was seen as a less bureaucratic and more effective approach to performance management. The previous top-down approach was abandoned because of its past failures. The new French approach was not to impose detailed and prescriptive changes from the top, but rather to give the public services incentives to take part in the reforms. It was also understood that agencies and services were at different levels of management development, and the less experienced would need more time to be able to follow the promising practices of the more experienced services.

The reforms are based on legal instruments, mainly circulars, which are less constraining than laws or decrees, reflecting the nature of the reforms. The 23 February 1989 circular introduced the modernisation of the public service (*renouveau du service public*), and responsibility centres were established through the 1989 and 1990 circulars. The Act of 6 February 1992 (*Loi d'Orientation* No. 92-125) set out policy guidelines for the territorial administration of the Republic (state administration at regional and local levels) and its implementing decree of 1 July 1992 established a "deconcentration charter". The most recent initiative is the 26 July 1995 circular (*circulaire relative à la préparation et à la mise en œuvre de la réforme de l'État et des services publics*).

Various institutions have taken part in the reform process. The Prime Minister has often played the leading role, underlining the political importance of the reforms. The Ministry for the Public Service (*ministère de la Fonction publique*) and the Ministry of Finance (*ministère des Finances*) are the main departments involved in public sector reforms. In order to stress the importance and focus of the reforms the Ministry for the Public Service, which has the leading role in personnel management, has been given different names, including Ministry for the Public Service and Administrative Reform (*ministère de la Fonction publique et des Réformes administratives*) in 1989, and Ministry for the Public Service and State Reform (*ministère de la Fonction publique et de la Réforme de l'État*) in 1995. The Ministry of Finance is extensively involved in establishing priorities and changing the means of management control. The Ministry sets the framework for financial management and for the formulation and implementation of the budget.

The Court of Auditors (*Cour des Comptes*), which has jurisdictional competence over the accounts of public accountants and also audits the correct use of funds, has evolved from legal and formal controls to performance oriented controls, and provides important input to the reforms. Other units play important "think tank" or consultative roles, including the Scientific Council of Evaluation (*Conseil scientifique de l'évaluation*), which provides advice on the quality of the methods used in evaluations financed by the National Evaluation Development Fund (*Fonds national de développement de l'évaluation*) and publishes information on practices and methods, and the General Planning Commission (*Commissariat Général au Plan*). The Commission also plays an important role in evaluating plan contracts (*contrats de plan*) signed by the State and the Regions. The Commission is to undergo extensive reform to become a more effective tool for forecasting and evaluating public expenditure and policies.

In order to implement reform projects rapidly, the Commission for State Reform (*Commissariat à la réforme de l'État*) was set up in 1995. It reports to the Prime Minister and aims to co-ordinate the implementation of the reforms and assist the Minister of the State Reform (*ministre chargé de la Réforme de l'État, de la Décentralisation et de la Citoyenneté*).

## PERFORMANCE MEASUREMENT

Performance measurement practices vary from one agency to another. The focus of the measures is different and the quality uneven. The measures have therefore been of limited use at the central level. There is a need to improve measures and coherence with overall strategies of central administrations within the deconcentrated context.

The Scientific Council of Evaluation has published a report, commissioned by the Ministry for the Public Service, on service quality indicators. The report stresses that performance measures must respond to the priorities of users as well as those of the management and staff. The Council set up a limited number of common service quality indicators: timeliness, accessibility and complaint processing.

As an example, the National Employment Agency's quantitative indicators have been formulated in order to assess the agency's performance in relation to its basic mission (reduce unemployment and help businesses to recruit). The indicators include measures of the time it takes to fill a job offer and of special efforts in relation with long-term unemployment, *e.g.* the frequency with which the long-term unemployed were monitored.

One of the objectives of the 1995 circular is to introduce performance measurement across the state services. For the moment performance comparisons (benchmarking) are not really carried out except in the Ministries of Public Facilities and National Education, and in some departments of the Ministry of Finance. In the Ministry of Public Facilities in particular, each service is to establish, in contact with users, a programme of quantitative and qualitative targets. This approach is supposed to improve relationships between providers and users. These targets will be systematically accompanied by indicators to measure performance, including quality of service and customer satisfaction. Systematic performance measurement is also foreseen at the central level in order to get a more complete and precise picture of the results of its policies and to promote longer term strategies.

The need to link financial management reforms at agency level and budgeting to performance measurement is well understood, but there is still a need to improve cost information in order to make performance information more comparable. Use of performance information in the budget process is still limited.

The trend has been towards making performance information more publicly available. The French administration often produces its own internal reports but they are not necessarily available to the public. The Court of Auditors produces several public reports each year: since 1991 reports on specific programmes supplement the annual public report, which provides performance information on the French public sector, including local agencies and sub-national governments (through the Regional Chambers of Auditors).

## SERVICE QUALITY

Although service quality was the focus of the early performance management initiatives (with quality circles since 1985), the focus has been on internal priorities rather than on the external clients. The development of agency projects has been important in relation to service quality. There are more than 700 agency projects today aiming at clarifying agencies' fundamental values and missions.

Since 1985, the Postal Service has developed an approach for improving service quality. It is based on participatory management and total quality approaches aiming at continuous improvement of the quality of all units. In 1988 a ten-point quality plan was set up covering both internal initiatives and relations with customers. Other departments and public enterprises have been active in promoting



quality management, including the Ministry of Public Facilities, the Ministry of Finance, France Telecom and the Ministry of National Education.

One of the main objectives of the 1995 circular is to increase focus on citizens' needs. Public service charters were adopted by the government in 1992 in order to increase the focus on users and improve service quality. A simplification of texts produced by the administration, in order to make them more readable to the citizens, is also foreseen.

## PERFORMANCE REVIEW

Since the 1980s, performance evaluations and reviews have become one of the main instruments of performance management. The two traditional means of financial auditing (*ex ante* financial controls and controls on the regularity of expenditures made by independent controllers, and external controls either by interministerial inspectorates or the Court of Auditors) have evolved towards a more performance-oriented approach. In particular the Court of Auditors, empowered by a 1967 law to "ascertain the good use of public funds" has developed a range of methods for performance audits and evaluations.

The General Inspectorate for Finances (*Inspection générale des finances*), established in 1816, has a broad mandate for inspecting the use of public money in any institution, enterprise or organisation which receives public funding. The main task of the inspectors is to verify public accounts, but they also provide information to the government on the implementation of programmes and policies. Since the 1980s the inspectors have also been active in programme evaluation and internal auditing in order to ensure the efficiency of the public sector facing budgetary constraints. The fact that this type of control is not solely *ex ante* allows the inspectors to evaluate the appropriateness of financial decisions. Moreover, the direct contact that the inspectors have with the agencies and services is of great importance in assessing efficiency.

New units have been set up within some ministries to evaluate the performance of activities and the public bodies in charge of them. Several ministries have created special divisions. The Ministry of National Education has created a Division for Evaluation and Forecasting. The Ministry of Health and Social Affairs has created specialised offices in a number of divisions. The Ministry of Labour has created a division for research, studies and statistics (DARES). Smaller evaluation units have also been created in order to provide assistance in decision-making, for example in the Internal Revenue Administration.

The Scientific Council of Evaluation was set up to promote quality and independence of evaluations. It has 11 independent members of different professional backgrounds, nominated by Presidential decree. The Council must be consulted on each evaluation financed by the National Evaluation Development Fund (FNDE) (on proposed methods and the final report). The two opinions that the Council gives on evaluations submitted to it, published with the evaluation report, focus on quality with respect to objectivity and reliability; consistency, relevance and transparency of methods; and on the general relevance of the methods and findings in relation to other situations. The Council plays an important role in promoting methods and establishing good practice by publishing information on evaluation methods and practices.

## USE OF PERFORMANCE INFORMATION

### Performance budgeting

The use of performance information in the budget and resource allocation processes has developed but is still fragmented and uneven. Experiments with "Service Contracts" starting in 1997 should help to establish a closer link between resources allocated and a department's targets. There is, however, a need to increase the use of performance information in the budget process.

The Ministry of Public Facilities was one of the leading departments in setting up performance measures in relation to allocation of resources. A special programme (CLAIRE), established in 1986, made it possible to estimate the overall cost for each of its sub-national divisions and the financial

implications of decisions. The use of the CORAIL software programme supported performance-based decisions through evaluating activities and creating cost accounting in the field of road maintenance.

### Performance pay

Performance information can also be used to support performance-based pay. Responsibility centres have flexibility to provide for shared rewards in the form of collective non-financial benefits, *e.g.* better facilities at the work-place. Performance pay is individual and does not constitute an entitlement. Heads of departments enjoy wide discretion to award performance bonuses but do not often use this power. Service contracts provide for eventual financial rewards for employees by creating a direct link between this incentive scheme and the analysis of results in terms of targets set and particularly in terms of savings made in the department's operation and efficiency improvements in services provided to users.

The main mechanisms for performance-related payments are: allowance for overtime, salary supplements and performance bonuses. A new indexed bonus plan for public officials that have to fulfil particularly complex tasks was introduced in 1990. Salary supplements are designed to vary the compensation paid to public officials on the basis of the quantity of the work performed.

## RESULTS-ORIENTED MANAGEMENT

Responsibilities have been considerably deconcentrated and decentralised, and control mechanisms have been developed accordingly. The decentralised sub-national governments enjoy considerable managerial and financial freedom in their fields of competence. They are only subject to *ex post* controls of a legalistic rather than performance-oriented character.

Deconcentrated services (*i.e.* local agencies) enjoy more managerial flexibility. Efforts have also been made to "delocalise" administrative units. Instead of central supervision through parent ministries, state supervision over deconcentrated administration is exercised by the *préfets*, which are responsible for central representation and co-ordination of local agencies. *Préfets* co-ordinate policy implementation but do not have authority on financial issues.

The progress made with *Responsibility Centres* over the six last years has given rise to new ways of managing the state's running costs budget. These projects have also paved the way for performance management reform. The objective is to improve the responsibility of public employees through a contract between an administrative unit and its parent department. Responsibility centres can be based on different approaches which have, however, common features: a strong participation of all the agents at the local level, cost evaluation and efficient management tools, a greater flexibility, and better service delivery to the users. All of the regional divisions of the Ministry of Industry are responsibility centres. All *préfectures* (since 1996, Ministry of Home Affairs), all regional divisions of the Ministry of Culture, and all "rectorates" of the Ministry of National Education have become responsibility centres.

The responsibility centres are based on a contractual approach, which provides autonomy. There is in fact a double contractual framework: one contract is signed by the service concerned and its parent ministry, then another contract (*convention*), setting the framework for flexibility of individual centres is signed by the parent ministry and the Ministry of Finance, and then also by the Ministry for the Public Service. All contracts and annual amendments, as well as agreements between ministries, are negotiated by the parties involved. The staff has also been consulted in many cases. Negotiations between unequal levels sometimes lead to a dominance of central views and priorities. Most of the services have, however, decided voluntarily to become responsibility centres. Few new initiatives have been introduced in the field of personnel management and the initial contract provisions for more stability may not always be implemented.

Important reforms have been introduced through a new approach to financial management and control of the responsibility centres. New managerial flexibility, including a global budget (except for staff expenditure), has been provided, but the degree of flexibility depends on the capacity of their own internal management systems. Central controls thus vary from the requirement of specific

authorisation for expenditures, when generalised deficiencies in internal controls occur, to a global budget with no control on specific expenditure items. This is an important improvement from the previous comprehensive and detailed budget appropriations and controls, which could be rigid and wasteful.

Staff expenditure is not included in the global budget. Personnel management has traditionally been centralised, as public servants are not hired by individual entities, but by the state and then assigned to individual entities. Local agencies and services thus do not have the power to hire or fire public servants. There are, however, attempts to make the system more flexible: agencies and services will enjoy increased flexibility in relation to the number of staff in different categories, but not in relation to which individuals are hired. Flexibility to move expenditure between staff expenditure and other types of expenditure will continue to be limited.

Evaluations of responsibility centres have generally found important improvements. The initially planned global monitoring of responsibility centres was not in fact carried out, and evaluation was eventually limited to service projects. In response to a query by the Finance Commission of the National Assembly, the Court of Audit presented to Parliament in April 1996 an assessment of the centres of responsibility both in terms of the efficient management of budget credits and efficient control.

*Service contracts* will be developed in experiments that will allow local managers to have greater responsibility for their budgets, users to benefit from more efficient service and personnel to be involved in management improvement. These changes will be made possible by the development of performance management tools, and will have the following characteristics:

- *Well-defined service missions and expected results.* The results obtained will be measured, analysed, and, whenever possible, compared with those of departments performing the same tasks and with those of any comparable business in the competitive sector.
- *Improved service quality.* The contracted services will place the user at the centre of their objectives. The quality of services will be defined and verified, particularly through user satisfaction surveys.
- *Greater budgetary responsibility for managers.* Each year, department heads will negotiate with their central administration the global personnel and operating budget allocated to them for the following year. This global budget will include the possibility of reallocating resources and proposing net savings.
- *The involvement of personnel in management improvement and financial rewards.* Department heads will involve the personnel responsible for department units in resource allocation proposals. Financial rewards for personnel can be implemented on the basis of savings made.
- *The development of performance management tools.* Increased flexibility for departments should be accompanied by the use of performance management tools. Tools for cost awareness and for measuring the relative effectiveness of a service will be extended to include allocations for operating and personnel expenditure.

## LESSONS LEARNED AND NEW DEVELOPMENTS

The most important performance management initiatives have been introduced through responsibility centres, even though some ministries had already initiated reforms (for example the Ministry of Public Facilities). The scope of the reforms varies from ministry to ministry. Some have opted to include all their deconcentrated services, while others have limited reform to selected units. The scope of the responsibility centres varies, important issues may be missing from a number of the contracts. The need to make improvements in the scope and content of the reforms and to push reform beyond responsibility centres is thus seen as an important priority of the current reform efforts.

The circular of 26 July 1995 aims at providing a better distinction between the functions of the State, the private sector, the local authorities and the European Union. The needs of the citizens should

be better taken into account. A separation of policy and service delivery is recommended. The policy function should be strengthened at the central level, through:

- restructuring central government departments;
- improving the planning and decision-making capabilities of central government; and
- strengthening the analytical, forecasting, assessment and monitoring functions of the central government.

Significant reductions (10 per cent) are expected in the number of staff of the central administration. Deconcentration should go further, in particular by decentralising the management tasks still undertaken by central services, extending the programme on responsibility centres to all relevant services, initiating strategic performance agreements (*contrats de service*), improving performance measurement, and modernising human resource management within the framework of the centralised civil service. These changes make the approach to performance management more comprehensive and will thus require a more active role of the centre.

The main question is how to keep a successful bottom-up approach and at the same time make reforms more comprehensive. The political support is high at the moment, the need to improve the accountability for performance of the French administration is widely recognised. But the risk of a lack of support of staff cannot be excluded, particularly when looking back at past reforms. Consequently it might be difficult in the future to balance the needs and priorities of the general public and the staff. The strategy is to achieve this through providing more managerial flexibility in turn for clear accountability for performance, both internally through performance measurement and externally through service quality initiatives.

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## NETHERLANDS

### SUMMARY

The Netherlands requires the use of performance measures as part of its budget process as well as in annual reports and financial statements. Performance measures have until recently focused more on input and activity indicators than on efficiency and effectiveness indicators, but performance information continues to be improved through ongoing reviews, addressing both implementation and conceptual issues. Performance measures are extensively used at the local government level, including the use of league tables that provide comparisons of cities' performance in providing services in a variety of areas.

In addition to the performance measurement requirements of the budget process, there are formal evaluation requirements under which each of the 13 ministries is required to evaluate its programmes. The Court of Audit has a significant performance audit role.

There is no overall service quality programme but individual ministries, agencies and local governments have their own service quality initiatives. These include service standards and "one-stop shops".

The government has relaxed central controls in relation to financial and human resources management. Implementation of policy is being devolved through decentralisation and the creation of agencies. The creation of agencies is meant to give government units more managerial flexibility in return for increased accountability for results.

### OBJECTIVES AND APPROACHES

Performance management is seen as improving the efficiency and effectiveness of programmes, increasing the Parliament's insight into the budget and improving decisions on budget allocations. Performance measurement is an instrument for improving decision-making, *i.e.* for:

- providing information on changes in performance, both in relation to outputs and outcomes;
- improving resource allocation;
- improving the efficiency and effectiveness of service delivery and policy development; and
- improving accountability, especially in the case of contract management and agencies.

The programme of performance measurement is comprehensive, at both the central and local levels of government. The same is true for programme evaluation, especially at the central level. Other performance management approaches, including service quality initiatives, are less comprehensive and have been initiated on *ad hoc* basis.

Central government organisations are required by law to provide performance information. Performance budgeting was introduced through the Government Accounts Act of 1976, requiring ministries to provide performance data to inform the budgetary process. In 1992 and 1995 amendments to the Government Accounts Act further emphasized performance budgeting. In addition, the General Accounts Act includes requirements on programme evaluation.

The basic approach to performance management is thus centrally initiated though legislation, but many initiatives come from departments, agencies and local government.

The Ministry of Finance has overall responsibility for performance management at the central level, including performance measurement, programme evaluation and financial management. The Ministry of

Home Affairs initiates modernisation schemes and is active in promoting performance management at the local government level.

## PERFORMANCE MEASUREMENT

Performance measurement in central government was introduced through the Government Accounts Act of 1976, requiring ministries to provide annual performance data in their budgets for those categories of expenditure where measurement is considered possible and appropriate. A similar process was implemented for municipalities in 1985. Later amendments to the Government Accounts Act further emphasized performance budgeting by requiring ministries to include in the memorandum of each budget item the basic factors underlying the estimates and where possible and appropriate, information on inputs and effects (outcomes), covering three years. Additionally, performance data must be incorporated into all appropriation accounts to allow for comparisons between the budget estimates and actual implementation when the accounts are presented to the Parliament.

A 1992 Ministry of Finance evaluation study found that about 50 per cent of the budget expenditure was explained in one way or another by performance data. This ranged from 80 per cent for the Ministry for Justice and the Ministry for Education and Science, down to about 4 per cent for the Ministry of Foreign Affairs and the Ministry of Home Affairs. A study of the 1993 budget found that the use of performance measures had increased from explaining about 50 per cent of the budget in 1991 to 66 per cent in 1993. Data still focused on factors underlying the budget estimates, *i.e.* input indicators (volume and cost of inputs), with some output indicators, but few outcome indicators.

Thus, it was concluded that the requirements of the Government Accounts Act were not being fully met. Consultancy and training programmes were set up, along with new rules for the 1993 budget memorandum to more explicitly relate performance information to budget items. New pilot projects focusing on efficiency were also initiated. In the fiscal year 1994-1995 special efforts were made to explain budget estimates through performance information. A manual on performance measurement was published to provide guidelines. In the financial year 1995-96 information on efficiency was stressed. It is clear, however, that service quality must also be taken into account, as it is difficult to interpret increased efficiency if it leads to lower quality.

The development of performance information has thus been a gradual process with considerable emphasis on pilot projects and ongoing review of progress. Both implementation and conceptual issues have been addressed. Improved financial management has been an important element. Special methods have been developed for allocating costs to outputs. Inputs are relatively well documented. Autonomous agencies are required to prepare accrual-based financial statements.

Performance information is published, *e.g.* in financial statements and annual reports, and ministries are required to provide annual performance data in their budget estimates in order to inform the budgetary process. Performance information is not, however, always made publicly available.

Performance measurement is relatively well developed at the local level. Dutch local government has developed a positive attitude to performance measurement, and a number of municipalities operate performance budgeting systems. Many cities compare their costs and service levels with other cities. Information on the performance of local government is provided to the public through the Public Services Quality Monitoring System, which surveys the quality and efficiency of services provided by local government. League tables are published, showing comparisons of cities' performance in providing service in a variety of areas.

## SERVICE QUALITY

There is no overall service quality initiative in central government. However, some ministries (*e.g.* social welfare, police and taxation) are developing their own service quality initiatives. Some work has also been done on service quality indicators as part of the requirements for budgetary information.

Many services are delivered by local rather than by central government. A local government initiative focuses on service centre concepts (one-stop shop) and responsiveness to customers. As

mentioned above the Public Services Quality Monitoring System provides information on the quality and efficiency of service provision by local governments. The purpose is to help them to set their own priorities for service quality. The information is used in developing, implementing and reviewing service standards. The system has two components:

- standards of customer contact, which involve keeping a record of the way in which individuals are dealt with in the service system, using interviews with customers at different stages; and
- efficiency, assessing the time and number of steps it takes to supply a given product.

The system develops standards for comparisons of past and present performance and the performance of different organisations. It uses a “case history” approach, tracking clients and their perceptions of the services received. So far 20 out of 600 municipalities have adopted the system. Some departments (social welfare, taxation and the police) are developing similar approaches.

## PERFORMANCE REVIEW

Central government departments have a long-standing procedure under which programmes are reviewed on a cyclical basis. The Government decided in November 1991 that each ministry should ensure that policy was systematically and regularly evaluated. Each of the 13 ministries is required to undertake its own evaluation of programmes, both *ex ante* and *ex post*. The chief financial officer of each ministry is responsible for initiating and co-ordinating evaluation studies.

By now this procedure is well established and provides regular information to Parliament. Information on the evaluations is published in a special evaluation annex of the budget proposal of the ministries. The basic approach has been that each of the ministry's policy areas must in principle be monitored every five years, with actual frequency depending upon the relative importance of the policy area, as well as other factors such as whether they have been subject to external evaluations.

Evaluations aim at improving development and implementation of central government programmes. The main conclusions of the evaluations are provided in the budget memoranda of the ministries, along with proposals for how the results might be used to improve performance. Information on performance of government programmes has been used to support many policy proposals, for example in the fields of labour market policy, environment and social housing.

Experience shows that there are number of factors that determine to what extent the findings and recommendations of evaluations will be used. The key factors are:

- consulting with decision-makers on issues to be tackled and on the recommendations given by the evaluator;
- defining in advance who will participate in decision-making in relation to the evaluation;
- aligning the completion of the evaluation to the budget process;
- using steering groups with representation of main stakeholders;
- monitoring the methodological quality of the evaluation;
- presenting the findings and recommendations of the evaluation effectively.

Special efforts have been made to ensure adequate quality of performance reviews. Criteria for quality of programme evaluations have been developed, and the responsibilities of various organisations involved in evaluations have been defined. All evaluations must:

- clearly define the objective;
- be empirical;
- focus on the implementation of policy, the degree to which goals are achieved, their effectiveness or efficiency;
- provide a clear description of the design, research methods and techniques used for the study;
- be practical for policy purposes; and
- clearly highlight the budgetary aspects insofar as they are relevant.



The Dutch Court of Audit has a significant performance audit role, covering programme effectiveness, management systems and measurement systems. The Court of Audit reviews all evaluations carried out by the ministries. Its 1995 annual report gives an overview of all evaluations carried out and reported to the Court. About half of the 638 studies reported in 1994 were completed and the rest were planned to be completed in the near future. 95 per cent of the studies completed in 1994 met the official quality criteria.

More specific performance auditing is also undertaken by the Central Auditing Department of the Ministry of Finance and the auditing units of the ministries. They audit performance indicators as part of the overall review of annual reports. If they find any of the information incorrect or misleading, or if the process of producing the information does not meet quality standards, they will draw attention to it in their audit reports.

## **USE OF PERFORMANCE INFORMATION**

### **Performance budgeting**

The main use of performance information is in the budget process. Performance information is extensively used to inform decisions on resource allocations and efficiency aspects. Newly established agencies are expected to receive appropriations according to output. Experience shows that decision-making using output information cannot be a mechanical process, but rather a process where information on outputs is used to inform decisions.

As mentioned above, the Government Accounts Act of 1976 required ministries to provide annual performance data in their budget estimates so as to inform the budgetary process. A similar budget renewal process was implemented for municipalities in 1985. Later amendments to the Government Accounts Act require ministries to explain every budget item with performance data covering three years.

Performance budgeting is also under development in local government. The "BBI" process is a system of output budgeting used by some 200 municipalities. The key objective of the system is to establish strong links between policy objectives, budget allocations and results and thus enhance democratic accountability. The system includes programme outcome objectives and how they will be reached and develops performance indicators to monitor progress in reaching these.

### **Performance pay**

A system of performance pay was introduced across the public service in 1989, replacing a system of performance bonuses which was considered ineffective. Each ministry can use the system according to its own situation, and this flexibility has been widely used. The system covers all categories of staff, including managers. Performance pay is granted on the basis of individual appraisal of performance. Bonuses for special achievements can also be paid. A 1991 evaluation of performance pay arrangements showed that both managers and employees seemed to be content with the arrangements, as they increased flexibility and focus on performance.

## **RESULTS-ORIENTED MANAGEMENT**

Since the early nineties the government has relaxed controls in relation to financial and personnel management. Input and process controls have generally been reduced, especially in relation to the creation of agencies. Central government concentrates on policy while implementation has been devolved through decentralisation and creation of agencies. Devolution to local government is extensive, but the impact on services has not been evaluated.

In addition to general devolution it is also recognised that some services benefit from a different management system. This has led to the establishment of a number of agencies. Agencies are to a certain extent an independent part of the civil service and enjoy more managerial autonomy than departments. Four agencies were set up in 1994, three in 1995 and six in 1996. The autonomy and

objectives of agencies are defined in a contracts. The creation of agencies signifies a shift in emphasis from input controls to performance-oriented accountability.

Agencies have to meet a number of conditions. The management must focus on achieving objectives (outputs) rather than only on the inputs. The availability of operational performance measures is therefore a major condition for a government unit to become an agency. It must also be shown how the agency will benefit from agency arrangements, *i.e.* how it can operate more efficiently under a more autonomous management system and ensure sound financial management. Most of the agencies use an accrual accounting system.

In future more attention will be paid to how ministries can use performance measurement to overview agencies, and what information will be necessary for the agency's management, for the ministry, and for Parliament. Another issue is how the measures may be used to allocate funds to the agencies.

Development of performance measurement and greater autonomy increase both the potential and the need for performance comparisons. Many performance measurement programmes, both at the central and local level, involve elements of result benchmarking. Benchmarking is likely to be developed further in the next few years.

## LESSONS LEARNED AND NEW DEVELOPMENTS

It has been difficult to develop good efficiency and effectiveness measures, but steady progress has been made. Methodological problems in relation to performance measurement are generally solvable. Initially the departments did not see enough benefits for their own management and lacked incentives to comply with requirements to produce performance information. Although development of performance measurement systems requires considerable effort, especially if it is to be integrated into the budget process, steady progress is being made. The climate has become much more favourable for new initiatives.

The latest initiatives, which include further devolution and the creation of agencies, are of special importance. They can provide stronger incentives to improve performance measurement and create a stronger link between results and resource allocation. Thus the agencies can potentially be used to improve the quality of performance measurement and introduce new instruments of performance management.

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## NEW ZEALAND

### SUMMARY

New Zealand's focus on performance has steadily evolved since the passage of the State Sector Act 1988, which led to the development of annual performance agreements between ministers and the chief executives of each ministry or department. Thus chief executives are directly accountable to the Minister for the performance of their department or ministry. The Public Finance Act 1989 removed many input controls on chief executives and further developed the concept of performance by changing the basis of appropriation from inputs to outputs. It is the formal responsibility of ministers to determine which outcomes the government wishes to seek. The government then selects the outputs which it considers will best meet the outcomes and allocates resources to them. Chief executives are accountable for outputs. Chief executives are also fully responsible for the appointment and employment conditions of staff.

Complementing annual performance agreements is an annual purchase agreement between the minister and the department which sets out the outputs to be delivered by the department covering type, volume, timing and cost in return for the appropriation it receives. These purchase agreements reflect ministers' purchase decisions made during the budget process. Relevant information is also shown in the budget estimates documents.

The recent development of strategic result areas (SRAs) for the public service as a whole aims to translate long-term government goals into tangible medium-term objectives. These are translated into departmental action through key result areas (KRAs) with a 3- to 5-year focus included in the performance agreements between chief executives and the responsible ministers.

The New Zealand approach also distinguishes two interests of government in the performance of its organisations. The purchase interest is reflected in purchase agreements and chief executive performance agreements. The ownership interest is reflected in the chief executive performance agreements and other documents.

Policy and service delivery activities have been separated to a large extent, and service delivery has in many cases been placed in Crown entities, "at arm's length" from the minister. Crown entities are generally required to prepare performance reports both *ex ante* (statement of objectives or intent) and *ex post* (statement of service performance or annual report), but reporting requirements vary between different types of Crown entities.

### OBJECTIVES AND APPROACHES

An objective of the reforms was to meet public demand for higher quality service while maintaining fiscal responsibility. Almost all the reforms have focused on the need to clarify accountability and responsibility. The focus on outputs rather than outcomes is seen as providing clearer accountability.

The reforms are comprehensive, applying a wide range of performance management approaches across the public sector to ensure needed changes in the organisation and management of New Zealand's public sector. The reforms have been mandatory and initiated from the top. Devolution of decision-making within the appropriate framework for accountability means that managers have flexibility within the reform framework to undertake their business according to local needs. Departments and agencies develop their own approaches within the reform framework, especially service quality initiatives.

The foundation for the performance management framework is set in legislation, particularly the State Sector Act 1988 and the Public Finance Act 1989, which provide the legislative basis for performance and financial management of the central government. The Fiscal Responsibility Act 1994 aims at improving fiscal policy by defining principles of responsible fiscal management and strengthening reporting requirements.

The Treasury, the State Services Commission and the Department of the Prime Minister and Cabinet are key actors in the performance management reforms. The Treasury is responsible for financial management, including financial reporting and financial performance of public sector organisations. The State Services Commission promotes and co-ordinates the implementation of the State Sector Act and reviews departmental and chief executive performance. The Department of the Prime Minister and Cabinet co-ordinates the development of the government's Strategic Results Areas and annually reviews performance against them.

## PERFORMANCE MEASUREMENT

A distinctive feature of New Zealand's public management system is its emphasis on outputs rather than outcomes in the performance management process. Performance measurement is thus focused on the volume, cost and quality of outputs. Measures and standards include quality measures covering accuracy, completeness, accessibility, timeliness; risk coverage; compliance with legal standards; satisfaction of customer needs; quantity and cost. Financial measures can also be important, especially in relation to commercial activities. In practice, some outcome evaluation activity is undertaken by departments or agencies which feeds into the dialogue with the minister on the purchase agreement.

Accurate information on the cost of outputs is an essential part of performance measurement and a central part in using output measures in the budget process and in relation to contestability. The cash-based accounting systems were not considered to provide financial data that could be used as basis for performance measurement. Accrual accounting was therefore introduced and is now used in all reports to show the full costs of programmes and activities, including capital costs. Budgets are also prepared on an accrual basis. The Treasury has instituted a programme of financial management reviews that include reviews of costing systems and financial reporting.

A special effort has been made in measuring the quality of policy advice. The measures used include:

- *Quantity:* days of policy advice provided and completion of the work programme.
- *Coverage:* comprehensiveness of service, including the ability to react urgently and the evaluation of output-outcome linkages. The minister is buying a service capacity, not simply individual products.
- *Quality:* criteria here could include a clear statement of purpose, logic, accuracy, presentation and evaluation of options, evidence of consultation, acceptability and practicality.
- *Timeliness:* the specified timelines were met. and
- *Cost:* the expenditure was within the budget.

Issues considered relevant to the effective use of output performance measures include:

- outputs should be within the control of the department so that it can be held accountable for its performance;
- client satisfaction measures, if used, should be produced independently and not by the staff of the provider, and there should be explicit target standards in the purchase agreement; and
- aspects of performance such as time, location or accuracy should be treated as parts of the quality of the good or service, rather than as a separate dimension different from quality.

Some reviewers have suggested that New Zealand is "out of step" by focusing on outputs rather than outcomes compared to, for example, Australia and the US, which have outcomes measurement at the heart of their reforms and who consider that an output focus may lead to efficient production of the

wrong things. However, in the New Zealand model outcome information is crucial to policy advice and the choice of outputs, but the New Zealand view is that it is not possible to hold managers accountable for outcomes because of the difficulty of establishing a cause-effect relationship between the outputs produced and the outcomes achieved. While undoubtedly government outputs will contribute to outcomes, so too will many other influences outside government activity.

An independent review of the New Zealand State sector management framework (*The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, Allen Schick, August 1996) offers an alternative view of outcomes: not as measures of impact but as indicators of direction. In this way outcomes are employed more for formulating policy than for maintaining accountability. Particular outcomes may or may not occur as a result of outputs but, the government needs to take notice of them, analyse their significance, and develop appropriate policy responses.

Considerable efforts have been made recently to consolidate and streamline reporting requirements. The framework for external reporting of performance information is set out in the Public Finance Act 1989, the 1994 amendments to this Act and the Fiscal Responsibility Act 1994. The legislation requires each department or agency to prepare a report containing forecast financial statements and for the report to be tabled in the House with the government's Estimates of Expenditure. Actual performance is reported in Statements of Service Performance in department/agency annual reports and in the Estimates documents. The Statement of Service Performance is audited.

## SERVICE QUALITY

There is no separate central service quality initiative, but service quality is an important element in the overall performance management reforms. Many purchase agreements include a set of quality standards which are part of the output targets. Service quality measures are also important element of measurement of policy advice. The Education Review Office puts emphasis on quality assurance reviews. The objective is to assure that schools are meeting the quality standards and other delivery requirements.

## PERFORMANCE REVIEW

A range of approaches are used to review performance. *Ad hoc* reviews of specific programmes are undertaken, both in relation to new policy objectives or expenditure pressures. The devolved management environment in New Zealand implies that prime responsibility for evaluation of outputs and activities rests with departments and agencies themselves.

A *Report on Self-Review in the New Zealand Public Sector: Project Report and Guidelines* by the State Services Commission, 1992 responds to the 1991 Logan Report recommendation that a standard of good performance for a department should be the existence of a programme of self-review covering internal audit and financial controls, management review and evaluation of output effectiveness. The report provides guidelines for self-review, both at the agency level and in terms of central oversight. Further work is currently in progress on assessing the contributions of outputs to outcomes sought by the government.

The Audit Office has two main performance review activities:

- *Substantive studies of economy, efficiency and effectiveness.* This activity produces up to ten reports to Parliament each year, but is relatively small (less than five per cent of total resources). Some of the work has an efficiency focus and evaluates management systems and practices. However, some of the work has a much broader focus.
- *The audit of performance information.* The 1989 Public Finance Act requires each department or agency to include in its annual report a Statement of Service Performance (covering outputs, quantity, price, quality, location, timing of departmental outputs, etc.) to be audited. The Office uses a

short-form audit report on whether the information “presents fairly”. This audit opinion covers accuracy and completeness but not formally appropriateness or validity of measures.

The government has established the Education Review Office to monitor, evaluate and report on the quality of educational institutions. In an environment of competition (school choice) external review is seen as stimulating improved service management performance; improving policy decision-making and resulting in greater accountability and sensitivity to client expectations. Crown Company Monitoring Unit monitors the performance of Crown Companies such as Crown Health Enterprises, State Owned Enterprises and other entities.

## **USE OF PERFORMANCE INFORMATION**

### **Performance budgeting**

Performance measurement is linked directly to the budget process through the purchase agreement and outputs budgeting. Under the Public Finance act, ministers are formally responsible for determining what outcomes the government wishes to seek. The government then selects the outputs which it considers will best provide the outcomes and allocates resources to them. The budget is based on the volume and price of outputs, rather than inputs. The objective is to link resource allocations as closely to performance (outputs) as possible.

### **Performance pay**

Performance pay schemes have been introduced as a part of the overall reforms. Flexible pay arrangements based on performance appraisal are used for most staff, but there is no standardized system. Chief executives and senior managers are hired on individual employment contracts. However, performance pay is a small portion of chief executive remuneration. Clearer performance objectives and more pay flexibility have led to clarification of goals and improved performance of staff.

Chief executives are employed on fixed-term contracts by the State Services Commissioner and all staff, including senior executives, are employed under contracts with the chief executive of the department. Government agreed in 1992 that all chief executives would have performance agreements with ministers. The agreements are reached taking account of the government's strategic objectives and strategic result areas. There is a direct linkage with the purchase agreement. In addition the performance agreements serve as a record of any additional personal requirements that ministers might have of chief executives.

The State Services Commission assists ministers by quality assuring, monitoring and reviewing these agreements with input from other central agencies (Treasury and Department of Prime Minister and Cabinet). Sanctions relate mainly to the tenure and performance pay of the chief executive. Given that chief executives are on fixed-term contracts, a reputation for being a high performer is important, should they wish to secure chief executive appointment in the future.

## **RESULTS-ORIENTED MANAGEMENT**

The most important results-oriented management processes and instruments are:

- The strategic management process, which focuses on the medium term and involves interaction between Ministers, chief executives and central agencies. This is translated through:
  - Strategic Results Areas (SRAs) – a limited number of major desired results for the Public Service, linking higher expressions of political intent (government's desired vision) to Public Service activity.
  - Key Result Areas (KRAs) in the performance agreement of chief executives of individual departments and ministries.
- Departmental purchase agreements.

- Departmental forecast reports and annual reports.

Devolution of decision-making and organisational changes are also important. Appropriation by outputs rather than inputs has shifted the emphasis from inputs and processes to results. This has achieved greater transparency and better quality information on what is being spent. Chief executives are able to select the mix of inputs they consider the most appropriate. They have the authority to employ and dismiss staff and negotiate individual wages, and flexibility to transfer resources. Chief executives also have substantial flexibility in management of assets.

All chief executives have performance agreements making them directly accountable to the Minister for the performance of their ministry or department. Chief Executive Performance Agreement: Guidelines and Proforma 1995/96 indicates that the performance agreement includes the following:

- *Strategic Result Areas*, for which the chief executive will have a lead role in and/or contribute to.
- *Key Result Areas*: these are the major contributions that chief executives and their departments will make to government's medium- to long-term objectives. KRAs have a three-year focus and focus on critical points of leverage. They may cover purchase issues, high-priority areas of departmental management (such as governance, investment/divestment decisions, organisational development, relationship management and resource planning and management). The milestones for KRAs outline the results expected, target dates and qualitative/quantitative standards to be achieved.
- *Departmental Performance*. This records that the chief executive is accountable for:
  - delivering the outputs as specified in the purchase agreement;
  - management and policy-making activities contributing to the collective ownership interests of government set out in an annex to the agreement;
  - achieving major departmental management initiatives.

The strategic objectives of the government for the period to 1997 are set out in *Strategic Result Areas for the Public Sector: 1994-1997* (Office of the Prime Minister, February, 1995). This identifies activities in the public sector that must be done well over 3-5 years to achieve the longer-term strategy. These feed into KRAs, which focus priorities within departmental budgets and work plans and are part of the accountabilities set down in the performance agreements of departmental chief executives. They are designed to form a link between the government's long-term objectives as stated in the 1993 document *Path to 2010* and the KRAs in the chief executive performance agreements and the existing departmental budgets, which have a one-year focus. Strategic result areas include maintaining and accelerating economic growth, fostering enterprise and innovation, protecting and enhancing the environment, education and training and community security.

The strategic objectives of the government also feed into the corporate (optional) and strategic plans of government departments. For example, departments and other entities that request new capital are required to prepare strategic business plans to justify their requests.

The annual purchase agreement between the minister and the department or agency sets out the outputs to be delivered by the agency, reflecting the ministers' purchase decisions made during the budget process. Purchase Agreement Guidelines with Best Practices for Output Performance Measures (1995-96) (The Treasury, April 1995) provides general guidelines to departments on how to prepare purchase agreements including extensive examples of best practices for output performance measures.

The purpose of purchase agreements is to allow the minister to:

- determine which outputs to purchase;
- agree to appropriate cost, quantity and quality standards for desired outputs;
- make comparisons with other providers where possible;
- assess the risks and obligations associated with delivery;



- hold the provider accountable for delivery of the specified output.

Considerable effort has been made to develop a systematic approach to the purchase of policy advice as well as service delivery outputs.

Contestability is inherent in the purchase agreement. The minister may decide to purchase the outputs from another source. Or it may be decided to dispense with certain outputs which were previously purchased. Purchase agreements also specify the terms and conditions surrounding the purchase such as procedures for monitoring, amending and reporting.

Policy and service delivery activities have been separated to a large extent. In some situations there are separate policy and monitoring agencies. While policy functions and some operational services remain as part of the “core” Public Service, others have been placed in Crown entities, “at arms length” from the minister and closer to the community or market. Sometimes the policy function remains in the Public Service with delivery positioned in a Crown entity. This separation of policy and operations is intended to reduce the likelihood of conflict between these functions. Activities undertaken in the Crown entity sector include service delivery, some regulatory activities, commercial and trading activities. Still other agencies – State Owned Enterprises (SOEs) pursue commercial objectives and operate as profitable and efficient businesses.

Special performance management approaches have been developed for non-core government agencies, *i.e.* Crown entities and SOEs. The basic approach is based on *ex ante* and *ex post* reporting of planned and achieved performance, but reporting requirements vary between the different types of entities. SOEs are required to prepare an annual Statement of Corporate Intent, covering the next financial year and the two years thereafter. The Statement contains much of the data as provided to shareholders in private companies, including the objectives of the SOE, nature and scope of activities, financial and other performance targets.

Crown entities are usually set up under legislation and nearly all are controlled by a board appointed by the minister. School boards are an exception, as the board is elected by the parent community. The boards appoint the chief executive of Crown entities. The reporting requirements of Crown entities are set down in the Public Finance Act and legislation specific to each type of entities. All Crown entities must prepare financial statements according to generally accepted accounting practices. Most entities are also required to prepare a statement of objectives or statement of intent. These typically define the objectives of the entity and the outputs to be produced. Crown entities also prepare *ex post* performance reports (statement of service performance or annual report), comparing performance with the targets set in the statement of objectives/intent.

The requirements for school boards include charter requirements, and national education goals and guidelines. The Minister of Education issues an annual performance report that includes information on the supply of outputs, management performance, and effectiveness of the schools in terms of educational achievement.

The Crown Company Monitoring Advisory Unit (CCMAU) provides ownership monitoring advice to the ministers responsible for Crown Companies. This includes both SOEs and Crown entities, such as Crown Health Enterprises and Crown Research Institutes. The Education Review Office (ERO) monitors the performance of educational institutions. In the case of Crown entities not covered by CCMAU or ERO, ministries and departments are sometimes required by their purchase agreement to monitor the performance of the Crown entities associated with their department.

## LESSONS LEARNED AND NEW DEVELOPMENTS

The reforms have been reviewed regularly both internally and by independent reviewers. An independent 1991 review (the Logan Review of State Sector Reforms) found that the reforms had met their major objectives and have had a positive impact on the core public service. The review also identified areas where further work was required, including better translation of collective strategies into organisational plans and better specification of performance.

A review in 1994 (*Review of Accountability Requirements*, Report of the Working Party to the Advisory Group, October, 1994) found no fundamental problems with the underlying elements of the accountability system but put forward a set of six protocols to guide central agencies in operating, refining and streamlining the accountability system to move away from the "one size fits all" approach. These protocols are:

- clear indication of the purpose of, and justification for, the information required;
- consistency of the purpose with the responsibilities and accountability of ministers, chief executives and the central agencies;
- use of the most efficient and effective information process to achieve that purpose;
- proper consideration of materiality and risk;
- minimisation of duplication and overlap; and
- reasonable assurance that benefits exceed costs and that overall costs are minimised.

The report recommended, and the government agreed, that the publication of corporate plans should become optional, with public information provided by departments tailored to the needs of their staff, clients and the wider public. Many continue to publish these plans, but some ceased to produce them and now rely instead on other reporting mechanisms. The Treasury and State Services Commission are continuing to take other steps to reduce burdensome reporting requirements, particularly for smaller departments.

The review of accountability requirements raised questions about the adequacy of the attention given to the ownership interest. An interdepartmental working group examined these issues and produced two reports in June and October 1995: *Taking Care of Tomorrow, Today: A Discussion of the Government's Ownership Interest*, and *Taking Care of Tomorrow: Implementing the Government's Ownership Interest*. The reports clarify the different dimensions of the owner's interest as alignment with the government's strategic goals, commitment to collective interests, future capability and long-run effectiveness. They create an expectation that chief executives bear primary responsibility for managing the ownership interest for the government, since they are closest to the insights and information upon which effective management of the ownership interest depends. This includes being able to inform ministers of the ownership implications of minister's major purchasing preferences.

In August, 1996 an independent review of the New Zealand State sector management framework was completed (*The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change* by Allen Schick). The report, commissioned by the State Services Commission and the Treasury, found that the reforms had lived up to most of the high expectations held for them. However, it identifies three issues that warrant greater attention:

- *Strategic capacity*. Within strategic capacity, defined as government's ability to make purposeful and directed change, the report finds that the introduction of Strategic Results Areas (SRAs) and Key Results Areas (KRAs) have improved government strategic focus. However, it finds that New Zealand is still geared more to short-term outputs than for the long term.
- *Resource base*. Financial reforms, including output budgeting and the introduction of a capital change, have been successful and far-reaching. However, the report identifies the lack of a rigorous costing mechanisms as hindering the process of negotiating and setting "prices" in annual purchase agreements. As well, it finds that New Zealand still needs to deal with the issue of operating surpluses in order to not distort the performance incentives within the system.
- *Accountability*. Accountability has been the most successful aspect of the New Zealand management framework, and New Zealand has been successful in "making managers manage". The report points out that accountability requirements may be disproportionately burdensome for small departments and warns that a wider sense of responsibility, based on values and public service, might be undervalued in the emphasis on results-based accountability.

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## SWEDEN

### SUMMARY

Sweden initiated a broad approach to evaluating and reporting on performance in 1991 based upon the use of annual reports and a three-year cycle of in-depth performance reviews as part of the budget process. This focus on performance has been combined with extensive devolution in the field of financial management. The three-year cycle approach was modified and made more flexible, partly in response to increasing pressure on achieving budget reductions in addition to improved performance.

The Swedish government system operates around two levels of "responsibility centres": the government as a whole and individual agencies. The Swedish system concentrates in one single body, the Cabinet, the decision-making powers to control an agency, and by doing so clarifies and increases government political accountability to Parliament. In addition, through the traditional system of granting wide operational autonomy to agencies, the Swedish system creates a second level of responsibility centres. Agencies have substantial managerial autonomy and by law the government cannot intervene in the operational decisions of the director-general of each agency. Agencies vary greatly in size, from a few dozen staff to many thousands of staff. Ministries are relatively small, with staff numbers ranging between 50 and 300.

The Swedish budget process is being reformed through tighter top-down budgeting with emphasis on setting objectives and measuring results. The ordinance for annual reports and budget requests from agencies has been changed in order to clarify the responsibilities for the government to set goals and to decide which performance information should be included in the annual reports.

A focus on service quality is seen as an inherent part of performance management, but there is no central government service quality initiative. There is considerable review of government programmes carried out by a range of organisations. The quality and relevance of performance information in annual reports is reviewed by the National Audit Office as part of its annual audit, which includes auditing both performance and financial statements.

### OBJECTIVES AND APPROACHES

Swedish public management reforms from the early 1990s emphasize management by results. The overall objective is to provide information needed by the government and Parliament to evaluate and prioritise different public activities. Another important objective is to improve the quality and flexibility of public services to better meet changing needs in the society. To achieve this objective it is important to shift traditional accountability mechanisms from detailed controls to accountability for results.

The recession of the early 1990s and the need to reduce the budget deficit resulted in a shift in priorities. The idea of results-based decision-making was modified as the focus shifted from the best means of achieving goals to the question of ends, *i.e.* whether a government agency should be involved in particular activities at all. Still, the basic thrust toward management by results has continued. Improved management of available resources, *i.e.* improved performance, is seen as important to improve the fiscal situation and reduce the budget deficit.

Performance management is based on the budget law and government ordinances. Performance management reforms are comprehensive in that they cover all agencies and include extensive requirements for performance measurement and reporting. Devolution of management responsibilities has also been considerable. The tradition of autonomous agencies means, however, that it has not been

necessary to change basic institutional arrangements. This also means that there is considerable flexibility for *ad hoc* initiatives within the central reform framework.

The basic reforms that set the framework for performance management are initiated from the top. These reforms include requirements to issue annual reports and devolution of responsibilities. The government now has a clear authority for setting goals for each agency and deciding what performance information to be given in the annual report. Previously the goals were set through co-operation between the government and agencies and the agencies had a high degree of autonomy over the substance, format and extent of performance measurement. This has been changed to ensure the relevance of performance information for central management processes, *e.g.* the budget process.

The Ministry of Finance has overall responsibility for developing and co-ordinating performance management reforms. It is also responsible for linking performance measurement and reporting to the budget process and for improving financial management. The Agency for Administrative Development assists in developing performance measurement and management systems. The National Audit Office is responsible for developing methods for result-based management. It is also responsible for performance auditing, and audits agency annual reports.

## PERFORMANCE MEASUREMENT

In Sweden, the first systematic attempts to measure performance were made in the early 1970s. Pilot projects, inspired by the programme budgeting approach, aimed at reforming the budget process. However, these initiatives did not live up to expectations. Objectives and goals were set, but the use of information was limited. The government was not willing at that time to give the agencies the necessary flexibility to allow resources to be allocated according to the principles of programme budgeting.

Since 1993 all agencies have been required to issue an annual report that consists of a performance report, an income statement and balance sheet, and an appropriation account and financial analysis. The performance report includes information and comments on the results of an agency in relation to the performance targets set by the government. Normally the result information should cover inputs, outputs, productivity and quality. Significant deviations from performance targets must be explained. Performance is also compared to the performance of the previous two or more years. The annual reports are reviewed by the National Audit Office and are submitted to the government for use in the budget process.

There have been concerns about the quality of performance information given by agencies. A recent study indicates that many agencies do not use adequate methods to ensure the quality of the information. However, the National Audit Office has found a marked improvement in attitudes of many agencies towards the reporting requirements. A greater appreciation of the annual report as an important source of information can also be observed at the Cabinet Office, although the Government still has difficulties in formulating operational goals so they facilitate follow-up and assessment of agency activities. Annual reports are often descriptive, concentrating on workload and activities rather than outputs and results. Despite these difficulties, the annual reports show that agencies are responsive to the new demands and are improving their capacity for performance measurement. Initially agencies used quantitative, productivity oriented measures. Gradually there has been a shift to greater use of measures covering service quality and effectiveness (outcomes). The Parliament reinforced this shift by emphasising that its interest is mainly in the effects of programmes on society rather than on specific agency achievements.

Since 1995 the agencies have been required to produce semi-annual reports. These reports consist of an income statement and balance sheet; an appropriation account and financial analysis and a forecast for the year over appropriation results, costs and incomes. The semi-annual reports are used to monitor developments within the budget year.

Financial management reforms are an important element of the current performance management framework. Agencies use accrual accounting to measure and report costs. There have also been other reforms aimed at making agencies more responsible for financial management. These include the use of interest bearing accounts to make agencies responsible for cash management (agencies pay or receive

interests according to the position on their appropriation account) and a loan model for investment in fixed assets (agencies may borrow from the National Debts Office for investments and the interest expenses are deducted from the agency's appropriation). Agencies are also required to identify any financial risks. If the risk analysis shows that there is a major risk that can cause financial problems, it is possible to buy insurance. If an agency chooses not to buy insurance, it must handle any future losses with its own resources.

Sweden has also attempted to measure changes in public sector productivity. Productivity studies (based on output measures) found an annual deterioration of 1.5 per cent between 1970 and 1980, and of 0.5 per cent between 1980 and 1990. Between 1990 and 1992 the productivity increased by 3.9 per cent.

There is a growing emphasis on voluntary benchmarking in local government as a means of measuring and improving performance. For example some municipalities use benchmarking to compare themselves on a service delivery and cost spectrum. This performance information is used mainly for informing internal decision-making rather than for external accountability.

## SERVICE QUALITY

There is no central government initiative on service quality, although service quality is seen as an inherent part of agency performance management. Considerable work has been done in agencies on customer surveys and setting standards for timeliness of service and satisfaction ratings, *e.g.* in the Tax Office, the National Social Insurance Board, Swedish Post and Telecoms. While health and education services are delivered by local government, there is a "national guarantee" in terms of waiting times for hospital treatments and national rules concerning health complaints systems. Quality management is considered important and the majority of agencies have some type of quality management system in place (ISO 9000, etc.).

## PERFORMANCE REVIEW

Considerable evaluation of the impact or effectiveness of government programmes is carried out by a range of organisations. These may include research agencies (*e.g.* evaluation of penal programmes by the National Council for Crime Prevention), Parliamentary committees, the Agency for Administrative Development, the Expert Study Group on Public Sector Finances (an expenditure "think tank"). Some ministries also carry out evaluations, although many ministries lack sufficient resources. *Ad hoc* committees appointed by the Government play an important role in reviewing government programmes and agencies. Recommendations from these committees often lead to restructuring of government programmes, corporatisation and structural changes in government agencies. Some sectoral evaluation units have been established in recent years to evaluate the performance of a specific activity or programme, *e.g.* foreign aid and education.

The National Audit Office devotes 100 of its 250 auditors to performance auditing (which is separate from the review of performance information in the annual reports). The Office carries out about 25 such studies per year. Earlier studies focused more on efficiency than on programme effectiveness issues. Now, the performance auditing is more focused on programme effectiveness aspects.

As mentioned earlier, the National Audit Office also audits the annual reports of the agencies. There are no formally adopted standards for the review of performance reports. However, preliminary auditing standards and checklists have been in use for several years. The standards require the auditor to consider both the relevance of the report and its consistency with the specified requirements. In the case of inadequate performance reports, the National Audit Office raises the matter with the agency and the government. In severe cases, a qualified audit report is issued in the form of a formal audit opinion. The formal audit opinion is sent to the government for consideration and a copy to Parliament for information. In 1994 four annual reports were qualified due to deficiencies in the performance reporting because required information on results had not been provided.

The Office of the Parliamentary Auditors is much smaller than the National Audit Office. The two audit offices work closely together to avoid overlap. The Office of the Parliamentary Auditors carries out 10 to 15 performance audits per year covering both efficiency and effectiveness issues of general application across the public sector.

## **USE OF PERFORMANCE INFORMATION**

### **Performance budgeting**

Performance measurement is an integral part of the budget process and performance information is used to inform and guide budget decisions. Budget appropriations may also be linked directly to performance. Universities receive appropriations for undergraduate studies directly on the basis of the number of students that pass examinations and complete their studies.

When the system of performance reporting was introduced in early 1990's, an in-depth budget request including performance data for the previous five years and proposed measures and objectives was required from agencies every third year. Since 1993, there has been a shift from the 3-year budget cycle to a more continuous flow of information. When the reform was first launched about half of the scheduled three-year budget allocations were deferred due to lack of adequate information. The economic recession further undermined the ability to make three-year commitments. The Cabinet Office and ministries now decide on an annual basis when the in-depth examinations will occur for each agency.

The Swedish budget process was reformed again during 1995 and 1996. An overall expenditure ceiling is set by the Parliament for a three-year period to tighten expenditure control. The budget process is now built on top-down rather than bottom-up budgeting. In the first year of the new budget process the emphasis has been on fiscal consolidation, but it is still considered important for performance information to be provided as a part of the budget process.

Another step designed to strengthen the budget process is a new budget law that will enter in to effect on January 1997. The law seeks to clarify the responsibilities of the government and the Parliament in the budgeting process. It states that a high level of effectiveness and good economy are the aims of government operations. Thus, objectives are to be formulated and results measured in order to achieve greater effectiveness. The government is then accountable to Parliament for the objectives set and the results achieved.

Although the budget dialogue has improved based on the reforms, some difficulties remain. Agencies' request for funds still show deficiencies because the link between results analysis and the proposals for resources is often weak. The economic situation during recent years has made it difficult for the government to focus on results management because nearly all government activities had to be focused on reducing the budget deficit.

On a more positive note, agencies have improved their competence in management by results and in financial management as a result of the budget reforms. The budget process has resulted in improved annual reports which show more clearly what has been achieved and where performance can or should be improved. In the future development of the budget process more attention will be given to analysing results as part of the agency's annual reporting process. The government also intends further improvements in using results information effectively in the budget process.

### **Performance pay**

Pay determination and other human resources issues are highly decentralised in Sweden, and the agencies have a collective role as employers. The Agency for Government Employers was formed directly by government agencies to centrally negotiate collective agreements on pay and general terms of employment. The agencies direct the Agency for Government Employers through a board made up of agency representatives and finance the organisation through user fees. Recent agreements have increased the scope for modernisation and give individual agencies more flexibility in pay determination.

Various performance-based pay arrangements have been used in Sweden. The pay of senior managers is set on an individual basis, partially according to performance. Individual performance pay is generally linked to performance appraisal. There are no central performance appraisal systems but some departments and agencies have developed their own systems.

## RESULTS-ORIENTED MANAGEMENT

Sweden has a long tradition of autonomous agencies, with an organisational split between ministries and agencies. This principle has been in place since the beginning of the last century. This structure may be at least partly explained as a desire to distinguish between policy and implementation. The agency tradition means that it has not been considered necessary to change basic institutional arrangements to introduce reforms. The basic thrust of reforms has been to make the existing arrangements more results-oriented.

The autonomy of the agencies is protected by the Constitution. The agencies are not subordinate to individual ministers or ministries, but to the government as a collective body. Direct control by the government is restricted by law. The government is constitutionally prohibited from influencing the agency's decisions, which are based on the application of laws.

Flexibility in managing financial and human resources has been increased, authority devolved and controls over processes reduced. The agencies enjoy a wide degree of autonomy, and are responsible for their own staff policies, accounting, financial management and most investment decisions. Autonomy is provided through flexible frame appropriations, new arrangements for financing investment, a new accounting model, and incentives to improve cash management. Agencies are also free to set their organisational structure and select working methods. Human resources management is highly devolved.

The Swedish example shows that autonomy itself does not necessarily lead to performance-based management. Managerial autonomy can coexist with an input-oriented system, where accountability mechanisms focus on compliance with rules. Recent reforms aim at making the already autonomous agencies more results-orientated. Clear objectives are to be set by the ministries, and the actual results are to be measured and reported in the annual reports of the agencies.

The relations between ministries and agencies are not based on formal performance contracts, but rather on regular dialogue between ministries and heads of agencies concerning goals and results. The government decides on the resources available for the coming fiscal year, as well as long-term objectives and short-term goals. This dialogue is seen as an important instrument for controlling the agencies within the framework of the budget process. The dialogue involves goals of the agencies, results achieved, their impact and costs. Strategic issues and future developments are also discussed and defined through the dialogue.

## LESSONS LEARNED AND NEW DEVELOPMENTS

Evaluations of the reforms of the budget process and control of agencies in the direction of management by results show that the reforms were necessary to improve focus on performance. New forms of control have improved the basis for the government's monitoring of activities. Management by results has had greatest effect on the operational activities of the agencies. New initiatives including a budget law, a revised budget process, and a new ordinance concerning the content of annual reports have been taken during the last year. The budget law and a new ordinance regulating the annual reports and budget requests are aimed at improving and clarifying the role of the government and the Parliament in management by results. Moreover, the new initiatives also seek to include all state activities (including transfer programmes) in a more results-oriented system.

The requirement to issue an annual report with performance information and financial statements has had a positive effect on the agencies' management. The fact that both the performance and financial reports are audited by the National Audit Office and the observations of the audit are reported to the Parliament has been an important factor in creating this improvement.



The relationship between ministries and agencies has been one of the weak aspects of the reforms. The ministries are very small and do not yet have the necessary capacity to provide sufficient guidance on objectives and results. This has limited somewhat the use of performance information to guide resource decisions. The ministries should take decisions on policy, set objectives and require agencies to produce information on results. In practice, objectives and performance targets are developed in dialogue between the ministries and the agencies, but the agencies tend to have the upper hand in that dialogue. They have more knowledge about their programmes, how to measure performance and how to select targets which are within reach.

The performance information provided in the annual reports has improved, but is not yet fully satisfactory. To improve this process the National Audit Office has worked with responsible ministries to initiate a project with ten agencies to improve the results information from the agencies and the budget dialogue between ministries and agencies.

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## UNITED KINGDOM

### SUMMARY

A number of public sector reform programmes were instituted in the 1980s, all with the objective of delivering better value for money. The Financial Management *Initiative* of the early 1980s introduced new financial management and budgetary systems with significant delegation of budgets to local managers. The ("Rayner") programme of efficiency scrutinies looked at the efficiency and effectiveness of different areas of departments' operations.

During the 1980s in seeking greater overall efficiency and effectiveness the government also sought to reduce the role of the state. The privatisation programme moved some services – *e.g.* gas, water and electricity – into the private sector. Many services that remained the responsibility of government were also contracted out to private suppliers where this offered better value for money under the *competing* for quality (national government) and the compulsory competitive tendering (local government) programmes.

The United Kingdom has implemented performance management both through its:

- Next Steps reforms commenced in 1988, which involve the creation of managerially autonomous service delivery agencies separate from traditional departmental structures operating to clear objectives and targets; and
- Citizen's Charter begun in 1991, which provides standards for customer service and measurement of performance against these standards.

More recently the UK is moving to extend Next Steps principles to departments, including strengthening good management practices such as setting objectives and targets, measuring performance, preparing accrual-based financial statements and applying efficiency techniques and tests, particularly competition, through annual efficiency plans.

### OBJECTIVES AND APPROACHES

The creation of agencies has the primary objective of ensuring clear accountability for performance. The delivery of service is separated from the formulation of policy and each agency has a clearly defined task, or range of tasks, which are set out in its framework document. Single-purpose agencies are seen as a precondition of accountability for achieving key performance targets, covering financial performance, efficiency and service quality.

Effective delivery of service to the customer is the key aim of the Citizen's Charter Programme and the delivery of high-quality and responsive service is also an important objective in the process of agency creation.

The creation of agencies and definition of performance targets is meant to create a sustained pressure for continuous improvement in value for money. Reducing the size of the public sector, both in terms of the size the civil service and running costs, is also a distinctive feature of the reforms.

The UK approach to performance management is comprehensive, covering a large part of the public sector and applying a wide range of performance management instruments. Next Steps agencies cover over two thirds of the civil service employment and they will be extended to cover around three quarters by 1996/97. There are 42 main Citizen's Charters covering different services and many thousands of local charters.

As a comprehensive programme, performance management has been initiated from the top. All major initiatives have been centrally initiated and participation is not at the discretion of departments and agencies. Performance targets of agencies are set by ministers after consultation with the agencies. The use of instruments has often been mandatory (*e.g.* market testing) rather than voluntary. There is, however, a move to increase the focus on results (*e.g.* value-for-money or savings targets) and to make less prescriptive requirements on the means of attaining them. The focus on accountability means that it is not sufficient to give the managers flexibility to manage (“letting managers manage”), they must be held accountable by centrally initiated mechanisms and initiatives (“making managers manage”).

Although the reforms are comprehensive and centrally initiated, it is considered important to ensure flexible implementation and input from agencies. The creation of agencies through framework documents allows for flexible implementation and the performance targets are in practice developed in dialogue between the departments and the agencies.

Office of Public Service (OPS), which is a part of the Cabinet Office, and the Treasury are key players in performance management. Special reform and management units have been created within OPS to develop and carry out central reform programmes (Efficiency Unit, Next Steps Team, Citizen's Charter Unit).

## PERFORMANCE MEASUREMENT

Performance measurement is an important element of both the Next Steps (annual performance agreements) and Citizen's Charter initiatives (charters and reports on local government performance). There is an emphasis on a limited number of performance indicators, which are intended to be measurable as objectively as possible, in part because it is believed that policy and operational decisions, including budget allocations, may be made in part on the basis of agency performance in terms of these measures. Nevertheless the system has evolved to a point at which it is accepted that assessment of results against targets will involve some interpretation and judgement, that more qualitative measures are needed, and that full explanations of the meanings of targets are necessary when they are published.

It is considered important that the targets are under the direct control of the agency. The targets are thus concentrated on efficiency and outputs rather than effectiveness and outcomes. A review of Next Steps, the Fraser Report (*Making the Most of Next Steps: The Management of Ministers Departments and their Executive Agencies*, May 1991) suggested that a “handful of robust and meaningful top level output targets which measure financial performance, efficiency and quality of customer service” was needed over and above subsidiary performance indicators for internal management. It considered that few targets included adequate measures of service quality and others were too imprecise to properly monitor performance.

A 1992/93 review of progress on Next Steps (Next Steps: Moving On by Sylvie Trosa, February, 1994.) examined progress against a background of recommendations made in the 1991 Fraser report. Its general conclusion was that while agencies had improved their performance measurement, target-setting was a continuous process and required ongoing consideration of what measures to use, how to implement them (centralised vs. decentralised), the levels at which they were set and the ability to change them based on unexpected external factors. Some issues identified were:

- targets may be set around what the agency can measure, rather than what is most important;
- it may be too rushed – proper target setting takes time;
- financial targets are given a higher priority – service quality targets exist in most agencies but they are not usually given the same importance by management;
- clarification is needed on issues related to quality of service and the trade-off between quality and efficiency; and
- corporate plans have many general targets but not enough clear indicators.

Nevertheless the report stated that “target setting has without doubt improved”. In practice implementation of performance measures through the Next Steps process has tended to be top-down,

with ministers responsible for setting the targets (although negotiated with the agencies). This is reflected in the approach of focusing on a small number of key and simple targets.

The improvement of financial management of agencies is an important element in improving performance measurement and cost information. All agencies are required to prepare and publish commercial-style accounts on an accrual basis, within two years of launch. The purpose of accrual accounting is to improve the use of resources. There are plans for extending this approach to all departments by introducing "Resource Accounting", which set the framework for analysing expenditure by aims and objectives, and relating these to outputs. An efficiency scrutiny of Resource Management Systems (1995) provides a checklist of best practice to enable better integration of planning, budgeting, monitoring and reporting. It also calls for a greater focus on outputs as well as inputs.

### Local government

The Citizen's Charter programme requires not only agencies but also local government, the National Health Service, etc., to measure their performance. Under the Local Government Act 1992, the Audit Commission is required to determine a set of performance indicators for local authority services including health, education and police services. Over seventy indicators were developed following extensive consultation with the public and local authorities. Every authority in England and Wales measures its performance against these indicators and publishes details in a local newspaper. The Commission publishes a national report on comparative levels of performance achieved by different authorities. The first such report was published in 1995.

Although there is no formal audit attestation of these performance results reported by individual authorities, the Commission reviews the information systems by which they are collected and the interpretation of indicators adopted by authorities. It draws attention to authorities whose performance information it considers inaccurate or unreliable.

The Audit Commission noted in a report (Citizen's Charter Indicators: Charting a Course Audit Commission, 1993) that "the system is new and it is easy to find fault with individual indicators but the Citizen's Charter presents local authorities with a challenge they should not ignore – to use the publicity generated to develop an informed dialogue with their residents about the services they offer and the policies they adopt." This could help to strengthen local democracy by empowering people with information and increasing their interest in local affairs.

The report notes several concerns expressed by the public about an initial list of indicators proposed in 1992:

- there were too many indicators to be of interest to citizens, yet too few to reflect complex services adequately;
- centrally-determined indicators could skew local politics and restrict local choice;
- the figures produced would be misused, or not properly understood;
- the costs of collecting and reporting the information would not be worth the benefits gained from the exercise.

The Commission responded by:

- initially focusing on fewer services;
- focusing on issues that are of most general interest to citizens and choosing indicators that should be readily available;
- formulating indicators to relate performance to local policies and targets, leaving authorities with maximum discretion to explain the reasons for their policies when publishing their performance locally;
- publishing detailed descriptions of the content of individual indicators and what factors might influence them, to aid in their interpretation.

## Next Steps Review

Information on performance is generally reported to the public. The annual Next Steps Review contains comprehensive summary tables of where all agencies stand in meeting targets, characterised as (service) quality, financial, efficiency and throughput (output) targets. For each agency the report outlines the performance of past budget years against targets and lists new targets.

For example the 1995 review indicates that in 1994-95 83 per cent of all agency targets were achieved, compared with 80 per cent 1993-94, 77 per cent 1992-93 and 76 per cent in 1991-92. Key targets in 1993-94 for all agencies comprised 275 (service) quality targets, 137 financial targets, 147 efficiency targets and 186 throughput (output) targets. The mix of targets varies among agencies, reflecting different sorts of activities. Performance information is published in more detail in the annual report of each agency. Forward plans are published in the agency's one-year business plan or longer-term corporate plan, although the corporate plan is not always publicly available as information is commercially sensitive.

## SERVICE QUALITY

The Citizen's Charter was launched in 1991 as a 10-year programme to raise the standard of public services and make them more responsive to their users.

There are now 42 main charters, covering all the key public services, setting out the standards of service people can expect to receive. There are also many thousands of local charters covering local service providers, such as medical practices, police forces and fire services.

The Charter programme has introduced six principles of public service:

- Standards. Setting, monitoring and publishing explicit standards for the services that individual users can reasonably expect. Publishing actual performance against standards.
- Information and openness. Full, accurate information readily available in plain language about how public services are run, what they cost, how well they perform and who is in charge.
- Choice and consultation. The public sector should provide choice wherever practicable. There should be regular and systematic consultation with those who use services. Users' views about services, and their priorities for improving them, to be taken into account in final decisions on standards.
- Courtesy and helpfulness. Courteous and helpful service from public servants who will normally wear name badges. Services available equally to all who are entitled to them and run to suit their convenience.
- Putting things right. If things go wrong, a full explanation and a swift and effective remedy. Well publicised and easy-to-use complaints procedures with independent review wherever possible.
- Value for money. Efficient and economical delivery of public services within the resources the nation can afford. Independent validation of performance against standards.

The Charter programme is providing more information about public services. Performance tables for schools, hospitals, local authorities and police forces are giving people, for the first time, the opportunity to see for themselves how their local services are performing. In 1996 the Citizen's Charter Unit launched a CD-ROM which contains all these tables and will allow easy access to the information using a map.

Standards are regularly reviewed and revised: as targets are met, so they are raised to keep the pressure on public services to improve. Fourteen of the forty charters have been revised, some more than once. One of the key initiatives under the Charter programme is the Charter Mark award scheme, which recognises excellence and innovation in public service.

Recent developments have included the development of guidelines for handling complaints (The Citizen's Charter Complaints Task Force – Effective Complaints Systems: Principles and Checklist October, 1993). The Citizen's Charter Complaints Task Force Interim Report (Autumn, 1994) seeks to address public comments and concerns on the issue, providing details and examples of appropriate complaints systems, following the

framework established in the Principles and *Checklist*. Amongst its findings were that: many people agreed that public services were more likely to listen to their complaints than a few years ago and a growing number of public services have established systems for reviewing complaints where the complainant remains dissatisfied.

Progress under the Citizen's Charter is reported regularly to Parliament and the public in a comprehensive report by the Prime Minister and Chancellor of the Duchy of Lancaster.

As Charters develop and methods of consulting and involving citizen's improve, more emphasis is being placed on moving beyond the initial concentration on setting standards for aspects of process – for example waiting times for hospital treatment – to developing standards for the outcomes – for example, the quality of the education a child receives. Further charters will be published and standards raised, where possible in consultation with users. Public services will also be encouraged to offer more choice and to give better value for money through, for example, greater private sector involvement.

Quality accreditation is one of the means to provide a guarantee of systems and processes of agencies. 21 agencies have or are seeking formal certification or accreditation of their quality management systems.

## PERFORMANCE REVIEW

Departments are required by a Cabinet decision to undertake ongoing evaluation of *programmes*. Guidance on evaluation techniques is provided by the Treasury. The Efficiency Unit is a small review group located within the Cabinet Office. Since its establishment in 1979 it has undertaken around 400 reviews (scrutinies) of various aspects of departmental and agency operations. These are aimed at identifying potential savings or value improvements, focusing on issues of operational efficiency.

Under the Next Steps approach all central government service activities are reviewed on a five-year basis using the following tests (known as “prior options”):

- Does the function need to be done at all?
- Does the government need to retain responsibility for getting it done?
- If not, can its delivery be privatised?
- If it does, can the whole or parts of the function be strategically contracted out, or market tested?
- If the function is best performed in the public sector, will performance be maximised by establishing it as an executive agency?

Under its value-for-money (performance) audit mandate, the National Audit Office may examine economy, efficiency and effectiveness, although it may not question the “merits of [government] policy objectives”. Three kinds of value-for-money study are identified:

- selective investigations of signs of possible waste, extravagance, inefficiency, ineffectiveness or weakness in control;
- major broad-based investigations designed to provide assurance about performance of importance projects or programmes;
- major reviews of managerial operations, evaluated in terms of common patterns or standards of good practice.

The Office produces about 30 value-for-money reports each year representing about 50 per cent of its work. These reports are considered by the Public Accounts Committee of Parliament. The Office audits agency financial statements but there is not yet any consideration of the formal audit of all performance indicators.

The Audit Commission is responsible for overseeing the audit of local government, which includes health and education authorities and the police. It publishes value-for-money studies, which identify good practice using comparisons of performance on cost, economy, efficiency and effectiveness, and which identify potential savings or value improvements. These focus on operational efficiency and service quality issues.



A specialised Office for Standards in Education was set up in 1992 to inspect, report and improve standards and quality of education through regular independent inspection, public reporting and advice. The Office reports on quality of education, educational standards, development of pupils and management of financial resources.

## **USE OF PERFORMANCE INFORMATION**

### **Performance budgeting**

Performance measures and indicators are used in the budget process to set and review budgets and to facilitate regular evaluation of achievements against objectives. Departments have put efforts into improving the planning and monitoring systems, in order to strengthen the more strategic role of the departments. The allocation of resources is combined with the setting of annual performance targets by the minister. Objectivity of targets and measures is stressed to increase the applicability of performance measures in budget allocations.

### **Performance pay**

Performance information is increasingly important in relation to pay arrangements. Performance pay is seen as an important aspect of improving civil service efficiency. A key principle of the Citizen's Charter is that there should be a clear link between an individual's pay and this or her contribution to the achievement of the organisation's objectives. There are few group performance pay arrangements. The employment of the chief executive of a Next Steps Agency and his or her performance pay relate to the agency's performance against targets set by the minister.

All departments and agencies are introducing pay and grading structures for staff below senior levels tailored closely to their business needs. The importance of a robust performance management system and the benefits of linking pay to performance are widely recognised. Individual pay systems will vary but the pay/performance link will be firmly embedded in the new arrangements.

## **RESULTS-ORIENTED MANAGEMENT**

The Next Steps programme involving the creation of managerially autonomous service delivery agencies is the most comprehensive performance management initiative in UK. By mid-1996 there were 127 executive agencies together with the two departments that operate on Next Steps lines covering over 70 per cent of total civil service employment. Establishing the current candidate organisations as agencies will increase this proportion to around three-quarters by 1996/97.

Flexibility in financial and staffing matters is provided to each agency and is set out in its framework document, which also specifies the agency's aims and objectives and the respective responsibilities of the minister and the chief executive. Each agency is given flexibility on personal management and financial issues, tailored to special needs and conditions. The largest agencies have already taken responsibility for their own pay bargaining and many are operating under net running cost control.

Complementing this are the annual performance targets and resource allocation made by the minister. Targets are published and may be set out in an annual performance agreement between the minister and the chief executive. Setting targets is the responsibility of the minister. Each agency prepares a business or corporate plan. The chief executive reports performance to the minister on a quarterly basis and publishes an annual report to Parliament. Agency accounts are prepared on an accrual basis and audited by the National Audit Office (NAO). The NAO does not audit agencies' performance against targets, although it does undertake substantive value-for-money audits.

Progress under Next Steps is reviewed annually in a Next Steps Review, presented to Parliament each year. (Next Steps Review 1995 presented to Parliament by the Chancellor of the Duchy of Lancaster, February, 1995.) This overview contains a compilation and update on the progress of Next Steps. It

outlines government decisions on the creation of new agencies and the current position concerning organisations being considered for agency status.

Targets and performance may also be scrutinised by Parliament through departmental Select Committees, and the Treasury and Civil Service Committee has also reviewed the general direction of Next Steps in a major 1994 report.

The development is towards introducing some of the Next Steps principles at the level of departments. The *Civil Service: Continuity and Change*, a White Paper presented to Parliament by the Prime Minister in July 1994, reviewed progress and set out the government's agenda for further civil service reform including the introduction of a new system of three-year departmental efficiency plans. Efficiency plans link with each department's planning and management information systems and reflect each department's judgement of the most appropriate mix of the management techniques available. Such techniques include business process re-engineering, benchmarking, staff and management reviews, better asset management, priority-based cost management, IT investment and improved procurement practices.

The Efficiency Unit, in co-operation with the Treasury, reviews efficiency plans both when they are drawn up and when departments report their achievements. Throughout the year the Efficiency Unit and the Treasury support and encourage further developments within departments and agencies. Best practice is identified and shared in the selection and implementation of efficiency measures. In their efficiency plans, government departments and agencies set out plans to open up over €1 billion of activities to competition in the year to 31 March 1996.

Benchmarking is seen as an important approach to improve the efficiency of agencies. The plan is to benchmark civil service organisations and to introduce performance indices to measure and compare agencies' overall progress. The objective is to improve competitiveness and deliver performance to world class standards. Some agencies are already adopting ideas for performance indexation and benchmarking.

As part of the follow up to the Trosa report, the Office of Public Service established a consortium of departments and agencies to undertake individual projects on aspects of the strategic management of agencies. The projects cover governance and advice to ministers, the customer/contractor relationship and the target-setting processes. A report on the project (*The Strategic Management of Agencies: Models for Management*, Next Steps Team, Office of Public Service, September 1995) describes good practice and how they might be applied.

The introduction of market-type mechanisms, especially market testing, is an integral part of performance management. The Competing for Quality initiative was launched in November 1991 with the publication of the White Paper, *Competing for Quality: Buying Better Public Services*. Prior to 1992, the government opened up around €20-25 million worth of activities to external competition each year. In the three first years of the Competing for Quality initiative (from April 1992 to March 1995), departments reviewed in all €2.6 billion worth of activities. These reviews are expected to produce annual savings to the taxpayer of €54 million a year or 21 per cent on average.

Under the Competing for Quality initiative, work undertaken until now by civil servants is considered for competition with the private sector. 937 individual reviews have taken place under the initiative. Of these:

- 47 resulted in a decision to abolish all or a substantial part of the activity.
- 4 activities were privatised.
- 241 activities were contracted out as a result of a strategic decision to employ an outside supplier. No in-house bid was invited in these cases.
- 498 activities were opened up to a market test (where outside suppliers and in-house teams compete). Of these, outside suppliers won the contract in 153 cases, and in-house teams were awarded the work in 345 cases.

- 147 activities were restructured, without a formal tender exercise, but with efficiency gains.

The private sector has been awarded work worth £1.3 billion. Of this, £1.1 billion resulted from a decision to contract out with no in-house bid. In-house teams won 71 per cent of the work by value where they competed, amounting to £19 million. The remaining £795 million of services were either abolished, privatised or underwent internal restructuring, which led to efficiency savings.

Service quality is expected to improve in at least one third of cases and to be maintained in the rest at a lower cost. Through competition, departments and agencies have the opportunity to define clearly the standards of performance they require, and service providers are able to come forward with proposals for the most effective way of delivering the service.

As a direct result of the reviews completed so far, over 20 000 staff have now left the civil service. Nearly 12 000 of these staff transferred to new employers outside central government.

## LESSONS LEARNED AND NEW DEVELOPMENTS

The approach to performance targets may have a considerable impact on the management of agencies. If incorrectly set, targets may narrow the agency's focus, leading it to give the broad policy issues less attention. The targets also need to be challenging and broad. It is recognised that it can be difficult to set targets at the right level: easy achievable targets will not challenge agencies to seek potential improvements, while too tough targets may demotivate management and staff.

Devolution of management autonomy has been accompanied by some parliamentary concerns about maintaining probity in the operations of some government organisations such as Non-Departmental Public Bodies. The Proper Conduct of Public Business, (House of Commons Committee of Public Accounts, Eighth Report, January 17, 1994) summarises the Committee's work over the past few years to report on "a number of serious failures in administrative and financial systems and controls within departments and other public bodies, which have led to money being wasted or otherwise improperly spent." It lists general "failures" to follow rules properly or to provide adequate financial controls, along with a checklist of what it deems to be proper practices. A failure by higher levels of management to intervene soon enough when decentralised management was acting inappropriately is perceived as having been a problem. These concerns have been responded to by the two White Papers and by proposals for a Code of Ethics to govern the activities of civil servants.

In January 1995 the government published a paper *The Civil Service: Taking Forward Continuity and Change*. The paper considers that there are substantial benefits from extending many of the Next Steps principles already applied to agencies – maximum clarity of objectives and targets, delegation of management responsibility, a clear focus on outputs and outcomes – to departments as well. These principles should be applied to areas engaged in policy work where they will offer benefits but the government does not envisage establishing agencies in areas of the civil service primarily concerned with policy.

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## UNITED STATES

### SUMMARY

Current developments in performance management in the United States focus on the implementation of the Government Performance and Results Act (GPRA) and the National Performance Review (NPR).

GPRA provides a seven-year time frame for introducing comprehensive performance management in the federal government. It requires federal agencies to develop strategic plans with measurable goals for each programme, and to publish annual performance plans with measurable goals. In due course such plans will be integrated into the annual budget process.

NPR is a government-wide management improvement initiative directed by the Vice President aimed at “reinventing” the federal government. Its principles include a greater focus on performance rather than process, improved customer service, delegation of authority and responsibility and greater use of market mechanisms. As well as changes to the institutional and legal framework, NPR includes numerous reinvention laboratories and other pilot projects. An initial focus on how government should be managed has been replaced with a greater emphasis on reviewing what activities government should be involved in.

The development of performance measures relating to programme management began with the Chief Financial Officers’ Act of 1990, but the law is not very specific regarding the details of implementation.

In the past, considerable effort has been put into measuring performance in government, including the activities of the congressional audit agency, the General Accounting Office (GAO) in evaluating organisational efficiency and programme effectiveness. However, while a great deal of performance information has been produced its use in the budget and review processes has not been systematic. There has also been a reluctance to publish performance information in many cases.

Performance management developments in state and local governments have been regarded in some cases to be in advance of developments in the federal government.

### OBJECTIVES AND APPROACHES

The objective of performance management is to transform agencies into lean, flexible organisations that emphasize performance and accountability for government spending, through measuring results rather than only the amount of money spent. Service provided to the public should be improved by building on the four principles of the National Performance Review: putting customers first, empowering employees to get results, cutting red tape, and getting back to basics.

Savings have also been an important part of performance management reforms. The Federal work force has been cut by over 200 000 employees since 1993. The aim is to make government smaller but also better managed, and more efficient, *i.e.* creating a government that “works better and costs less”.

Performance management is implemented through a mixture of comprehensive and *ad hoc* reform efforts. GPRA is more comprehensive than earlier attempts to introduce performance measurement in the federal government. It covers all government departments, virtually all agencies and government corporations (although requirements can be modified for smaller agencies). NPR covers different reform efforts and emphasizes experiments, *e.g.* reinvention labs.

The difference between these two programmes is not least that GPRA is a law, supported by both parties in the Congress and by the President. NPR does not have this legal status (although many initiatives have been implemented through specific legislation) and is thus more an internal initiative of the Administration. Other legally based performance management initiatives include the Chief Financial Officers' Act.

Performance management, – GPRA, NPR and other programmes – has been initiated from the top. However, care has been taken to allow for flexible implementation according to the needs of different agencies. Central requirements are usually not very prescriptive, and for example the GPRA gives agencies a seven-year time frame for developing their performance management systems. Agencies do therefore have flexibility to adjust approaches to their needs and develop local initiatives.

There are, however, some important differences between the United States and many other OECD countries. The separation of powers between the executive and the legislative branches results in different relations between the legislative and the executive branches. The Congress has a tendency to “micro manage” the executive branch of government by making very detailed appropriations and setting detailed rules on the use of resources and internal processes. This may limit the flexibility of the executive branch and individual agencies to introduce results-oriented management.

The Office of Management and Budget (OMB) which is a part of the Executive Office of the President, is responsible for improving management in the federal government, including the implementation of the GPRA, and the overall guidance for government financial management policies, including financial statements, financial systems, and internal controls.

The National Performance Review develops reform initiatives and monitors implementation. In the field of performance management NPR particularly drives service quality initiatives.

The congressional audit agency, the General Accounting Office (GAO), is active in evaluating organisational efficiency and programme effectiveness. It also monitors progress of major reform programmes, such as GPRA and NPR, and issues recommendations and guidelines on the implementation of these programmes.

## PERFORMANCE MEASUREMENT

Performance measurement has been used at many points in US history, beginning formally in the 1930s, but the results have generally been limited. Attempts to measure public sector performance, through initiatives like Program, Planning, and Budgeting system (PPBS), Management by Objectives (MBO) and Zero-Based-Budgeting (ZBB) have been undertaken, but the results have often been neither comprehensive nor systematic.

More recently the 1990 Chief Financial Officers (CFO) Act calls for the use of performance measures in annual financial reports, but implementation has been uneven, in part because the CFO Act does not fully address how measures should be used in combination with an overarching strategic plan.

The most comprehensive attempt to introduce performance measurement in the federal government is the Government Performance and Results Act of 1993. GPRA requires agencies to prepare strategic plans and annual performance plans, defining performance goals for a fiscal year, starting with a plan for the fiscal year 1999. GPRA also requires the Office of Management and Budget to prepare an annual government-wide performance plan, which will be based on the annual performance plans of the agencies. This government-wide performance plan will be a part of the budget and transmitted to Congress. The level of proposed funding in the budget is supposed to correspond to the defined performance in these plans.

Agencies are also required to issue an annual performance report which compares actual performance with the goals set in the performance plan. The first report is to be submitted six months after the end of the 1999 fiscal year. There is no single approach to performance measurement and GPRA thus avoids too much specification in relation to how agencies should measure their performance. However, the view is that almost all activities of the government can be measured in some way.

The annual performance plan will define both the performance to be achieved and how to achieve it. One or more performance goals is to be set for each programme in the plan. The performance goals should be measurable targets for performance against which actual achievement can be compared. The performance goals can be accompanied by performance indicators, which are used to measure performance in terms of outcomes and outputs. The performance goals should be linked to general goals in the strategic plan and be a measurable step toward achieving the general goals.

Different types of measures have been used in the US, *e.g.* input, output, efficiency and outcomes, but the focus of the GPRA is clearly on strategic outcomes. Actually GPRA defines only two types of measures, output and outcome. Outcomes are often only achieved over the long term so there is also a need to use more short-term measures. Output measures can thus be important, especially if they can be linked to outcomes. This improves the understanding of how changes in resources might affect the desired outcomes. Service quality targets and measures of service quality standards should also be incorporated into performance plans and reports.

The annual performance report compares actual performance with planned performance for each performance goal and indicator. If a goal is not achieved the report should explain why, and also explain how the goal will be reached in the future. It may also be necessary to modify or discontinue a goal if it is impractical. The report should include a summary of findings of any programme evaluation. The reports will be sent to the President and Congress and will be available to the public. The objective is to make agencies directly accountable for results.

Although these requirements have not yet been fully implemented due to the long time frame of the GPRA, they have been partially implemented through performance measurement pilot projects provided by the law. The purpose is to test whether the annual performance plan and report work as intended. There are over 70 pilot formal pilot projects and also a number of informal projects covering a wide range of agencies and functions of government. The pilot projects have submitted up to three separate annual performance plans and corresponding performance reports.

The experience is that good performance plans can be produced across the government, and the best plans are illustrative examples of promising practices. However, there have been major problems with a significant number of pilot plans. These include difficulties in defining goals and lack of information for preparing the plans. Many plans also had weak performance measures, *e.g.* non-measurable declarations, procedural targets, and unfocused goals. Steps have been taken to improve the quality of the plans. The quality of the performance report does in many cases correspond to the quality of the performance plan.

Reforms of financial management and reporting are a necessary underpinning for more effective performance measurement. There are attempts to streamline current reporting requirements through annual audited financial statements. Government-wide financial accounting and cost accounting standards are being developed so that agencies can prepare financial reports and cost information that makes them more accountable to taxpayers.

Some state and local governments in the United States are active in performance measurement and strategic planning, including Florida, Minnesota, North Carolina, Oregon, Texas and Virginia. Oregon has developed a project under which social indicators have been established by the state government as a basis for formulating the state's strategic plan. Other states have shown interest in benchmarking themselves against these indicators.

## SERVICE QUALITY

Improved customer service or "putting customers first" is a central element of performance management reforms, implemented primarily through the National Performance Review. A 1993 Executive Order "Setting Customer Service Standards", issued by the President, directs agencies to develop a comprehensive programme of customer surveys and standards to improve service delivery. This initiative should include a number of service quality improvements, including:



- identifying the customers of the agency;
- using customer surveys to determine the level of service that the customers want and their level of satisfaction;
- defining standards of service and measurement of results against them;
- benchmarking against best practice in the business sector;
- providing choices to customers;
- making information and services easily accessible; and
- providing complaint mechanisms.

In 1994 the NPR published the government's first comprehensive set of customer service standards. The objective of the standards is to restore the clients' trust in government. Agencies have issued about 2 000 service quality standards, emphasizing quality improvement. Some of the standards include measurable service quality measures and targets. Most of the standards focus on issues such as timeliness and providing reliable information. An emphasis is also put on improving customer contact and re-engineering processes that involve contact with customers.

Priority is given to measuring results and identifying customers' needs to improve the quality of service. A number of the agencies are improving service through the Internet and plan to obtain feedback from their customers through that medium.

## PERFORMANCE REVIEW

The General Accounting Office assists the Congress in its oversight of the executive branch and encourages effective management and accountability. GAO carries out a large number of performance auditing projects and programme evaluations. These reviews consist of economy and efficiency audits, programme effectiveness evaluations, and examination of the adequacy of management structures, systems and processes.

The purpose of economy and efficiency audits is to identify how waste and inefficient use of funds can be reduced and how the use of resources can be improved to better meet programme objectives. The audits tend to focus on specific issues such as procurement, use of resources, avoiding duplication and the adequacy of performance measurement. Programme evaluations focus on how effectively programmes and activities are meeting their objectives. The objectives of the evaluations is thus to improve the extent to which programmes meet the stated policy objectives.

Agencies, responsible for implementing programmes, also conduct their own programme evaluations, and have developed their own programme evaluation functions and expertise. The GPRA requires agencies to include in their strategic plan a description of programme evaluations used and a schedule for future evaluations. A study prepared for the Committee on Governmental Affairs of the Senate by the National Academy of Public Administration (The Roles, Mission and Operation of the US General Accounting Office, October 1994) finds that GAO should not be the government's primary source of evaluations. Evaluations must be an ongoing function of agencies. However, it is interesting that agencies' programme evaluations reduced as the number of GAO evaluations grew.

Internal audit is well developed, carried out by the Inspectors-General of agencies. They are formally independent of the agency but are under the general supervision of the head of the agency and report to him, but also directly to Congress. Inspectors-General manage evaluation, review and audit activities. Inspectors-General were criticised by NPR for focusing more on finding mistakes than on improving performance. In respond to this they issued a "Reinvention Statement" committing themselves to work with management in improving performance.

## USE OF PERFORMANCE INFORMATION

### Performance budgeting

The annual budget has included some information on the relationship between spending levels and programme activity or achievements. However, this can not be characterised as performance budgeting.

One of the objectives of GPRA is to move budgeting in the direction of performance budgeting. Pilot projects will be carried out during fiscal years 1998 and 1999 to test performance budgeting. The pilots will be based on optimisation analyses to present budgetary choices and to evaluate effects of different budget levels on levels of performance. Cost-accounting data will also need to be improved. Decision on whether or not to implement performance budgeting across the Federal Government will be taken on the basis of the experience from the pilot projects. However, performance information will feed into the budget process and may influence decision makers and the Congress in allocating resources.

Clearly the development of performance measures as required by the GPRA will be an important precondition of improving budget allocations and introduce performance budgeting. The key issue is whether or how Congress will use the performance information provided.

### Performance pay

Various performance pay arrangements have been used in the federal government. Forms of payments have included cash awards, merit pay, bonuses and sharing of productivity gains. The Performance Management and Recognition System that covered most agencies was considered to be too complicated and ineffective and was consequently terminated by Congress. The NPR emphasizes that agencies should design their own performance pay systems to improve the performance of individuals and organisations.

Performance agreements are agreements between the President and Cabinet Secretaries (position equal to cabinet minister in other countries) or the head of an independent agency (eight have been signed). These agreements include key performance improvement initiatives and commitments by the agency to become more customer-focused and results-oriented. The performance commitments are quite diverse, ranging from very general statements to more concrete measures and initiatives. The contracts are not pay related, i.e. are not used to reward or penalise individual performance.

## RESULTS-ORIENTED MANAGEMENT

Results-oriented management is being introduced both through the Government Performance and Results Act and the National Performance Review. The combined objective of these initiatives is to introduce many performance management approaches, including:

- strategic planning;
- increased managerial autonomy and a focus on results rather than processes;
- performance-based organisations;
- redesign of processes and activities through reinvention laboratories;
- performance-based intergovernmental partnerships; and
- benchmarking of results and best practices.

The Government Performance and Results Act requires all federal agencies to develop multi-year strategic plans, annual performance plans and to report on performance. The strategic plans are the foundation of all other GPRA activities. Their purpose is to base performance measurement on a clearly defined mission that states the agency's purpose and its long-term direction. The plans should cover at least six years and be revised and updated at least every three years. The strategic plan should contain the following elements:

- comprehensive mission statement;
- general goals and objectives of the agency and description on how they will be achieved;
- description of the links between the performance goals in the annual performance plans and the general goals and objectives of the strategic plan;
- key external factors that might affect achievement of the goals and objectives; and
- programme evaluations used and a schedule for future evaluations.

Development of a strategic plan requires extensive consultation with many stakeholders, including Congress, about the agencies future direction and priorities. Agencies are encouraged to co-ordinate strategies, where functions cut across agencies.

The initial strategic plans will be submitted to the Office of Management and Budget and Congress in September 1997. Many agency's are well on their way to developing the plans, and plans or draft plans have been reviewed by the OMB. A number of key problems and issues have been identified, including:

- difficulties in linking general and annual performance goals;
- the co-ordination of cross-cutting functions is too limited;
- the best plans are from agencies where top management has been involved in their development; and
- few agencies have begun extensive consultations with stakeholders.

The GPRA also has provisions for giving managers greater management flexibility by allowing the waiver of administrative controls and limitations in exchange for more accountability for performance. These possible flexibilities are limited to administrative and procedural requirements prescribed by rules and directives, and do not cover requirements established in law. Experience so far shows that requests for waivers have been few and generally narrow. Some of these rules were self imposed and can be removed by the agencies themselves. The conclusion was that the pilot projects would not adequately test the concept of greater flexibility in exchange for greater accountability.

The concept of greater flexibility in exchange for greater accountability is being further pursued in a careful development towards the creation of executive agencies or Performance-Based Organisations (PBOs). PBOs will get greater management autonomy in the fields of personnel, procurement and financial management, in return for accountability for meeting measurable performance goals. They can have fewer statutory controls, and their flexibility is more ambitious than in the GPRA pilots. The use of performance contracts is being developed in relation to PBOs. The Patent and Trademark Office is the first agency function to be transformed into a PBO. Other agency service functions are expected to follow.

The National Performance Review (NPR) has introduced many initiatives that cover the federal government in general, but also hundreds of more specific proposals for restructuring programmes and agencies. The objective of the NPR is not least to change the culture and attitudes in the public sector, and to increase the focus on service quality and results. Savings have also been an important objective.

Phase II of the NPR continued the "reinventing government" efforts through a focus on four themes: consolidation, devolution, privatisation and termination. This includes restructuring a number of major agencies, consolidating programmes, and privatising or terminating a number of services and programmes. The ambition is also to re-evaluate the roles of agencies, including whether or how their work should continue in relation to the private sector, non-profit sector, community groups, and other levels of government.

Providing greater autonomy has been an important element of the NPR; the simplification of procurement and personnel rules are major illustrations. The objective is to replace centralised and inflexible processes by decentralised management structures focusing on results. Empowering employees is a central theme, aiming at encouraging and recognising their enterprising efforts. This emphasis is reflected in the cut in the number of supervisory personnel by over 45 000, or 23 per cent of the overall cut in the number of employees.

The NPR emphasizes reform through experiments, *e.g.* reinvention laboratories. Over 200 have been created to move organisations from bureaucratic processes to achieving results. Some focus on the work of entire agencies, while others concentrate on improving or redesigning specific processes. Some agencies have bought heavily into the reinvention process, and there are also examples of substantial downsizing.

Performance management reforms also cover relations between the federal government and other levels of government, through performance-based intergovernmental partnerships. State and local governments get more flexibility in exchange for commitments to specific performance levels. There are proposals for consolidating 271 programs into 27 performance partnerships, but they have not yet been approved by Congress. An interagency partnership has been established with the state of Oregon to achieve specific results. Federal agencies give their state counterparts more flexibility in exchange for accountability for achieving measurable results.

NPR tries to spread best practice across the public sector through a number of initiatives, including a creation of an Internet site of promising practices from federal agencies called “Benchnet” which enables agencies to benchmark themselves against these practices. Comparison is regarded as a powerful lever for improvement. Processes that have been benchmarked include telephone answering and complaints handling.

## LESSONS LEARNED AND NEW DEVELOPMENTS

Performance management reforms have been extensively monitored, both internally and by external reviewers such as GAO and others. The GPRA has a long time-frame and it is therefore difficult to evaluate what effect the Act will have. However, any improvements in strategic planning and performance measurement should be an indication of success. It is clear that the congressional willingness to use GPRA information once the Act will be fully implemented will be extremely important. It is also difficult to evaluate the overall benefits of the NPR as it covers so many and diverse initiatives.

Three main achievements of performance-related reforms are identified in the “Budget Supplement” for the fiscal year 1997:

- the federal workforce has been cut by over 200 000 employees since 1993;
- the government is providing better service to the public; and
- agencies are being transformed into lean, flexible organisations that measure their results and are accountable for their spending.

GAO has identified emerging challenges that need to be addressed to ensure effective implementation of GPRA:

- developing and maintaining top management commitment;
- improving the capacity of agencies to implement the requirements and use performance information;
- creating incentives to implement the requirements and change the focus of management and accountability;
- integrating GPRA into daily operations; and
- building a more effective congressional oversight approach.

GAO has also identified a number of indications of success, *e.g.* a growing number of agencies see that focus on outcomes can lead to dramatic improvement in effectiveness.

A review of the NPR for the Brookings Institution, Center for Public Management (Reinventing Government? Appraising the National Performance Review, by Donald F. Kettl, August 1994) found that the NPR has produced “some impressive results” in its first year, more than almost anyone believed possible. NPR is characterised as being “a genuine start on changing the culture of government; simplification of some rules and procedures ... improved top-level co-ordination of the government’s management; and the stimulation of widespread innovation by federal managers through reinvention labs.” However, it considers the NPR has been preoccupied with savings over performance improvement.

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*Annex*

## **KEY PERFORMANCE MANAGEMENT ISSUES**

This section of the publication summarises the information provided in the country chapters. The information provided should be regarded as indicative of the approaches used in the different countries. The objective is to assist the reader and not to rank individual countries or determine which of them is most advanced in a given field. Necessary simplifications and interpretations do not reflect the complexity of performance management in the different countries. This section should therefore be used in conjunction with the country chapters.

- Key performance management questions, is a checklist covering the most important objectives, approaches and arrangements in relation to performance management. The checklist corresponds to the main issues addressed in the country chapters.
- Overview of key performance management issues. This aims to show key developments in the ten countries in a user-friendly and comparable way. It is based on key performance management questions. It is not the goal to say something on each issue for each country; only major developments are mentioned.
- Table of key performance management issues. The table summarises the country overviews. The purpose is to make the information more comparable and more accessible. The table is based more on the relative importance of an objective/approach/instrument within a country than on the extent that it is used compared to other countries.



## KEY PERFORMANCE MANAGEMENT QUESTIONS

### I. OBJECTIVES AND APPROACHES

#### Objectives and Focus

- Management and improvement: Is the internal use of performance management, to support management and continuous improvement, a major objective?
- Accountability and control: Is the external use of performance management, to increase accountability to responsible ministers or to the public, a major objective?
- Savings: Are direct savings on the budget a major objective?

#### Approach

- Comprehensive: Is the approach to performance management comprehensive, *i.e.* covering different instruments and most activities or organisations?
- Legislative: Is performance management based on specific laws or lower level legislation?
- *Ad hoc*: Are *ad hoc* initiatives (related to specific problems or needs) an important part of performance management?
- Top-down: Are performance management initiatives imposed from the top?
- Bottom-up: Are performance management initiatives developed at the agency level? Are such initiatives actively supported by departments and central management units?

#### Institutional arrangements

- Finance – Budget departments: Do finance or budget departments have a role in performance management?
- Other central departments: Do other central departments (administration, prime minister/cabinet, personnel) have a role in performance management?
- Special management bodies: Have special management bodies or units been created to develop and implement performance management initiatives?

### II. PERFORMANCE MEASUREMENT

#### Performance measurement

- Indicators: Are simple and transparent indicators used as performance measures?
- Measurement systems: Are specialised systems used to measure performance?
- Qualitative measures: Are qualitative, indirect measures used along with quantitative measures?
- Processes (activities): Are measures of processes, activities or new initiatives important in performance measurement?



- \* Efficiency (outputs): Are measures of outputs important in performance measurement?
- \* Effectiveness (outcomes): Are measures of outcomes important in performance measurement?
- \* Service (delivery) quality: Are service quality measures important in performance measurement?
- \* Financial performance (economy): Are financial measures (cost of inputs, etc.) important in performance measurement?

#### **Financial management**

- Accrual accounting: Is accrual accounting used to improve cost information and the basis for performance measurement?
- Cost allocation: To what extent have systematic methods been developed to allocate costs to different outputs?
- Integration of management systems: Are financial management and performance management systems co-ordinated or integrated?

#### **Reporting Performance Information**

- Public availability: Is information on performance generally made available to the public and is it used to improve relations with the public?
- Annual reports: Is information on performance generally published in annual reports?
- Budget reports: Is information on performance systematically collected in relation to the preparation of the budget and published in relation to the budget proposal?
- Performance contracts: Are contracts, or performance targets set in contracts, publicly available?
- Local government performance: Are indicators of performance of local government collected and published?

### **III. SERVICE QUALITY**

- Service standards: Have service standards been used to define the level of service the clients are entitled to receive?
- Service statements: Is level of service and service quality declared to the public in simple service statements?
- Customer surveys: Are customer surveys used to measure perceived quality?
- Quality management (Systems): Are quality management systems widely used to improve the quality of public service?

### **IV. PERFORMANCE REVIEW**

- Internal evaluation: Are there specific methods or arrangements for the internal evaluation of agencies?
- Performance auditing: Does a state auditing body audit the performance of agencies? Is the accuracy and relevance of performance information audited?
- Quality monitoring units: Have special quality monitoring units been created to monitor and evaluate service quality and performance in specific sectors?
- Programme evaluation: Are government programmes evaluated in a systematic way? Are the evaluations done on a regular or *ad hoc* basis?

### **V. USE OF PERFORMANCE INFORMATION**

#### **Performance budgeting**

- Performance informed Decisions: Is information on performance actively used to improve the quality of decisions in the budgeting process?

- Performance based allocation: Are there sectors where allocation of resources is more or less directly linked to units of performance?

### Performance pay

- Individual agreements: Are there individual agreements where evaluation of performance has an effect on pay?
- Individual performance pay: Does evaluation of performance have an effect on the pay of individuals?
- Group productivity pay: Is measured performance of organisational units or groups of staff used to pay bonuses to the staff?

## VI. RESULTS-ORIENTED MANAGEMENT

### Devolution and Autonomy

- Relaxation of input controls: Have input controls (limitations on the use of resources, allocation to specific expenditure items) been relaxed?
- Reduction of process controls: Have process controls (detailed rules on the process of providing services and operations of agencies) been reduced?
- Autonomous agencies: Have (semi)autonomous agencies been established? Has more autonomy been granted to the existing agencies?
- Risk management: Are managers entrusted to take and manage risks? Are there formal methods for managing risks?

### Management reforms

- Benchmarking (process, results): Are processes or results of agencies benchmarked and is benchmarking used to compare and improve performance?
- Corporate and strategic planning: Is corporate and strategic planning a part of performance management?
- Performance contracts: Are contractual arrangements used to set performance targets and grant more managerial autonomy to agencies?
- Market testing – contestability: Is performance management related to use of methods such as contestability, market testing, provider – purchaser splits or internal markets?

### Overview of key performance management issues

Country	Australia	Canada	Denmark	Finland
<b>I. OBJECTIVES AND APPROACHES</b>				
<b>Objectives and Focus</b>				
<ul style="list-style-type: none"> <li>Management and Improvement: Is the internal use of performance management, to support management and continuous improvement, a major objective?</li> </ul>	→ Improved public sector efficiency and outcomes are important goals, as well as enhancing responsiveness of the public service	→ Performance management is to ensure flexible management and client-centred service to the public	→ The main objectives are to increase management capacities of agencies and focus on clients and service quality	→ Performance management is meant to introduce organisational and cultural changes and make the administration more efficient and service-oriented
<ul style="list-style-type: none"> <li>Accountability and Control: Is the external use of performance management, to increase accountability to responsible ministers or to the public, a major objective?</li> </ul>	→ Accountability is an important objective. Considerable work has been undertaken to clarify and expound the accountability concepts underlying the reforms.	→ New reporting mechanisms aim at improving accountability for performance	→ Clear definition of objectives and performance targets are meant to increase the control of ministers over policy	→
<ul style="list-style-type: none"> <li>Savings: Are direct savings on the budget a major objective?</li> </ul>	→	→ Performance management systems are a part of an overall strategy to reduce budget deficit	→ Overall savings were an important objective of the former coalition, but the current coalition emphasizes reallocation of resources within the budget	→ The economic crisis in the early 1990s turned the focus onto budget reductions rather than performance improvement
<b>Approach</b>				
<ul style="list-style-type: none"> <li>Comprehensive: Is the approach to performance management comprehensive, i.e. covering different instruments and most activities or organizations?</li> </ul>	→ The reforms are comprehensive, combining a wide range of approaches which have been implemented across the public sector.	→ Recent reforms aim at making performance management more comprehensive, without issuing too prescriptive requirements.	→ Performance management is based on a range of instruments.	→ The basic approach to performance management is comprehensive, in terms of coverage and instruments applied.
<ul style="list-style-type: none"> <li>Legislative: Is performance management based on specific laws or lower level legislation?</li> </ul>	→ The approach to reforms can not be characterised as legislative, but it is considered necessary to provide a solid legal basis	→	→ Existing legislation usually provides sufficient flexibility for initiating reforms.	→
<ul style="list-style-type: none"> <li>Ad Hoc: Are ad hoc initiatives (related to specific problems or needs) important part of performance management?</li> </ul>	→ Implementation of the reforms has been flexible, giving space for ad hoc initiatives.	→ Departments and agencies are able to initiate local programmes.	→ Performance management is based on ad hoc initiatives and experiments, rather than comprehensive changes across the public sector	→ Important projects are initiated on an ad hoc basis and many reforms have initially been tested in pilot projects.
<ul style="list-style-type: none"> <li>Top-Down: Are performance management initiatives imposed from the top?</li> </ul>	→ The major reform initiatives have been developed at the top.	→ The basic framework for performance management and initiatives are developed at the centre	→ Initiatives often come from the top, but are implemented through persuasion and incentives rather than command.	→ The basic outline for reform comes from the top, along with guidance and principles.
<ul style="list-style-type: none"> <li>Bottom-Up: Are performance management initiatives developed at the agency level? Are such initiatives actively supported by departments and central management units?</li> </ul>	→ Individual departments have the responsibility for developing their own performance measurement and management systems	→ Departments and agencies have considerable discretion over the use of performance management instruments	→ Bottom-up initiatives are actively supported through development of best practice guidelines and other assistance.	→ Initiatives from the line ministries and agencies are important and the reforms allow for flexible implementation.

## Overview of key performance management issues (cont.)

France	→ Netherlands	→ New Zealand	→ Sweden	→ United Kingdom	→ United States
→ General improvements in management, and especially improved relationship between management and staff, is an important objective.	→ Performance management is to foster effectiveness and efficiency of programmes and strengthen management.	→ Performance management is designed to embed a culture of high performance and value for money.	→ Reforms emphasize management by results, with the overall objective to improve the quality and flexibility of public services.	→ Effective delivery of service to the customer and continuous improvement in value for money are important objectives.	→ The objective of performance management is transforming agencies into lean, flexible organisations that emphasize performance.
→ Increased accountability for results is a key objective.	→ Accountability is an important objective, especially in the case of agencies.	→ Almost all reforms have focused on the need to clarify accountability and responsibility.	→ It is considered important to transform traditional accountability mechanisms, based on detailed controls, into accountability for results.	→ Ensuring clear accountability for performance is a central element of Next Steps and performance measurement.	→ Accountability for performance is an important objective.
→ Better use of resources is a priority in a context of decreasing budgets	→ Savings are not a direct objective of performance management, but many programme reviews aim at budgetary savings.	→ Fiscal responsibility and savings have been an important objective.	→ Improved performance is important to improve the fiscal situation and reduce the budget deficit.	→ It is considered important to reduce the size of the public sector (Public Service and running costs).	→ Direct savings are an indirect objective of performance management.
→ The framework for reform is comprehensive and new reform initiatives include more comprehensive performance management approaches.	→ The approach to performance measurement is comprehensive, both in central and local government.	→ The reforms are comprehensive, applying wide range of approaches across the public sector to ensure radical changes in organisation and management of the public sector.	→ Performance management covers all agencies and includes extensive requirements for performance measurement and reporting.	→ The major performance management initiatives apply wide range of performance management instruments and cover most of the public sector.	→ Some performance management initiatives are comprehensive, especially the GPRA, which covers all agencies.
→ Programmes are initiated through legal instruments, laws but more often circulars, which are more flexible than laws or decrees.	→ Government organisations are required by law to provide performance information (Government Accounts Act).	→ The performance management framework is set in legislation, particularly the State Sector Act and the Public Finance Act.	→ Performance management is based on the budget law and government ordinances.	→	→ Major reforms efforts, except the NPR, are based on laws.
→ There are important initiatives within individual ministries and organisations to address specific problems or subjects.	→ Besides formal requirements, projects are initiated on ad hoc basis	→	→ Besides central initiatives there are initiatives, of agencies and local level of government, especially service quality initiatives.	→	→ The NPR has an ad hoc character, although some of its efforts are comprehensive.
→ Most reforms are initiated from the top, but they are not prescriptive.	→ The basic approach to performance management is centrally initiated.	→ The reforms have been mandatory and initiated from the top.	→ The basic reforms, setting the framework for performance management, are initiated from the top.	→ Most of the initiatives come from the top, and performance targets are set by ministers (after consultation with agencies).	→ Performance management, both GPRA, NPR and other programmes, has been initiated from the top.
→ Implementation and the actual content of the reforms is mostly bottom-up.	→ Many initiatives come from agencies and local government.	→ Departments and agencies develop their own approaches within the reform framework, especially service quality initiatives.	→ Agencies enjoy a high degree of autonomy over the substance, format and extent of performance measurement and there is considerable flexibility for local initiatives.	→	→ Requirements are usually not very prescriptive, giving some flexibility for bottom-up initiatives. NPR initiatives are often bottom-up, but support by agencies is uneven

## Overview of key performance management issues (cont.)

Country	→ Australia	→ Canada	→ Denmark	→ Finland
<b>Institutional Arrangements</b>				
• Finance – Budget Departments: Do finance or budget departments have a role in performance management?	→ The Ministry of Finance has major responsibility for developing and implementing main programmes.	→ The Treasury Board Secretariat has the overall responsibility for performance management, and develops and manages reforms initiatives.	→ The Ministry of Finance has overall responsibility for reforms and develops general reform initiatives.	→ The Ministry of Finance guides the reform, develops new methods and principles.
• Other Central Departments: Do other central departments (administration, prime minister/cabinet, personnel) have a role in performance management?	→	→	→	→ The Ministry of the Interior guides the reforms of local and regional government
• Special Management Bodies: Have special management bodies or units been created to develop and implement performance management initiatives?	→ The Management Advisory Board and the Management Improvement Advisory Committee play an important role in management reforms.	→	→ The Agency for Financial Management assists agencies and departments in their own reforms and improvement initiatives	→ The Public Management Institute provides consultancy and training support
<b>II. PERFORMANCE MEASUREMENT</b>				
<b>Performance Measurement</b>				
• Indicators: Are simple and transparent indicators used as performance measures?	→ Indicators are used along with more complex measures	→ Indicators are used along with more complex measures.	→ Indicators of performance are more widely used than special measurement systems	→ Indicators are used along with more complex measures
• Measurement Systems: Are specialized systems used to measure performance?	→ Departments and agencies have put substantial effort in developing measurement systems over the past years.	→ The emphasis is on formal measurement systems using data from financial accounting and administrative systems	→ Some agencies have developed more specialised measurement systems	→ Many agencies have developed special systems for measuring performance
• Qualitative Measures: Are qualitative, indirect measures used along with quantitative measures?	→ Qualitative measures are used as well as more concrete measures.	→ More qualitative measures are also used, especially in relation to programme evaluations.	→ Qualitative measures are used as well as more concrete measures.	→ Qualitative evaluation is used in areas where it is difficult to develop quantitative measures.
• Processes (Activities). Are measures of processes, activities or new initiatives important in performance measurement?	→	→	→ Process measures are widely used.	→
• Efficiency (Outputs): Are measures of outputs important in performance measurement?	→ Efficiency measures are used, especially when outcome measures are difficult to develop	→ Efficiency measures are widely used.	→ Many performance contracts include efficiency measures	→ Efficiency measures are important, including unit cost of outputs and labor productivity
• Effectiveness (Outcomes): Are measures of outcomes important in performance measurement?	→ The emphasis of performance measurement is on the development of outcome measures.	→ Effectiveness measures are used but the quality is variable.	→	→ Agencies should use effectiveness measures to the extent possible and a number of them have developed such measures

## Overview of key performance management issues (cont.)

France	→ Netherlands	→ New Zealand	→ Sweden	→ United Kingdom	→ United States
→ The Ministry of Finance is responsible for performance management in relation to budgeting, financial management and control, and performance measurement.	→ The Ministry of Finance has the responsibility of performance management in central government, including performance measurement and programme evaluation.	→ The Treasury is responsible for financial management and financial performance of public sector organisations.	→ The Ministry of Finance has the overall responsibility for performance management.	→ Treasury has an important role in relation to both financial management reforms and performance management in general.	→ OMB is responsible for improvement of management (including GPRA) and the overall guidance for government financial management policies.
→ The Ministry for the Public Service is responsible for formulating and implementing reforms.	→ The Ministry of Home Affairs initiates modernisation schemes and promotes performance management at the local level	→ The State Services Commission is responsible for the administration of the State Sector Act and reviews performance of chief executives and departments.	→	→ The Office of Public Service (OPS) drives the performance management programme.	→
→ A number of organisations play important 'think tank' or consultative roles, and provide important input into the reform process.	→	→	→ The Agency for Administrative Development and the National Audit Office have important roles in the development of result-based management	→ New units have been created with in OPS to carry out major reform initiatives (Efficiency Unit, Citizen's Charter Unit and Next Steps Team).	→ The National Performance Review has its own staff, which develop reform initiatives and monitor implementation.
→ Performance indicators are used in responsibility centers but the quality varies	→ Performance indicators are widely used in both central and local government.	→	→ Performance indicators are widely applied	→ The focus is on a small number of key and simple targets.	→ General performance goals are accompanied by performance indicators.
→ Some ministries and agencies have developed formal measurement systems which are actively used	→ Many organisations have set up measurement systems. The systems are being developed to cover more types of measures.	→ The emphasis is on formal measurement with full costing of outputs.	→ Various methods to measure performance in a systematic way have been developed.	→	→
→ Each service is to set up qualitative targets as well as quantitative.	→ Lately there has been a growing emphasis in certain areas on qualitative measures.	→	→ There has recently been a shift from quantitative measures towards qualitative aspects of performance measurement	→ Although it is considered important that targets are measurable in an objective way, there is also a need for more qualitative measures.	→
→	→ Many performance indicators focus on activities.	→ Process measures may be a part of chief executives performance agreements.	→ Many annual reports focus on process measures	→	→
→	→ Efficiency measures (including unit cost of outputs) are important, and recent initiatives have stressed the importance of efficiency measures.	→ A distinctive feature of performance management is emphasis on outputs	→ Efficiency indicators have traditionally been dominant.	→ There is a clear preference for efficiency and outputs targets.	→ Output measures are important, especially if they can be linked to outcomes.
→	→ Effectiveness measures are especially important in evaluations, but intentions to measure effectiveness have not yet been fully met.	→ Some outcome evaluation activity related to policy advice and service delivery is undertaken by departments/ministries and agencies.	→ There is a development towards more use of effectiveness measures.	→	→ The focus of the GPRA and performance measurement in general is on strategic outcomes.

## Overview of key performance management issues (cont.)

Country	→ Australia	→ Canada	→ Denmark	→ Finland
<ul style="list-style-type: none"> <li>• <i>Service (Delivery) Quality:</i> Are service quality measures important in performance measurement?</li> </ul>	→ Service quality measures are used and are emphasized in relation to service quality initiatives.	→ Service quality measures are widely used, including accessibility, accuracy, timeliness, fairness and responsiveness.	→ There is an emphasis on service quality measures, to secure that improvement is directed towards the consumers.	→ Quality of output and quality of service delivery are measured as well as consumer satisfaction
<ul style="list-style-type: none"> <li>• <i>Financial Performance (Economy):</i> Are financial measures (cost of inputs etc.) important in performance measurement?</li> </ul>	→	→ Financial measures are relatively well developed.	→	→ Performance measures should include economy measures
<b>Financial Management</b>				
<ul style="list-style-type: none"> <li>• <i>Accrual Accounting:</i> Is accrual accounting used to improve cost information and the basis for performance measurement?</li> </ul>	→ Government departments and agencies are required to issue financial reports on an accrual basis.	→ Full accrual accounting is being introduced.	→ All public corporations, contract agencies and agencies receiving net-appropriation are required to prepare financial statements on accrual basis.	→ Accrual accounting is seen as an important part of results-oriented reforms and accrual accounting is to be used across the State administration.
<ul style="list-style-type: none"> <li>• <i>Cost Allocation:</i> To what extent have systematic methods been developed to allocate costs to different outputs?</li> </ul>	→ Financial reports should focus on the net cost of providing services.	→	→ Agencies are required to define main activities and provide information on the costs of each activity.	→
<ul style="list-style-type: none"> <li>• <i>Integration of management systems:</i> Are financial management and performance management systems coordinated or integrated?</li> </ul>	→	→	→ The objective of new annual reports is to better integrate financial and performance reporting.	→
<b>Reporting Performance Information</b>				
<ul style="list-style-type: none"> <li>• <i>Public Availability:</i> Is information on performance generally made available to the public and is it used to improve relations with the public?</li> </ul>	→ Performance information is generally publicly available, through a range of reporting mechanisms.	→ Performance information is publicly available in annual reports and budget documents.	→ Existing performance information is generally publicly available.	→ Performance information is generally publicly available.
<ul style="list-style-type: none"> <li>• <i>Annual Reports:</i> Is information on performance generally published in annual reports?</li> </ul>	→ Annual reports are now the key performance reporting document.	→ Performance information is to be reported through annual performance reports to Parliament	→ New annual reports will be central documents in reporting performance information	→ Departments and agencies are required to prepare annual reports with performance information.
<ul style="list-style-type: none"> <li>• <i>Budget Reports:</i> Is information on performance systematically collected in relation to the preparation of the budget and published in relation to the budget proposal?</li> </ul>	→ Various reporting mechanisms have been used to inform the budget process, but annual reports are now most important.	→ Annual reports and business plans that include performance information are used in the budget process	→ Agencies have been required to report some performance information in relation to the budget process, but annual reports will replace this requirement.	→ Targets set in results agreements are reported in a more summarised way in budget proposals.

## Overview of key performance management issues (cont.)

France	→ Netherlands	→ New Zealand	→ Sweden	→ United Kingdom	→ United States
→ There is increasing emphasis on service quality measures. A number of common indicators exist: timeliness, accessibility, and complaint processing.	→ There is an emphasis on service quality, particularly at the local government level.	→ Quality is prespecified (including accuracy, completeness, accessibility, timelines, and customer satisfaction) and forms part of appropriations and is reported on and audited.	→ Service quality measures are common, especially in relation to local service quality initiatives	→ Service Quality measures and targets are important, both in relation to performance agreements and charters.	→ Service quality targets and measures should be incorporated into performance plans and reports.
→ Financial measures are important in the more formal measurement systems.	→	→ Financial measures are important in relation to commercial activities.	→ Agencies are required to include certain financial measures in annual reports.	→ Financial targets have been given a high priority.	→ Improvement of financial reporting and measures is seen as important
→	→ Autonomous agencies are required to provide financial statements using accrual accounting.	→ Accrual accounting is used to show the full costs of programmes and activities, including capital costs, and budgets are prepared on an accrual basis.	→ All agencies use accrual accounting to measure and report costs in their annual reports.	→ Agency accounts are prepared on accrual basis.	→
→ The Ministry of Public Facilities has been the leading ministry in allocating costs to outputs.	→ Special methods have been developed for allocating costs to outputs.	→ Costs are allocated to outputs.	→ Agencies are required to provide information on costs.	→ Future developments of financial management are to relate expenditure to outputs.	→ Cost accounting standards are being developed so that agencies can prepare cost information.
→ The need to link financial management reforms to performance measurement is well understood	→ Improved integration is an important objective in the coming years.	→ Financial management been transformed to ensure better integration with performance management.	→ Reporting of financial information and performance information is integrated in annual reports.	→ A checklist of best practice has been published to enable better integration of planning, budgeting, monitoring and reporting.	→ Integration of financial management and performance management is an objective of many initiatives, and is supposed to increase in the future.
→ Performance reports have not necessarily been available to the public, but the development is towards making them more available.	→ Performance information is published e.g. in financial statements and annual reports but is not always made publicly available.	→ Departments must make performance information available to the public but may choose the form that best meets the needs of customers and the public	→ Performance information is generally publicly available. Performance targets are set in 'issue-letters' which are publicly available	→ Information on performance is generally reported to the public, and openness is one of the central elements of the Citizen's Charter.	→ There has been some reluctance to publish performance information, but new requirements stress public access to such information.
→ Financial performance is reported in annual reports.	→ Performance information is to be included in annual reports and financial statements.	→ Actual results concerning outputs and financial performance are reported in statement of service performance and annual reports.	→ Performance is primarily reported through annual reports.	→ Annual reports of agencies include performance information and are available to the public.	→ Agencies are required to issue an annual performance report which compares actual performance with the goals set in the performance plan.
→	→ Ministries are required to provide annual performance data in their budget estimates in order to inform the budget process.	→ Departments and agencies prepare forecast financial statements and specifications of performance for each class of outputs that feed into the budget process	→ Annual reports and performance reports are used in the budget process.	→ Performance information is reported to departments in relation with preparation of the budget.	→ Some information has been provided and both the performance plan and performance report will, in the future, feed into the budget process



## Overview of key performance management issues (cont.)

Country	→ Australia	→ Canada	→ Denmark	→ Finland
<ul style="list-style-type: none"> <li>Performance Contracts: Are contracts, or performance targets set in contracts, publicly available?</li> </ul>	→	→	→ Performance contracts and key results are publicly available	→ Annual results agreements between the ministries and agencies set performance targets
<ul style="list-style-type: none"> <li>Local Government Performance: Are indicators of local government collected and published?</li> </ul>	→ The service delivery performance of different providers at the state level has been published in a major comparative benchmarking publication	→	→ Performance information is published by the Ministry of Local Government. Local governments are required to publish information about service quality standards.	→
<b>III. SERVICE QUALITY</b>				
<ul style="list-style-type: none"> <li>Service Standards: Have service standards been used to define the level of service the clients are entitled to receive?</li> </ul>	→ There is no central initiative, but a considerable amount of work on establishing service standards has been carried out	→ Individual organisations are to develop their own service standards in consultation with client groups.	→ There is no central service standard initiative but many agencies and municipalities have developed service standards.	→ Many agencies and local governments have developed service quality initiatives which include service standards.
<ul style="list-style-type: none"> <li>Service Statements: Is level of service and service quality declared to the public in simple service statements?</li> </ul>	→ The government has recently initiated work to develop, in co-operation with consumers, Government Service Charters.	→ Organisations should provide clear statements of what services are available and how much they cost the taxpayers	→ Considerable emphasis has been placed on the use of service statements.	→ There is no national charter but there are interesting examples of charters at the municipal level.
<ul style="list-style-type: none"> <li>Customer Surveys: Are customer surveys used to measure perceived quality?</li> </ul>	→ Client consultation mechanisms are used, including customer surveys	→ Individual organisations have used customer surveys to increase responsiveness toward clients.	→ Customer surveys, have been widely used both general – covering number of services – and specific, have been widely used.	→ Many agencies have undertaken client surveys, which are increasingly and more systematically used.
<ul style="list-style-type: none"> <li>Quality Management (Systems): Are quality management systems widely used to improve quality of public service?</li> </ul>	→	→ Quality management principles and practices should be a part of the overall strategy of government departments.	→ A number of agencies have or are seeking certification of their quality management systems, some in relation to requirements in performance contracts	→ Ministries are encouraged to develop an active quality policy, which can include the use of quality management techniques.
<b>IV. PERFORMANCE REVIEW</b>				
<ul style="list-style-type: none"> <li>Internal Evaluation: Are there specific methods or arrangements for internal evaluation of agencies?</li> </ul>	→ The Australian approach stresses self evaluation by departments and agencies	→ Departments are required to conduct internal audits and evaluations of key policies and programmes according to established standards.	→ There is an emphasis on internal evaluation of performance. The Ministry of Finance has prepared a guide on self-analyses.	→ Some ministries have recently commissioned on- off evaluations from independent bodies on their major functions.
<ul style="list-style-type: none"> <li>Performance Auditing: Does a state auditing body audit the performance of agencies? Is the accuracy and relevance of performance information audited?</li> </ul>	→ The Australian National Audit Office has a role in reviewing performance, focused on reviewing the adequacy of internal evaluations.	→ The Office of the Auditor-General has a major role in reviewing performance and in evaluating adequacy of performance management mechanisms.	→ Performance auditing focuses on the adequacy of systems of measurement rather than direct reviews of performance.	→ The State Audit Office is active in performance auditing and audits performance information in annual reports.

## Overview of key performance management issues (cont.)

France	→ Netherlands	→ New Zealand	→ Sweden	→ United Kingdom	→ United States
→ Performance contracts of responsibility centers have performance information.	→ Performance contracts have performance information but are not publicly available.	→ Chief executive performance agreements and purchase agreements contain information about performance targets and quantity, quality and cost of outputs	→	→ Performance against targets of all agencies is published in an annual Next Steps Review.	→
→ Information about local government performance, collected by the Regional Chambers of Auditors, is included in the annual report of the Court of Auditors.	→ The Public Services Quality Monitoring System surveys the quality and efficiency of local government. League tables are published, providing comparisons of performance.	→	→ There is an emphasis on benchmarking in local government, but information is mainly used for assisting internal decision-making rather than for external accountability.	→ The Audit Commission publishes comparative performance information on local government and the National Health Service.	→
→ There is a general public service charter to increase client focus and improve quality. More comprehensive service standards in line with 'citizen's charters' are being prepared.	→ There is no overall service quality initiative, but some ministries, national agencies and local government have programmes which include service standards.	→ There is no separate central service quality initiative, but service quality is an important element in the overall performance management reforms.	→ There is no central government initiative on service quality, but considerable work has been done on service standards by agencies and local government.	→ Service standards are a central element of the Citizen's Charter program.	→ Agencies are required to develop service quality standards and over 2,000 have been published.
→ Service statements will be an integral part of the new service standards programme.	→	→ Individual agencies have adopted service statements	→ Service statements are used in relation to service standards.	→ All standards are to include an explicit statement for the services users can reasonably expect	→ Agencies are required to make information on the service provided easily accessible.
→ Each service is expected to set up targets for and measure customer satisfaction	→ Under the PSQM system in local government, customers are interviewed to measure quality of customer contact	→ Satisfaction of customer needs is measured.	→ Customer surveys and satisfaction ratings are a part of service quality initiatives at agency level	→ Customer surveys is one of the ways to consult users. Users' views and priorities should influence the development of standards.	→ Agencies can use customer surveys to determine the level of service that the customers want and their level of satisfaction.
→ Departments and public enterprises have been active in using and promoting quality management.	→	→	→ Quality management is considered important and the majority of agencies have some type of quality management system (ISO 9000, etc.).	→ A number of agencies have or are seeking formal certification or accreditation of their quality management systems.	→ Quality management systems are frequently used by agencies.
→ Internal evaluations are carried out by ministerial and inter-ministerial inspectorates and by special evaluation units in some ministries.	→ Programmes are reviewed internally under the responsibility of the policy unit and co-ordinated by chief financial officers.	→ Departments and agencies have the prime responsibility for performance review. Guidelines for self review have been issued.	→ The performance report is based on internal evaluations.	→ Departments are required to undertake ongoing evaluation of programmes. Guidance is provided by the Treasury	→ Internal evaluations are carried out by the agencies themselves and often by Inspectors-General.
→ The Court of Auditors is active in performance auditing.	→ The Dutch Court of Audit has a significant performance audit role.	→ The Audit Office has two main performance review activities, i.e. substantive studies of economy, efficiency and effectiveness, and audit of performance information	→ The National Audit Office and the Office of the Parliamentary Auditors are active in performance auditing. Performance information in annual reports is audited	→ The National Audit Office and the Audit Commission put substantial emphasis on value-for-money audits.	→ The GAO carries out a large number of performance auditing projects.

## Overview of key performance management issues (cont.)

Country	→ Australia	→ Canada	→ Denmark	→ Finland
<ul style="list-style-type: none"> <li>• <b>Quality Monitoring Units.</b> Have special quality monitoring units been created to monitor and evaluate service quality and performance in specific sectors?</li> </ul>	→	→	→ A special review unit has been set up in the Ministry of Education.	→
<ul style="list-style-type: none"> <li>• <b>Programme Evaluation:</b> Are government programmes evaluated in a systematic way? Are the evaluations on a regular or on an <i>ad hoc</i> basis?</li> </ul>	→ Departments are required to develop plans to ensure that all major programmes are evaluated on a 3-to-5 year cycle.	→ Programmes are evaluated, both internally and by the Office of the Auditor-General. A major central Programme Review initiative identified programs to be eliminated or reduced	→ Programme evaluations are carried out on an <i>ad hoc</i> basis, but often initiated and carried out by the Ministry of Finance	→ Programme evaluations are initiated on an <i>ad hoc</i> basis by number of organisations including the Office of Parliamentary State Auditors
<b>V. USE OF PERFORMANCE INFORMATION</b>				
<b>Performance Budgeting</b>				
<ul style="list-style-type: none"> <li>• <b>Performance Informed Decisions:</b> Is information on performance actively used to improve the quality of decisions in the budgeting process?</li> </ul>	→ Performance information is extensively used to inform budget decisions and evaluations are used to support new proposals and savings.	→ Performance measures have influenced budgetary decisions. The trend is for an appropriate degree of influence through a stronger link between performance and budget.	→ One objective of the new annual reports is to improve the use of performance information in the budget process.	→ There is a close relation between performance management and the budget process and budget proposals are to be linked to performance targets.
<ul style="list-style-type: none"> <li>• <b>Performance Based Allocation:</b> Are there sectors where allocation of resources is more or less directly linked to units of performance?</li> </ul>	→	→	→	→
<b>Performance pay</b>				
<ul style="list-style-type: none"> <li>• <b>Individual Agreements:</b> Are there individual agreements where evaluation of performance has effect on pay?</li> </ul>	→	→	→ A part of executive directors is recruited on individual performance related contracts	→
<ul style="list-style-type: none"> <li>• <b>Individual Performance Pay:</b> Does evaluation of performance have an effect on the pay of individuals?</li> </ul>	→ Individual performance pay is paid to the highest performers. Performance is evaluated through performance appraisals.	→ Individual performance pay arrangements were suspended in 1991 due to budgetary pressures but they are now being reintroduced.	→ There are methods in place for the evaluation of managers, and their pay depends partially on results.	→
<ul style="list-style-type: none"> <li>• <b>Group Productivity Pay:</b> Is measured performance of organizational units or groups of staff used to pay bonus to the staff?</li> </ul>	→	→	→ There are systems for sharing of productivity surpluses among employees	→ Group productivity pay is increasingly applied on the basis of productivity improvements

## Overview of key performance management issues (cont.)

France	→ Netherlands	→ New Zealand	→ Sweden	→ United Kingdom	→ United States
→ New units have been set up within some ministries to evaluate performance of agencies.	→	→ The Education Review Office and the Crown Company Monitoring Unit monitor, evaluate and report on the performance of Crown entities and SOEs.	→ Some sectoral evaluation units have been established in the last years to evaluate performance of a specific activity or programme, e.g. foreign aid and education.	→ The Office for Standards in Education has been set up to inspect, report and improve standards and quality of education.	→
→ Evaluations are one of the main instruments of performance management. The Scientific Council of Evaluation guarantees quality and independence of evaluations.	→ There are formal evaluation requirements under which every ministry must regularly evaluate their programs. Procedures for evaluations are well established.	→ Performance evaluations and ad hoc reviews of specific programmes are carried out. The emphasis is on self reviews.	→ Considerable programme evaluation and review is carried out by a range of organisations.	→ The Efficiency Unit undertakes a considerable number of evaluations of departmental and agency operations	→ Programmes are evaluated on an ad hoc basis, both internally and by the GAO. Agencies are required to include a schedule for future evaluations in their strategic plans
→ Some Ministries (e.g. the Ministry of Public Facilities) have established internal means of performance budgeting	→ Performance measurement is an integral part of the budget process, and is used to inform budgetary decisions.	→ Performance measurement is linked directly to the budget process through the purchase agreement and outputs budgeting.	→ Reporting of performance information is closely linked to the budget process and is used in the process to inform budget decisions.	→ Performance information is used by departments in the budget process to set and review budgets.	→ Performance information will feed into the budget process.
→	→	→ The budget is based on outputs rather than inputs. The objective is to link resource allocations as closely to performance as possible.	→ Budget appropriations to universities are linked directly to performance, i.e. on the basis the number of students that pass exams and complete their studies.	→	→ Performance based allocation is one of the main objectives of GPRA Pilot projects will be carried out during fiscal years 1998 and 1999.
→	→	→ Chief executives and senior managers are employed on individual contracts. Annual performance agreements are negotiated between ministers and chief executives	→	→ The employment of the chief executive of an agency relates to the achievement of performance targets set in the annual performance agreement.	→
→ It is possible to set up individual performance pay systems, but they are not widely used. Service contracts provide for eventual financial rewards for employees	→ Performance pay is widely used and covers all categories of staff. It is granted on the basis of individual appraisal of performance.	→ Flexible pay arrangements based on performance appraisal are used for most staff, but there is no standardized system.	→ Various individual performance-based pay arrangements have been used, based on performance appraisals.	→ Individual pay is to be increasingly based on performance	→ Various systems of individual performance pay have been used. Agencies should design their own performance pay arrangements.
→ Responsibility centers have flexibility to provide for shared rewards in the form of collective non-financial benefits, but there is no group productivity pay	→	→	→	→	→ Sharing of productivity gains and other group systems are being introduced.

## Overview of key performance management issues (cont.)

Country	→ Australia	→ Canada	→ Denmark	→ Finland
<b>VI. RESULTS-ORIENTED MANAGEMENT</b>				
<b>Devolution and Autonomy</b>				
<ul style="list-style-type: none"> <li>Relaxation of <i>Input</i> Controls: Have input controls (limitations on the use of resources, allocation to specific expenditure items) been relaxed?</li> </ul>	→ Departments have received substantial budgetary devolution through global allocations for running costs.	→ Departments have flexibility to manage their resources and controls have been reduced, but there are still separate appropriations for major investments and transfers.	→ Controls on the use of inputs within overall expenditure limits have been relaxed, initially in relation to performance contracts, but later more generally.	→ Greater autonomy has been given to agencies including one-line appropriations and autonomy in pricing decisions.
<ul style="list-style-type: none"> <li>Reduction of <i>Process</i> Controls: Have process controls (detailed rules on the process of providing services and operations of agencies) been reduced?</li> </ul>	→ Process controls have been reduced, both in relation to human resource management and other issues.	→ Service delivery organisations have been given greater autonomy to provide services in new ways, to ensure cost-effectiveness and responsiveness to clients	→ Process controls and regulation have been reduced	→ Process controls have been reduced though decentralisation and increased flexibility
<ul style="list-style-type: none"> <li>Autonomous Agencies. Have <i>(semi)autonomous</i> agencies been established? Has more autonomy been granted to the existing?</li> </ul>	→ Service delivery agency has been set up, dividing policy from service delivery.	→ Special Operating Agencies and Alternative Service Delivery Agencies enjoy increased management flexibility in exchange for accountability for results	→ Contract agency status has been given to number of public entities through performance contracts	→ Central government agencies are relatively independent in their operations
<ul style="list-style-type: none"> <li>Risk Management: Are managers entrusted to take and manage risks? Are there formal methods for managing risks?</li> </ul>	→ Appropriate risk management is encouraged.	→ The policy on internal audits emphasizes a forward looking approach involving management of risks.	→	→
<b>Management reforms</b>				
<ul style="list-style-type: none"> <li>Benchmarking (Process, Results): Are processes or results of agencies benchmarked and is benchmarking used to compare and improve performance?</li> </ul>	→ Considerable emphasis is being placed on benchmarking of performance, through several separate initiatives.	→ Managers will make performance information available to colleagues, so best practice can be benchmarked. A guide on Benchmarking and Best Practices has been published.	→ There is an increasing interest in comparing the performance of organisations. Preparations for initiating benchmarking projects have started.	→ There is interest in the use of benchmarking and a working group was set up to advance the use of benchmarking and prepare guidelines.
<ul style="list-style-type: none"> <li>Corporate and Strategic Planning: Is corporate and strategic planning a <i>part</i> of performance management?</li> </ul>	→ Corporate plans are an important element of performance management, serving to increase the focus on outcomes and more strategic management	→ Departments are required to develop business plans that outline strategies for achieving expenditure targets and new priorities.	→ Individual agencies use corporate and strategic planning as an important management tool.	→
<ul style="list-style-type: none"> <li>Performance Contracts: Are contractual arrangements used to set performance targets and grant more managerial autonomy to agencies?</li> </ul>	→ Resource agreements are agreements between the Department of Finance and other departments or agencies for the provision of resources in return for some action.	→ Special Operating Agencies operate on the basis of a contract.	→ Performance contracts, applied on a selective basis, are seen as a major element of performance management.	→ Ministries and agencies negotiate annual results agreements once appropriations are approved by the Parliament, specifying performance targets.
<ul style="list-style-type: none"> <li>Market Testing – Contestability: Is performance management related to use of methods like contestability, market testing, provider – purchaser splits or internal markets?</li> </ul>	→ Contestability and purchaser/provider distinctions are emerging as key tools in providing more responsive services.	→	→ Market approaches were an integral part of performance management under the former coalition, but are now used more selectively.	→ There is considerable interest in using market-type mechanisms and further steps are being taken to develop the use of such mechanisms

## Overview of key performance management issues (cont.)

France	→ Netherlands	→ New Zealand	→ Sweden	→ United Kingdom	→ United States
→ Most input controls, except for staff, have been relaxed, especially in responsibility centers.	→ Input controls have generally been relaxed, especially in relation to the creation of agencies.	→ Appropriation of outputs rather than inputs means that agencies have been given significant flexibility in the use of inputs	→ Agencies have considerable and increasing flexibility concerning the use of resources.	→ Input controls have been relaxed or abandoned.	→
→ Controls of processes have been reduced, especially in responsibility centres	→ Process controls have been reduced, both in relation to financial and human resources management.	→ Chief executives have control over operational decisions, appointment and employment conditions of staff, management of assets, etc.	→ Agencies are independent in their internal operations.	→ Agencies have flexibility to manage internal processes.	→ Both GPRA and NPR aim at reducing centralised and inflexible processes and increasing managerial autonomy.
→ Responsibility centres are autonomous service agencies. There are plans for separating service provision from other government functions.	→ A number of autonomous agencies has been established since 1994, to meet the need of some services for a different management system.	→ Creation of autonomous agencies (Crown entities) has the aim of separating policy and service provision.	→ There is a long tradition of autonomous agencies, which enjoy considerable independence in operational decisions.	→ Next Steps Agencies have been created to separate executive functions from policy formulation.	→ There is a careful development towards the creating executive agencies or Performance-Based Organisations.
→	→	→ Risk coverage is one of the performance measures used.	→ Agencies are required to identify their risks and can buy insurance if the risk analysis shows that there is a major financial risk.	→	→
→ Service contracts will require performance to be compared between departments performing the same tasks and with those of any comparable business in the competitive sector.	→ Some performance measurement programmes, both at central and local level, have elements of result benchmarking.	→	→ There is a growing emphasis on benchmarking in local government, and some municipalities use benchmarking to compare themselves on a service delivery and cost spectrum	→ Benchmarking is seen as important approach to improve efficiency of agencies.	→ NPR tries to spread best practice across the public sector and encourages agencies to benchmark themselves against these practices.
→	→	→ A strategic management process is used to link performance targets to high-level objectives. The objectives also feed into corporate and strategic plans of government units	→	→ All agencies are required to prepare business or corporate plans. There is an increased focus on strategic management and planning.	→ GPRA requires all agencies to develop strategic plans, which are the foundation of all other GPRA activities.
→ Responsibility centres are based on a double contractual approach: a) between the service and parent department; and b) between parent department and central departments.	→ The autonomy and objectives of agencies are defined in a contracts.	→ Annual purchase agreements set out the outputs to be delivered by the departments in return for the appropriation received	→ The relations between ministries and agencies are not based on formal performance contracts but on regular dialogue concerning goals and results.	→ Framework documents and annual performance agreements are to a large extent negotiated between department and agency, but set by the minister	→ Performance Agreements have been signed between the President and Cabinet Secretaries. The use of performance contracts is being developed in relation to PBOs
→	→	→ Contestability is inherent in the purchase agreement: outputs may purchased from another source. Purchaser/provider splits are used in a number of areas.	→	→ Market testing is an important instrument and an integral part of performance management	→ Requirements to introduce market testing are being developed.

Table of key performance management issues

Country	Australia	Canada	Denmark	Finland	France	Netherlands	New Zealand	Sweden	United Kingdom	United States	Partial	Primary	Total
<b>I. OBJECTIVES AND APPROACHES</b>													
<b>1. Objectives and Focus</b>	**	*	**	**	*	**	*	**	*				
• Management and Improvement	**		*	*	**	**	**	*	**		4	5	14
• Accountability and control		**	*	**	*	*	**	*	**		4	4	13
• Savings											4	4	12
<b>2. Approach</b>	**	*	*	**	*	*	**	**	**		4	5	14
• Comprehensive	*				**	**	**				2	2	7
• Legislative	*	*	**	*	*	*					6	1	8
• <i>Adhoc</i>	**	*	*		*	*	**	**	**		5	4	13
• Top-down	*	*	*	*	*	*	*	*			7		8
• Bottom-up													
<b>3. Institutional arrangements</b>	**	**	**	**	**	**	**	**			1	8	17
• Finance – budget department				*	**	**	**		**		1	4	9
• Other central departments	*		*					**	**		3	2	8
• Special management bodies													
<b>II. PERFORMANCE MEASUREMENT</b>													
<b>4. Performance measurement</b>	*	*	**	*	*	**		**	**		5	3	12
• Indicators	**	**	*	**	*	**	**	**	**		2	6	14
• Measurement systems	*	*	**	*	*	*	*	*	*		8		8
• Mesures qualitatives	*	**	*	**		**	**	**	**		1	2	6
• Processes (Activities)	**	*	*	*		*					3	5	14
• Efficiency (Outputs)	*	**	**	**	*	*	*	*	**		3	1	6
• Effectiveness (Outcomes)	*	**	*	*	*	*	*	*	**		4	5	13
• Service (delivery) quality		**	*	*	*		*	*	**		4	2	8
• Financial performance (Economy)													
<b>5. Financial Management</b>	**		*	**		*	**	**	*		3	4	11
• Accrual accounting	*	*	*		*	*	**	*	*		7	1	9
• Cost allocation		*	*				*	*	*		3	1	5
• Integration of management systems													
<b>6. Reporting of Performance Information</b>	**	*	**	**	*	*	**	**	**		2	7	15
• Public availability	**	*	**	**	*	*	**	**	**		2	7	16
• Annual Reports	**	*	*	*		**	**	**	*		4	4	12
• Budget Reports			*	**	**	*	**		**		1	4	10
• Performance Contracts	**		*		*	**		*	**		2	3	9
• Local government performance													
<b>III. SERVICE QUALITY</b>													
<b>7. Service quality</b>	*	**	*	*		*	*	*	**		7	2	11
• Service standards	*	*	*	*	*		*	*	**		6	1	9
• Service statements	*	*	**	*	*	*	*	*	*		8	1	10
• Customer surveys		*	*	*	*				*		5		5
• Quality managements (systems)													
<b>IV. PERFORMANCE REVIEW</b>													
<b>8. Performance review</b>	**	**	**	*	**	**	*	**	*		4	5	15
• Internal evaluation	*	**	*	**	**	**	**	**	*		4	5	15
• Performance auditing			*		*		**				2	1	5
• Quality monitoring units	**	**	*	*	**	**	*	**	*		4	5	14
• Programme evaluation													

## ERRATUM

### IN SEARCH OF RESULTS: PERFORMANCE MANAGEMENT PRACTICES

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The following table replaces the "Table of key performance management issues" on pages 132-133.

**Table of key performance management issues**

Country	Australia	Canada	Denmark	Finland	France	Netherlands	New Zealand	Sweden	United Kingdom	United States	Partial	Primary	Total
<b>I. OBJECTIVES AND APPROACHES</b>													
<b>1. Objectives and Focus</b>													
• Management and improvement	**	**	**	**	*	**	*	**	*	**	3	7	17
• Accountability and control	**	*	*	**	**	**	**	**	**	*	3	6	15
• Savings		**	*	**	*	*	**	*	**	*	5	4	13
<b>2. Approach</b>													
• Comprehensive	**	**	*	*	*	*	**	**	**	*	5	5	15
• Legislative					**	**	**	*		**	2	4	10
• <i>Ad hoc</i>	*	*	**	*	*	*	*	**	**	*	7	1	9
• Top-down	**	*	*	*	*	*	*	*	*	**	5	5	15
• Bottom-up	*	*	**	*	*	*	*	*		*	8	1	10
<b>3. Institutional arrangements</b>													
• Finance – budget departments	**	**	**	**	**	**	**	**	*	**	1	9	19
• Other central departments				*	**	**	**		**		1	4	9
• Special management bodies	*		*	*	*			**	**	**	4	3	10
<b>II. PERFORMANCE MEASUREMENT</b>													
<b>4. Performance measurement</b>													
• Indicators	*	*	**	*	*	**		**	**	**	4	5	14
• Measurement systems	**	**	*	**	*	**	**	**			2	6	14
• Qualitative measures	*	*	*	*	*	*		*	*		8	0	8
• Processes [Activities]			**			**	*	*			2	2	6
• Efficiency [Outputs]	*	**	*	**		**	**	**	**	**	2	7	16
• Effectiveness [Outcomes]	**	*	*	*		*	*	*		**	5	2	9
• Service (delivery) quality	*	**	**	**	*	*	*	*	**	*	6	4	14
• Financial performance (Economy)		**	*	*	*		*	*	**	*	6	2	10
<b>5. Financial Management</b>													
• Accrual accounting	**	*	*	**		*	**	**	*		4	4	12
• Cost allocation					*	*	**	*	*	*	7	1	9
• Integration of management systems							*	*	*	*	5	0	5
<b>6. Reporting of Performance Information</b>													
• Public availability	**	**	**	**	*	*	**	**	**	**	2	8	18
• Annual reports	**	**	**	**	*	**	**	**	**	**	1	9	19
• Budget reports	**	**	*	*		**	**	**	*	*	4	5	14
• Performance contracts			*	**	**	*	**		**		2	4	10
• Local government performance	**				*	**		*	**		3	3	9



**Table of key performance management issues (cont.)**

Country	Australia	Canada	Denmark	Finland	France	Netherlands	New Zealand	Sweden	United Kingdom	United States	Partial	Primary	Total
<b>III. SERVICE QUALITY</b>													
<b>7. Service quality</b>													
• Service standards	*	**	*	*	*	*	*	*	**	**	7	3	13
• Service statements	*	**	*	*	*	*	*	*	**	**	6	3	12
• Customer surveys	*	*	**	*	*	*	*	*	*	*	9	1	11
• Quality management (systems)		*	*	*	*			*	*	*	7	0	7
<b>IV. PERFORMANCE REVIEW</b>													
<b>a. Performance review</b>													
• Internal evaluation	**	**	**	*	**	**	**	**	*	**	2	8	18
• Performance auditing	*	**	*	**	**	**	**	**	*	**	3	7	17
• Quality monitoring units							**				3	1	5
• Programme evaluation	**	**	*	*	**	**	*	**	*	**	4	6	16
<b>V. USE OF PERFORMANCE INFORMATION</b>													
<b>9. Performance budgeting</b>													
• Performance informed decisions	**	**	*	**	*	**	**	**	*	*	4	6	16
• Performance-based allocation							*	*			2	0	2
<b>10. Performance pay</b>							**		**				
• Individual agreements	**	*	*		*	**	*	*	*	*	1	2	5
• Individual performance pay			*	**							7	2	11
• Group productivity pay										*	2	1	4
<b>VI. RESULTS-ORIENTED MANAGEMENT</b>													
<b>11. Devolution and autonomy</b>													
• Relaxation of input controls	**	**	**	**	*	**	**	**	**		1	8	17
• Reduction of process controls	**	*	**	*	*	*	*	**	**	*	5	5	15
• Autonomous agencies	*	*	*	**	**	*	**	**	**	*	5	5	15
• Risk management	*	*					*	**			3	1	5
<b>12. Management reforms</b>													
• Benchmarking (process, results)	**	*	*	*	*	*		*	*	*	8	1	10
• Corporate and strategic planning	**	**	*				**		**	**	1	5	11
• Performance contracts	*	*	**	**	**	*	**		**	*	4	5	14
• Market testing – contestability	**			*			**		**	*	2	3	8

\* Partial objective/approach/arrangement

\*\* Primary objective/approach/arrangement

Source OECD

Table of key performance management issues (cont.)

Country	Australia	Canada	Denmark	Finland	France	Netherlands	New Zealand	Sweden	United Kingdom	United States	Partial	Primary	Total
<b>V. USE OF PERFORMANCE INFORMATION</b>													
<b>9. Performance budgeting</b>	**	**	*	**	*	**	**	**	*				
• Performance informed decisions											3	6	15
• Performance-based allocation											1		1
<b>10. Performance pay</b>			*				**		**				
• Individual agreements	**	*	*		*	**	*	*	*		1	2	5
• Individual performance pay				**							6	2	10
• Group productivity pay								*			2	1	4
<b>VI. RESULTS-ORIENTED MANAGEMENT</b>													
<b>11. Devolution and autonomy</b>	**	**	**	**	*	**	**	**	**				
• Relaxation of input controls	**	*	**	*	*	*	**	**	**		1	7	17
• Reduction of process controls		*	*	**	**	*	**	**	**		4	5	14
• Autonomous agencies								**	**		3	5	13
• Risk management	*	*									3	3	
<b>12. Management reforme</b>	**	*	*	*		*							
• Benchmarking (process, results)	**	**					**		**		4	1	7
• Corporate and strategic planning	*	*	**	**	**	*	**		**		1	4	9
• Performance contrats	**						**		**		3	5	13
• Market testing – contestability									**		1	3	7

\* Partial objective/approach/arrangement.

\*\* Primary objective/approach/arrangement

Source: Text.



## IN SEARCH OF RESULTS

### Performance Management Practices

OECD governments are in search of results. Improved performance of the public sector is a central factor in maintaining welfare of individuals and the competitiveness of the economy. A results focus promotes accountability and is a key element in creating and maintaining confidence in government.

Performance management is the key aspect of public sector reforms of many OECD Member countries. Performance management encompasses a set of reforms under which public organisations are given increased managerial autonomy in exchange for accountability for results. They are required to define objectives and targets, and measure and report actual results. Performance information is used to improve public priority setting and programmes. Relationships within the public sector and between the government and the public are based on clearer accountability for performance.

This publication describes and analyses performance management developments in ten OECD countries: Australia, Canada, Denmark, Finland, France, the Netherlands, New Zealand, Sweden, the United Kingdom and the United States. It demonstrates that while a wide range of approaches and instruments has been developed there is considerable convergence in the way they are used.



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