

# Performance Management in the Government of the People's Republic of China: Accountability and Control in the Implementation of Public Policy

by

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*This article examines how the Chinese government came to endorse the concept of performance management, and analyses the experiments with performance management since the early 1990s (mainly at the local level). The incentives are examined, especially the performance-based reward and promotion system. The article discusses China's experience with performance management in various sectors, including organisational restructuring and human resource management in the civil service, performance and results management and the "objective responsibility system", and the attempts to improve accountability and performance in the delivery of public services. Citizen participation in performance management is also examined, and case studies of local practice.*

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## Executive summary

In March 2008, Premier Wen Jiabao stated that the Chinese government would introduce performance management, the first time the term “performance management” appeared in an official document. In this article, we examine how the government came to publicly endorse the concept and what has been the experience of performance management focusing on the circumstances of China. We examine experiments with performance management that date from the early 1990s mainly at the local level and how the central government has come to see that the process is important for accountable and effective governance. We also examine the incentives, especially the performance-based reward and promotion system that has encouraged officials to implement performance management. We examine China's experience of performance management in various sectors including organisational restructuring and human resource management in the civil service, performance and results management and the “objective responsibility system”, and attempts to improve accountability and performance in the delivery of public services.

**Restructuring and human resource management:** Officials have carried out round after round of government restructuring since the 1980s, with limited effect on the size of government as financial reforms improved China's revenue situation. Restructuring to improve “fit for purpose” has strengthened key regulatory agencies, although local control of important accountability and control functions such as auditing continues to be a problem. With the introduction of the new civil service system in 1993, human resource management has aimed for selection based on merit and performance. The civil service system rewards performance, and officials' drive for promotion has provided a powerful incentive for pushing China's performance management regime forward. Insofar as corruption is widespread, however, the incentives may not work as intended.

**Performance and results management:** Since the early 1990s, local governments have experimented with various performance management systems that by 1995 became formalised as the “objective responsibility system” (ORS). In this system, governments at higher administrative levels set targets for lower-level administrators and hold them to account for completing them. The system is now widely practised, and targets have become increasingly specific, quantifiable, and linked to personnel outcomes. Monitoring of performance, however, is often left to local authorities that have a vested interest in reporting outstanding achievement. This explains the discrepancy between GDP growth reported by the central government and local governments over the past decade. The system focuses very much on the performance of territorial units which undercuts cross-boundary co-operation to solve problems such as environmental degradation. The system also focuses overwhelmingly on measuring inputs and some outputs, but not on policy outcomes.

Although the “objective responsibility system” provides no formal mechanism for citizen participation, local governments have begun surveying public satisfaction with government performance as part of the process. Still, citizen participation in performance management is limited even when surveys are carried out. We conclude then that ordinary citizens have little voice in the process, let alone a share in decision making about the system.

**Public service delivery:** Measures to improve public service delivery include specific innovation schemes and management fads to enhance service quality and customer satisfaction, as well as the introduction of market mechanisms to provide public services. Examples include the service pledge system, introduced in Shandong Province in the mid-1990s and then picked up by the central government. Local governments have also introduced total quality management, outsourcing, franchising, and public-private partnerships. Problems with privatisation schemes have included the failure of government to provide policy guidance and post-privatisation management on a continuous basis. In some cases, a government monopoly is simply replaced by a “private” monopoly without improved service or reduced costs.

**Conclusion:** We conclude that China’s performance management system has developed relatively quickly since the mid-1990s. Incentives to improve performance are locked into the human resource management system. Although there was an initial heavy emphasis on economic targets such as GDP growth, these have given way to targets that focus on social development and more sustainability.

## 1. Introduction

Performance management as we are using the term here is an imported and new concept in China. Top Chinese government officials only began to refer to the term in 2003, when for example then Secretary-General Wang Zhongyu noted that “it is of some value to put in practice performance management in the government sector.” He asked the Ministry of Personnel to pay attention to the concept and carry out some research on it. From then until late 2006, the official understanding of the term was limited to performance measurement in public organisations. In a speech delivered in the National School of Administration on 13 December 2006, Hua Jianmin, the Secretary-General of the State Council, endorsed performance management in government “on a trial basis”. He emphasised three crucial components that the effort should include: i) a framework and sets of performance indicators which were “rational and scientific”; ii) procedures and methods for performance measurement characterised by objectivity and fairness; and iii) rules and mechanisms for effective utilisation of performance information. Then in March 2008, Premier Wen Jiabao stated in his report to the 11th National People’s Congress that the Chinese government would introduce performance management. This was the first time the term “performance management” had appeared in an official document and the appeal was for implementation “on a trial basis”. In this article, we examine how the government came to publicly endorse the concept and what has been the experience of performance management focusing on the circumstances of China.

Performance management is an elusive concept meaning different things to different people. The concept may be narrowly defined as a process incorporating various modern management tools and techniques. Focusing on performance management in its narrow or strict sense, we may say that virtually all components of performance management can be found in practice in one place or another in China. These include not only management tools such as strategic management, performance measurement, programme evaluation, total quality management, quality accreditation (such as ISO 9000), and public-private partnerships, but also management tools that may more appropriately be seen as fads, such as best practice benchmarking, business process re-engineering, balanced score-cards, and service delivery innovations applied mainly in the public sector (for example, one-stop shops and the Citizen’s Charter initiative). Performance management may also be defined as

“managing for performance”, or the systematic and integrated efforts to improve organisational performance. In addition to the set of tools and techniques mentioned above, performance management in this broad sense also covers a variety of activities ranging from reorganisation of public agencies to service delivery reforms.

In this article, we take the broader view of performance management, examining the concept's application in attempts to reorganise the government to improve performance, human resource management reforms, performance and results management (especially the “objective responsibility system” and its implementation locally), and improving the management of the delivery of public services. We examine public participation in performance management initiatives and offer an assessment of the steps taken so far.

In China, both a centralised and a decentralised system exist to implement performance management. Central authorities initiated some reforms and then supervised their implementation on a nation-wide basis in a top-down manner. These include reorganisation of public agencies or the so-called retrenchment campaigns, civil service reforms, budgetary reforms, and various public service delivery reforms. However, local authorities also initiated and carried out their own reforms. These have included the adoption of the newly emerged management tools and techniques, involving all the components of performance management in its narrow sense. In the absence of uniform regulations and guidelines from the centre, reform activities of the latter type have been mainly an endeavour pursued by governments at sub-national levels on an experimental and voluntary basis, implying a decentralised system of performance management.

The incentive system has had a major impact on the introduction of performance management initiatives. Civil service reforms, for example, have tied the careers of public officials to their performance, as measured in part by how well they implemented many of the reforms we discuss below. Tying promotion and other rewards to performance has provided a powerful incentive that has driven the system. The main beneficiaries of the performance management reforms, and especially the “objective responsibility system”, have been county and municipal governments which now have levers that they may use to encourage the implementation of their own and higher-level policy goals. A combination of voluntary and administrative means has been used to ensure compliance. As one would expect, local officials have reacted by complying, on the one hand, and by developing various coping strategies, on the other, some of which have had unintended and deleterious consequences for achieving official policy goals.

Studies have shown that local leaders whose counties, districts, or provinces do well on the economic indicators, especially economic growth and remittances of taxes, tend to have a greater chance of promotion (see Lin, 2008). An emphasis on economic criteria for evaluating performance, however, has had some perverse consequences, with officials using whatever means, including violating labour and environmental protection laws or illegally accumulating huge public debt, to achieve their goal. In 2006, some local governments began experimenting with new performance criteria that reduced the weight given to economic growth and broadened the criteria to include such things as the extent to which young people had received 15 years of education and the extent to which local government guaranteed the basic livelihood of farmers who lost their farm land to development (Lin, 2008). We examine the evolution of China's experiment with performance management in the sections that follow.

## 2. Performance management in various sectors

In this section, we examine China's experience of performance management in various sectors including organisational restructuring and human resource management, performance and results management and the "objective responsibility system", and public service delivery.

### 2.1. Organisational restructuring and human resource management

Administrative reforms in China have long been centred on structural changes, as demonstrated by the six rounds of large-scale reorganisation campaigns conducted respectively in 1982, 1988, 1993, 1998, 2003 and 2008, all of which were initiated by the central authority and implemented in a top-down manner.

The number of government agencies reached its peak in China by the end of 1981. There were a total of 100 agencies at the central government. These included 52 ministries, 43 agencies directly attached to the State Council, and 5 administrative offices (Yu, 2005). The pattern of industrial or sectoral management under the planned economy made this "forest of agencies" a necessity to some extent, but it caused serious problems like overstaffing, functional overlapping, red tape and buck-passing, and policy fragmentation, apart from the heavy financial burden on government. Therefore, retrenchment or downsizing has been a constant theme in China's effort to rationalise the government structure, particularly in the first few rounds of reorganisation campaigns.

With the planned economic system and the role of an expansive government untouched in the early years of the reform, the first round of large-scale reorganisation in 1982 focused on four aspects: reduction of the total number of agencies, mergers and winding them up; streamlining of internal structures within agencies; cutting the number of leadership posts, particularly the number of deputies from vice ministers to deputy division chiefs, which in the case of the State Planning Commission reached 20 in 1981; and cutting the number of civil servants at all levels of government. As a result, officials cut the total number of agencies under the State Council from 100 to 61, and reduced the number of civil servants from 51 000 to 40 000. At the provincial level, the number of bureaus was reduced by 35% on average, and a 20% reduction was achieved at the county level (Zhang and Dang, 2001). With regard to leadership posts, the number of vice ministers went down from the previous 547 to 188, a reduction of 65% (Chinese Society for Public Administration, 2002).

The achievements of the 1982 retrenchment campaign did not last long for various reasons. In the five years followed, the number of agencies under the State Council went up from 61 to 74, and the total number of civil servants in China up from 5.63 million in 1982 to 7.78 million (Chinese Society for Public Administration, 2002). This made another round retrenchment necessary. In 1988, the second-round reorganisation campaign was launched with a result of reduction of the number of central agencies by seven, and national civil service work-force by 19% (Zhang and Dang, 2001). The 1993 reorganisation followed a similar pattern with a special focus on abolishing contemporary agencies like leading or co-ordinating groups on specific issues (a reduction from 85 to 26) and reducing the civil service work-force by 25% (Chinese Society for Public Administration, 2002).

The fourth round of retrenchment in 1998 was more radical compared with the previous ones. The number of ministries was reduced from 40 to 29, and serious efforts were made to reduce the number of civil servants by 50% at the centre and 30% at sub-national levels. In an

attempt to break the so-called vicious circles of “expansion-retrenchment-re-expansion-re-retrenchment” envisaged in previous campaigns, special attention was paid to functional restructuring, focusing on separating the government from state-owned enterprises and institutions and on deregulation so as to lay a solid foundation for retrenchment (Chinese Society for Public Administration, 2002; Yu, 2005).

In the past ten years, the tax revenue for the Chinese government has experienced a steady increase of about 25% annually on average. With the easing of financial pressure – a key driving force behind previous retrenchment campaigns – the government was able to change the pattern of organisational reform. In the latest two rounds of reorganisation in 2003 and 2008, the reduction of the civil service work-force was no longer a goal, and the merger of agencies was pursued on a smaller scale. For example, despite the catch-phrase of “super department”, the reorganisation in 2008 achieved a reduction of only four ministries. More efforts were made to rationalise internal management, such as establishing cross-agency collaboration mechanisms (Xinhua News Agency, 2008).

Several methods of managing local government have emerged through this restructuring that are relevant here. First, some agencies are managed through a “vertical system”, meaning that the central government has the sole authority over the functional area and that offices located throughout the country are “dispatched” by the central agencies in charge. The central agencies have full responsibility for the appointment of leaders, personnel decisions, business management, and appropriation of funds for the local dispatched offices. Typical examples are the customs authority, state security, the national tax office, and foreign exchange management.

Other arrangements are “semi-vertical” and differ from the fully vertical system discussed above in two ways. First, the vertical relationship begins at the provincial level rather than the central level – that is, the central agency in a semi-vertical arrangement does not have the authority to appoint the leadership group of the provincial agency. Second, a given agency of a higher-level government has the power to appoint the leadership group of the agency at the lower level, but has no responsibility for other personnel appointments or for the appropriation of funds to run the office. In most cases, members of the leadership group appointed by a higher-level agency are local people but, under the vertical system, a transfer of office heads from city to city or from one county to another is possible and occurs. Typical examples are land and resources management, industry and business administration, local tax offices, and the general administration of quality supervision, inspection and quarantine, responsible for food and product quality and safety.

Other local government agencies are managed entirely by local governments at the same level. They hire from among local people, and are financed and managed locally. Not surprisingly, in cases of conflict between the central government and the localities, these locally constituted agencies may take the side of the local government.

Several key institutions that play a role in some of China’s performance management regimes have emerged from the restructuring campaigns. First, at the centre from the old state planning apparatus, reformers have created the National Development and Reform Commission (NDRC) and charged it with various macroeconomic tasks under the direction of the State Council. The NDRC has broad administrative and planning authority over the economy that includes drafting five-year plans and supervising the implementation of the plans through a performance management system (see below). Provincial, city and county

development and reform commissions play a key role in distributing targets to local governments, for example, for gross domestic product. Local-level DRCs are among the organisations mentioned above that are managed locally – that is, their leadership group, rank-and-file members and budgets are determined by the local government. This tilts the concern of the local DRCs toward the interests of the locality in which they are embedded.

Restructuring has also strengthened China's audit capacity, which plays a role in the monitoring of the extent to which local governments achieve various targets. At the central level, the capacity of the National Audit Office of the People's Republic of China, established in 1983, has increased through increased funding and expanded staffing levels. Like the DRC network, mentioned above, local-level audit offices are also managed locally. Although there have been proposals to make management of audit part of the vertical system, no such change has occurred as of this writing. Still, there have been attempts to strengthen the audit system at local levels. For example, the National Audit Office has set up offices ("dispatched agencies") to audit provincial governments. By 2009, there were six offices of this type and each was put in charge of a number of provinces. We speculate that this change may be a precursor to a move toward the more "semi-vertical" arrangement discussed above. In one part of China's performance management system, local audit offices either on their own or together with other agencies, also mostly locally managed, examine the extent to which local governments achieve the targets laid down in five-year plans by the development and reform commission system. We will return to these issues below. We turn now to a discussion of the performance management aspects of civil service reform in China.

China's civil service reforms have been piecemeal and have resulted in new policies being laid over the existing party-controlled cadre system which was characterised by central planning, allocation of graduates to jobs through government-determined manpower plans, non-institutionalised performance appraisal, and position-based pay. The system centrally managed all white-collar workers across the economy using uniform policies, which created various inefficiencies and failed to motivate. China's civil service reforms were designed to improve the performance of government-employed administrators, managers, and professionals. The reforms now codified in the Civil Servant Law (2005) include several features of direct relevance to our focus on performance management. These include: competitive entry and promotion, performance appraisal, and performance-based rewards. We discuss each of these in the paragraphs that follow.

Officials set up an annual nation-wide civil service entry-level selection system for undergraduates, post-graduates and "members of society". According to the process, candidates apply for a specific post (posts are now listed individually online). The employing agency checks that candidates have met the minimum requirements (*e.g.* age, educational level, gender in some cases, party or youth league membership, and so forth) and then sends approval to those who qualify to sit the exam. The next stage involves more in-depth investigation of successful candidates, including interviews and perhaps specialist exams. The entire process is managed by the party core group of the employing agency, implemented by the employing agency's personnel unit, and overseen by the Chinese Communist Party organisation department at that level. By 2009, more than 775 000 people were competing for some 13 500 centrally managed jobs, an indication of the competitive nature of the formal civil service selection process. Not surprisingly given the competition, the authorities have uncovered cases of abuse (*e.g.* officially over a

thousand cases of exam cheating in 2008 alone) (*South China Morning Post*, 20 January 2009). The authorities have increased the scope of competition somewhat by removing barriers to competition such as the requirement for an urban residency permit (*hukou*) for some posts.

Performance-based rewards can provide a key incentive for employees to work hard. The authorities have attempted to implement performance-based rewards at both the organisational and individual levels. In Changchun in 2001, for example, city officials launched an annual exercise to rank all government bureaus according to various performance criteria. Bureau leaders understood that being ranked a “good” performer was beneficial to the bureau as a whole and to their own careers. Changchun Education Bureau leaders signed performance contracts with each administrative staff member in the Bureau, promising a bonus to each person if the Bureau could be among the top five in the city-wide competition. In the contracts, targets were specified and the contracting parties were held personally responsible for achieving the targets. In 2003, the Changchun Education Bureau ranked third in the city-wide competition and all Bureau staff received a bonus of CNY 1 800 (1 800 Chinese yuan renminbi). During interviews, officials revealed that they believed that rewards would be given in recognition of their conscious efforts to work better (Burns and Wang, 2010).

Civil service reform has sought to focus the individual evaluations of officials on their work performance (Edin, 2003). Although the regulations seem rational, we have found that the performance appraisals are conducted in a highly *pro forma* manner. For example, civil service regulations permitted no more than 15% of civil servants to be rated as “outstanding”, a norm followed rigorously in the sites used in our field-work (Burns and Wang, 2010). In practice, the classification of individual performance has turned the official four-grade system into a *de facto* two-grade classification, with over 99% of civil servants being rated “outstanding” and “competent” and thus receiving a bonus and pay hike. Given that most civil servants work in local government with limited opportunities for rewarding good performers, this may be rational supervisory behaviour.

Officially, promotion is based on performance. According to China’s Civil Servant Law, officials should be promoted on the principles of “both moral integrity and ability, and appointment of those on merits, paying special attention to work accomplishments”. Officials should also have served for a certain number of years in two positions at a lower grade (an experience or seniority type of criterion). Although officials should normally be promoted one grade at a time, high flyers (defined mainly in terms of performance) may skip a grade.

In practice, the performance assessment of Chinese officials may depend on annual performance appraisal results and on performance in various tests and interviews. In the 1990s, officials established elaborate lists of performance targets that were used especially for assessing local leaders; the most important of these targets was growth of GDP. While heavily weighted toward economic indicators, the performance criteria also included other measures such as the extent to which officials achieved the one-child-per-couple target and the extent to which all children received nine years of compulsory education.

Officially, two consecutive “incompetent” ratings should lead to dismissal (Civil Servant Law, Article 83). Because the consequences are so severe, few civil servants receive unfavourable performance ratings and less than 0.3% of the civil servants nation-wide were actually rated “incompetent”. Our field-work confirms that dismissals for those with poor ratings were rare. In the Haidian district, if a civil servant was judged to be “basically

competent” during an annual performance appraisal, he or she received 50% of the original annual bonus. Those ranked as “incompetent” went through a probation period of 6 to 12 months and received no bonus. From 1994 to 1998 in the Haidian district government, 34 people were ranked as “basically competent” and 24 as “incompetent” in annual appraisals. Only one person was dismissed due to failing the appraisal. Up to October 1998, no individual lodged an appeal regarding these results (Interview, Ministry of Personnel, June 2002). In practice, the individual performance evaluation system introduced by the reforms has been relatively undiscriminating.

Structural constraints have impeded the attempts to formally align the incentives of supervisors and subordinates in the pursuit of official policy goals. First, nearly 60% of civil servants are employed at county and township level where promotion opportunities are very few (Xi, 2002, p. 29).<sup>1</sup> The typical career ladder in a county, for example, where most officials could expect to spend their entire career, includes only five ranks (section member, deputy section head, section head, deputy county head and county head), far too few to motivate. Second, although there may be from 10 to 14 pay steps for each rank, base pay differentials are very small, amounting to only a few tens of yuan renminbi per month. The formal career ladder in the local civil service is extremely compressed and base pay differentials are very egalitarian, which gives supervisors little official leverage to reward performance.

Given the structural problems (limited promotion opportunities) and the undiscriminating evaluation system, it will come as no surprise that implementing the formal performance-based reward system has had little impact. In our field-work, we also found that, although pay levels had increased overall (in line with official policy), civil servants did not particularly perceive that pay was linked to performance (see Burns and Wang, 2010). We speculate that the reform's official performance-based reward system has been undermined by the compressed structure of the local civil service and by an informal norm of egalitarianism. It seems that supervisors empathise with their subordinates and value good co-worker relations. The performance management system has also been undermined by practices such as the buying and selling of government posts and other forms of corruption which have been widely discussed in other sources (OECD, 2005, pp. 101-132; Burns and Wang, 2010).

## **2.2. Performance and results management: The “objective responsibility system”**

### **2.2.1. Overview**

The Objective Responsibility System (ORS) for chief executives was the early form of performance measurement in its modern sense in China. Following the principles of “management by objectives” (MBO), the ORS also involved goal and objective setting, specification and cascading of objectives or targets down to individual posts, monitoring and measurement of performance in achieving the defined objectives, and feedback and rectification measures based on performance information. The ORS was introduced in the mid-1980s on a voluntary basis by some local governments. Although it was widely adopted – as illustrated by the 13 member cities when the Chinese Association for Municipal Objective Responsibility System was founded in 1988 – the voluntary nature and the lack of unified guidelines or standards resulted in great variations from place to place. Apart from a small number of commentaries by scholars, little reference material was available that recorded the operation of the ORS during that period.

Throughout the 1990s, the ORS had two major characteristics compared with previous practices. First, it was carried out top-down in a centralised manner despite the fact that there was no official document or regulation at the centre to guide the practice. From the centre down to township-level governments, higher-level authorities set up targets and cascaded them down to lower levels of governments, forming a target pyramid. The work performance of chief executives in target fulfilment was internally ranked on a collective as well as an individual base, and bonuses were paid or punishments made accordingly. The practice was named by some scholars as a “pressurised system” (*yalixing tizhi*) in which performance targets were imposed by higher-level authorities, and officials at the lower levels were under immense pressure to fulfil them simply because their career and fortune were mainly determined by the higher authorities (Rong et al., 1998; Huang, 1995; Edin, 2003).

Another major feature of the ORS during this period was the excessive weight given to GDP growth in target setting and performance evaluation. With a few exceptions involving policy areas like family planning and social order (*shehui zhi'an*), which have remained on the priority list from the mid-1980s to the present, the ORS during this period primarily focused on economic growth, and performance indicators were centred on outputs as well as determinant factors leading to GDP growth like the volume of outside investment attracted and the tax revenue generated (see Table 1).

The ORS has been in operation since China's entry into the 21st century. In response to the great social and environmental losses caused by the GDP cult in the 1990s, the top leadership has moved to promote a “human-centred” principle and a “scientific view of development” and, consequently, the previous obsession with economic growth gave way to a more systematic approach to balance economic and social development, emphasising public and human services so as to achieve sustainable development and construction of “a society in harmony” (see Table 2). The biggest change in the ORS this time has been that it tries to reflect the new mode of governance in objective setting as well as measurement with a broadened focus and more weight given to social and public service functions, sustainable development, and administration by law.

After years of practice by local governments, the central authorities have attempted in recent years to guide and institutionalise the ORS as an important tool to promote the “scientific view of development” and to improve government performance. At first, the authorities focused on performance measurement. In early 2007, the State Council designated the Ministry of Personnel to draft related regulations, rules and operational guidelines. To this end, the Ministry of Personnel held a number of consultation meetings and workshops, and five regional and local governments were selected as pilot sites (Bureau of Personnel of Nantong Municipal Government, 2007). In 2008, the attention of the top party and government officials moved from performance measurement to performance management, and this was first officially endorsed by Premier Wen in his government report to the 11th National People's Congress in March 2008. The State Council designated the Ministry of Supervision to draft related regulations, rules and operational guidelines for performance management. Since then, provinces including Henan, Guangdong and Jiangsu and the municipality of Beijing issued measures or guidelines on performance management. Judging from the official documents, it is clear that they have different definitions and understandings of the term and its key components. While most local governments are actually promoting performance measurement under the name of performance management, an exception can be found in Heilongjiang Province. In October 2009, the Municipal People's Congress of Harbin (capital city of the Heilongjiang Province) passed

Table 1. **Performance targets for a township government, 1999**

Dimensions	Targets	
	Task	Weight
1. Agriculture		100
1) Total value of production (in million yuan renminbi)	184	10
2) Structural adjustment		25
Banana planting (in hectares)	1 050	
3) Fruit production (in tons)	22 200	10
4) Mushroom planting		25
Hectares	110	
Volume of production (tons)	11 800	
5) Number of pigs provided (in thousands)	25.6	20
6) Aquiculture production (tons)	790	10
2. Private and small business development		100
1) Construction of development zone for private and small businesses		40
Number of new businesses	4	
Total volume of investment (in thousand yuan renminbi)	2 000	
2) Private businesses with investment above CNY 100 000		60
Number of new businesses	16	
Total volume of investment	240	
3. Outside investments		100
1) Production value by joint ventures (in million yuan renminbi)	62	15
2) Volume of foreign investment in contract (in thousand United States dollars)	7 500	30
3) Volume of foreign capital invested (in thousand United States dollars)	3 500	20
4) Number of new enterprises by overseas investors	3	20
5) Number of new businesses above CNY 500 000 by investors outside the region	2	15
4. Fixed assets investment		100
1) Volume of investment (in thousand yuan renminbi)	23 000	20
2) Volume of investment by key projects (in thousand yuan renminbi)	5 000	80
5. Tax revenue		100
1) Volume of tax revenue		80
2) Contribution to the county		10
3) Tax revenue per capita		10

Source: Evaluation Office of Changtai County, Fujian Province, 2000.

regulations on government performance management incorporating five-year strategic planning, annual performance planning, continuing performance management, performance reporting and accountability, and utilisation of information for decision making and resource allocation. This more strategic approach is clearly the exception.

### 2.2.2. Case study of the evolution of the ORS in Shaanxi Province

To better illustrate the role of local initiatives and how they have been taken over by the centre, we take as a case study the example of counties under Xi'an City in Shaanxi Province and how performance evaluation has evolved there since the 1990s. The general trend has been for higher-level authorities to impose more targets on local governments that have become more tangible and to which are attached more quantifiable measures or standards. Generally, however, the measures focus on inputs, occasionally on outputs, and almost never on outcomes. China's monitoring and evaluation of achievements (including compliance) have become increasingly sophisticated. However, they rely to a great extent on the monitoring of local authorities, such as audit offices, that have a vested interest in inflating the achievements of the local leadership group. Better performance means improved material rewards and accelerated promotion opportunities.

Table 2. **Performance indicators for municipal governments, 2006**

Dimensions	Performance indicators	Weight
Sustainable development	1. GDP growth rate	5
	2. Financial development index	4
	3. Growth rate of fixed assets investment	4
	4. Development index for non state enterprises	3
	5. Population development index	3
	6. Index of human capital development	3
	7. Environmental quality index	4
	8. Energy consumption index	3
	9. Reduction of government debts overdue	3
Progress in modernisation	10. Urbanisation index	3
	11. Development index for the third industry	3
	12. Proportion of industrial increment	4
	13. Development of new industry	3
	14. Ratio of R&D investment to GDP	2
	15. Proportion of high-tech industry increment	2
	16. Number of patents	2
	17. Index of export dependence	3
	18. Growth rate of overseas capital investment	3
Harmonious society construction	19. Index of new village construction	3
	20. Urban residents income index	3
	21. Income index for rural residents	2
	22. Index of educational development	3
	23. Development index for public health	3
	24. Rate of social security coverage	3
	25. Rate of registered unemployment	2
	26. Index of public safety	3
	27. Satisfaction rate for public safety	3
Administration by law	28. Index of legality for abstract actions	3
	29. Index of legality for concrete actions	3
	30. Losing rate in lawsuits	2
	31. Rate of rectification in reconsideration	2
	32. Efficiency in dealing with complaints and visits	3
	33. Completion rate of dealing with complaints	2
	34. Percentage of staff misconduct	3

Source: Office of Effectiveness Building, Fujian Provincial Government, 2007.

**The Objective Responsibility System, 1990-2003:** Officials established some kind of modern performance management system at the local level as early as 1991 in Shaanxi Province that involved contractual obligations. In counties under Xi'an City, for example, two types of performance contracts were used: collective contracts and individual contracts. Collective contracts were signed between organisations at various levels, while individual contracts were signed between an individual and an organisation (Gao, 2007, p. 102). Most contracts were collective, signed between heads on behalf of organisations and county authorities. After signing the contracts, the leaders of the various government agencies involved distributed performance targets to individual officials, thus creating the individual contracts. Through individual contracts, "accountability was distributed to everyone in the form of concrete performance tasks, including cadres at the lowest ranks in the organisations. As a result, a net of performance targets was formed within local governments at various levels where every cadre had a specific task to fulfil and was held responsible for his/her accomplishment of these targets" (Gao, 2007, p. 103). This experience indicates that local governments had flexibility in designing contracts. The

format and structure of contracts varied across localities. The performance targets varied considerably across functional areas, with the economic management targets and those laid down for township governments (the lowest level of government authority) being the most specific, quantifiable and measurable.

By the early 1990s, China's performance management system in practice included three different types of targets: job-specific (or functional) targets; "common" targets that were formulated and allocated by higher-level authorities, and that focused on key areas such as party building, family planning and safety; and "core" targets, also formulated and allocated by higher authorities, that focused on important economic objectives such as GDP, the value of investments in fixed assets, and local government budget revenue. Generally, fulfilling the "core" targets was the responsibility of economic management agencies and township governments. The trend has been for a gradual proliferation of common and core targets, which found their way into the performance evaluations of individual government officials (Gao, 2007, p. 7).

In 1993, officials introduced China's civil service reforms on a trial basis (see above) and included in them, as we have seen, references to performance-based rewards, including promotion. A year later, major municipalities were experimenting with new official performance appraisal systems that focused on work achievements. The link between China's emerging performance management system and performance evaluations of individual officials dates from this time. In 1995, the central government attempted to formalise elements of the performance management system as the "objective responsibility system" and laid down specific standards of performance evaluation. The policy identified three areas where performance mattered: economic construction, social development and spiritual civilisation construction, and party building (see Table 3). The system permitted local governments to assign weights and scores to the measures as well as to establish a growth index for each of the proposed measures, subject to the approval of higher authorities. The system at this stage permitted some flexibility and allowed local authorities to negotiate over these aspects to some extent (Gao, 2007, p. 58).

To implement the ORS, Xi'an City set up the Office of the Evaluation Commission for the Objective Responsibility System (hereafter, ORS Office) inside the city Personnel Bureau to handle "performance management work", indicating the close ties that the ORS had to personnel management (Gao, 2007, p. 114). All of this was a reaction to the central government's 1995 decision to lay down official standards for the evaluation of local leadership groups. Accordingly, Xi'an City focused on the elements identified in the 1995 notice, namely economic construction, social development and spiritual civilisation construction, and party building. The 1995 notice gave increasingly specific and quantifiable indicators for the evaluation of targets under these elements. For example, measures under the area of "comprehensive social security" included the crime rate (that is, "decreasing rate of criminal cases") and the crime case resolution rate. Environmental protection was measured by "standards of dealing with waste water, waste gas, waste materials". Family planning was measured by "birth rate according to the birth plan" (Gao, 2007, p. 118). Throughout the remaining years of the 1990s, targets and measures became increasingly specific and measurable. Not surprisingly, some counties bucked this trend, indicating that until 2003 local authorities apparently had some discretion to develop their own measures. Only in 2003 when Xi'an City issued its own document requiring more specific and quantifiable measures were these outliers brought firmly within the system.

Table 3. **Objective responsibility system criteria and measures, 1995**

Basic items	Criteria	Specific indicators
Economic construction	Economic production, development speed, per capita production.	GDP and its rate of change. Per capita GDP and its rate of change.
	State tax collection and local financial capacity.	Tax collection of central government and its rate of change Local financial income and its rate of change.
	Living standard of peasants and city residents.	Per capita peasant income and rate of change. Rate of non-poverty in poor populations. Per capita city resident living income and rate of change. Retail price index. Consumer price index.
	Agricultural production and rural economic development.	Acreage of farming lands. Production of major rural products and rate of change. Acreage of irrigated lands.
	Management of state-owned assets.	Profits of state-owned enterprises. Increasing rate of profit tax from state-owned enterprises. Profits of township-owned enterprises. Tax collection from state-owned enterprises.
	Standard of infrastructures such as transportation, resources, telecoms, construction of cities and townships, farm land, water supply, etc.	Investment rate (amount) on construction of infrastructure.
Social development and spiritual civilisation construction	Population and birth control.	Birth rate according to the birth plan.
	Social stability and security situation.	Rate of change of criminal cases. Rate of solving major criminal cases.
	Situation of education, technology, culture, health and physical education.	Implementation rate of nine-year compulsory education. Rate of decline of youth and adult illiteracy. Contribution rate of science and technology development. Implementation rate of medical treatment, prevention, health check in rural areas.
	Environmental protection.	Standards of dealing with waste water, waste gas, waste materials. Preservation and development of forests and grass lands.
Party building	Ideological education.	No specific indicators.
	Construction of leadership corps.	No specific indicators.
	Construction of democratic centralism.	No specific indicators.
	Construction of party branches.	No specific indicators.
	Dealing with corruption.	No specific indicators.

Source: "The Notice on Strengthening and Improving the Evaluation of Work Accomplishment of the Leadership Corps of Party Committees and Government at the County (Municipal) Level", 31 August 1995, in Gao (2007), "Performance Management in the People's Republic of China during the Market Reform Era: A Case Study of Two Counties in Shaanxi Province" (unpublished PhD dissertation, City University of Hong Kong), pp. 56-57.

Still, by 2002 local governments in Shaanxi Province had widely adopted performance management and developed their own systems with local features. In addition, there was a proliferation of performance targets that were more concrete, quantified, and increasingly output oriented (Gao, 2007, p. 121). Each year, district and county governments would report to the city Personnel Bureau's ORS Office on their progress in achieving the targets listed in their performance contracts.

**The Objective Responsibility System, 2003-08:** In 2003, the ORS Office issued a notice laying down in detail the evaluation criteria for all leadership groups under the administration of Xi'an City. The notice also included the procedures for conducting evaluations, and the rewards and penalties related to the achievement or non-achievement of performance contracts. The notice also established guidelines for conducting performance management work in Xi'an local governments. Subsequently, all districts and counties under Xi'an City then formulated performance management systems based on the 2003 notice (Gao, 2007).

According to the 2003 notice, the performance management system of all districts and counties should adopt two kinds of targets: functional targets (*zhineng zhibiao*), which included targets specific to each agency and core targets that focused on economic development; and common targets (*gongxing zhibiao*), which included social security and family planning, for example (Gao, 2007, p. 122). Table 4 summarises the performance targets for a township government in 2005 based on the requirements laid down by the city in 2003. The targets are a mixture of output and input targets, and areas of activity. The functional targets included job-specific output targets for the township (such as the value of agricultural production and of food production, income targets for township enterprises, various revenue targets, and so forth). The targets also focused on inputs, developing a new township enterprise. Also included is a vague target to protect farm land, with no specific measures attached. The common targets covered a huge range of areas but were prioritised, with some carrying powerful sanctions if they were not met (*e.g.* social security, family planning, and handling mass complaints). These targets, “with veto power”, were explicitly linked to personnel decisions. Thus, if an official failed to meet the targets, he or she would not be evaluated for annual bonuses or promotion and could even face a salary cut or dismissal. In 1995, for example, Shaanxi Province promulgated a notice on rewarding family planning work and tied achievements in this area explicitly to promotion opportunities. According to the notice, the leaders of the ten lowest-ranked counties in family planning work would not be promoted in that year, while leaders of the lowest three counties would not be promoted for three years. Moreover, if they failed to achieve the targets for three years running, leaders would be demoted. The provincial authorities had

Table 4. **Performance targets of a township in a county in Xi'an, 2005**

Functional targets	<ul style="list-style-type: none"> <li>Agricultural production value: 63.4 million (job-specific target).</li> <li>Raising 310 cows (job-specific target).</li> <li>Food production value: 23 000 tons (job-specific target).</li> <li>Total income of township-owned enterprises: 189.9 million (core target).</li> <li>Industrial production value: 183.9 million (core target).</li> <li>Revenue collection: 3.2 million (core target).</li> <li>Developing one new township-owned enterprise (core target).</li> <li>Use of foreign investments: 3 million by contract and realised value 1 million (core target).</li> <li>Collecting the real estate property tax (<i>qishui</i>) of 3 000 (job-specific target).</li> <li>Accomplishment of key projects ordered by the county (core target).</li> <li>Constructing at least 3 000 metres of roads; improving the quality of roads for at least 2 000 metres (core target).</li> <li>Protecting farm lands, improving water supply equipment and constructing forests (core target).</li> </ul>
Common targets	<ul style="list-style-type: none"> <li>Actively carrying out activities on the theme of being a model civil servant.</li> <li>Party building.</li> <li>Ideology education, theory learning, and propaganda work.</li> <li>Construction of a transparent and electronic government.</li> <li>Comprehensive social security (with veto power).</li> <li>Family planning (with veto power).</li> <li>Production safety (with veto power).</li> <li>Handling of mass complaints and the cult religion Falungong (with veto power).</li> <li>Personnel system reform in social service institutes.</li> <li>Labour employment.</li> <li>Other targets assigned by the county party committee and county government.</li> <li>Ensuring the implementation of the objective responsibility system.</li> <li>Management work of civil servants, such as categorising personnel dossiers.</li> </ul>

Source: Performance Contract of Zu'an Township, Hu County, 2005, in Gao (2007), “Performance Management in the People's Republic of China during the Market Reform Era: A Case Study of Two Counties in Shaanxi Province” (unpublished PhD dissertation, City University of Hong Kong), p. 107.

the discretion to move targets from the functional classification to the common classification, thus increasing the pressure on local officials to achieve them by tying their completion to promotion opportunities. For example, in Shandong, the provincial authorities tied promotion opportunities to indicators on the reduction of total major pollutant emissions and reduction of water consumption per unit of industrial added value. Inner Mongolia converted the indicator of forest coverage to a common target in 2000. Hubei Province also converted the coverage of the new rural co-operative healthcare system to a common target in 2007 (Gao, 2007, p. 173). These steps were designed to make local officials take the targets more seriously.

According to Gao's research, "all interviewees agreed that targets with 'veto power' (those with clear personnel management consequences) were the most important task for leadership cadres and that the accomplishment of targets with veto power brought great pressure for local officials, especially for cadres in the leadership corps who were directly accountable for the failure of veto targets on behalf of their organisations" (Gao, 2007, p. 132). The 2003 Xi'an notice stipulated that 11 targets fell into this category: anti-corruption work; in leadership selection, no violation of the 2002 Organisation Department Regulations on Selecting and Appointing Party and State Leading Cadres; adherence to policies made by the city party committee and city government; maintaining social stability; no mass complaints, illegal mass demonstrations and mass strikes; comprehensive social security; family planning; no extra birth rate; production safety; environmental protection; other illegal activities that would break party discipline and laws (Gao, 2007, p. 133). Gao's interviews reveal that the 11 targets were not of equal importance in practice. The most important in practice were family planning, production safety, handling mass complaints and comprehensive social security (Gao, 2007, p. 133). There was some local variation in the importance given to anti-corruption work. With the 2003 notice, local authorities centralised power to impose common targets and their accompanying indicators (see Table 5), leaving little discretion to the townships and counties.

An analysis of the assessment criteria for common targets indicates that many of them were no more than activities that local officials should carry out, with no indicator to evaluate the extent to which they had the desired impact or outcome. Some indicators focused on inputs (*e.g.* there should be full-time professionals to focus on safety work) and outputs (such as no unplanned births). Still other indicators spelled out the consequences for failing to meet the indicators rather than providing additional measures (for example, "if more than three people die in an event within a year, all the other work achievements of the leadership group will be disregarded in the year-end evaluations"). The "measures" provided by local government were less measures and more guides to action, but they undoubtedly increased the control that city and county governments had over township authorities.

The targets for these local plans came from higher-level authorities, and ultimately from the central government in its five-year plans. For example, in 2005 based on the 11th Five-Year Plan, the central government established two national goals regarding economic growth (GDP and GDP per capita) that it distributed to all provinces (Gao, 2007, p. 8). The central government also stipulated that the annual growth rate of the national GDP from 2005 to 2010 should be 7.5%. Shaanxi Province was told that its annual growth rate target should reach 11%. Xi'an City was then told that its target should reach 13%.<sup>2</sup> Shaanxi Province adopted the two goals and added four additional policy goals to measure economic growth, namely local government budget revenue, total value of investment in fixed assets, total value of imports and exports, and total value of foreign investment.

Table 5. **Assessment criteria for common targets laid down by a county government, 2005**

Common targets	Assessment criteria
Party building	<p>Ideology education: learning the “three represents” as important ideas.</p> <p>Conducting activities for “Maintaining the Advancement of Party Members”.</p> <p>Building party branches in all non-public economic organisations.</p> <p>Building party branches in resident communities.</p> <p>Conducting investigation of party-building work.</p> <p>Developing new party members.</p> <p>Strengthening the management of party fee collection.</p>
Anti corruption	<p>Making anti-corruption plans this year.</p> <p>Implementing the anti-corruption responsibility system of the leadership group.</p> <p>Being a self-disciplined leading cadre.</p> <p>Seriously studying possible problems that anti-corruption work may encounter.</p> <p>Reporting promptly to the higher governments on the anti-corruption situation.</p> <p>Strengthening education and propaganda against anti-corruption.</p>
Family planning (V) <sup>1</sup>	<p>Establishing responsible organisations for family planning work such as working offices and the like.</p> <p>Conducting the birth control responsibility system of the leadership corps.</p> <p>Ensuring that every member of the organisation or 90% of the population know and understand family planning policies, regulations and rules.</p> <p>No extra birth in the organisation.</p> <p>No extra birth of 98% of the floating population managed by the organisation.</p> <p>Handling all expenses for birth control.</p> <p>Establishing birth control dossiers for the unemployed and the floating population.</p> <p>At least 95% of immigrants must have certificates of immigration.</p> <p>At least 80% of “women’s diseases” should be under control; all women to get birth control surgeries.</p> <p>No mass complaints on birth control.</p>
Dealing with mass complaints (V) <sup>1</sup>	<p>Making a practical plan for dealing with mass complaints.</p> <p>There is a leading cadre who is especially responsible for handling mass complaints.</p> <p>Studying and discussing problems on mass complaints frequently.</p> <p>Establishing reception spots for mass complaints and taking reception records.</p> <p>Ensuring that 70% of complaints are handled.</p> <p>Ensuring that 100% of complaint cases allocated by the central, provincial or city governments are examined and solved (90% of cases allocated by the county government).</p> <p>Controlling collective petitioning to higher authorities; no collective petitions to Beijing officials, Shaanxi provincial officials, and Xi’an City leaders.</p> <p>Strictly controlling “skip-the-level” petitions; the rate should be controlled within 0.1%.</p> <p>Actively conducting propaganda on the newly revised regulations on letters and visits.</p>
Production safety (V) <sup>1</sup>	<p>Signing production safety contracts with subordinate enterprises and service units.</p> <p>Full-time professionals are responsible for safety inspection work.</p> <p>Establishing monitoring systems for regular checks on production safety.</p> <p>Disseminating the importance of production safety.</p> <p>Carefully preventing serious issues on production safety.</p> <p>If more than three people die in an event within a year, all the other work achievements of the leadership group will be disregarded in the year-end evaluations.</p>
Propaganda work and spiritual civilisation construction	<p>Conducting propaganda work centred around publications of the county.</p> <p>Actively conducting discussion forums on implementing scientific development.</p> <p>Co-ordinating with the county government to celebrate the new year and special holidays.</p> <p>Reporting on social situations and people’s thoughts regularly.</p> <p>Conducting moral education among the youth.</p> <p>Conducting moral education with the theme of “Civilised [county name] and Civilised Me”.</p> <p>Improving the spiritual and civilisation level of work in the whole organisation.</p>
Compre-hensive social security (V) <sup>1</sup>	<p>Fighting against criminal cases through political, administrative, economic and legal approaches.</p> <p>Making comprehensive social security one of the most important tasks in a leader’s term.</p> <p>Preventing potential dangers that could threaten people’s safety.</p> <p>Ensuring that 95% of social conflicts are handled by means of negotiations and persuasion.</p> <p>Firmly conducting regular checks on the safety of work.</p>

1. V = Target was very important and had tight links to personnel decisions.

Source: Gao (2007), “Performance Management in the People’s Republic of China during the Market Reform Era: A Case Study of Two Counties in Shaanxi Province” (unpublished PhD dissertation, City University of Hong Kong), pp. 135-137.

These six goals (targets) were distributed to cities. Xi'an City adopted all of these and then added one new one: total retail sales of consumer goods. Counties under Xi'an adopted all of these and added yet a new one to the list: per capita net income of peasants.

Tax planning and target setting were also part of this regime. Each year, the central authority sets an annual target for tax collection (the tax plan). When the budget is approved by the National People's Congress, the tax plan as part of the annual budget becomes mandatory for the concerned authority, particularly the State Administration for Taxation (SAT). The tax plan is followed by a process of target specification and cascading which eventually imposes targets for tax collection on the concerned lower-level authorities in a top-down manner. Fulfilment of the tax plan then becomes a high priority for leading officials of the sub-national governments, with incentives and punishments provided to ensure compliance. For many years, the SAT adopted a "baseline approach" for target setting for tax collection. Total tax income in a given year serves as a baseline, and a fixed percentage of increase over the baseline will be set as the target for the following year. In other words, the budget forecast plays little role in tax planning, and the regime is designed to ensure a steady increase of tax revenues regardless of the economic situation.

The central government ranks policy goals to ensure that local governments pay attention to the most important ones. GDP growth was an "anticipative" planning indicator which means that it was "an expected development indicator to be achieved through market forces, with the government playing a facilitating role" (Gao, 2007, p. 148). Other targets were obligatory, i.e. required work proposed by the central government for local governments and related organisations. Obligatory indicators "have legal force and should be incorporated into the comprehensive evaluation and performance measurement of accomplishment on economic and social development in all regions and local organisations" (Gao, 2007, p. 149). Examples of obligatory targets were total population, reduction of energy consumption per unit, reduction of water consumption per unit, total amount of cultivated land, reduction of total major pollutant emission volume, forest coverage, population covered by basic pension in urban area, coverage of the new rural co-operative health-care system, and so forth. Local governments may not negotiate on the performance targets, performance levels of each target and the priorities of these targets formulated by higher levels. They may, however, negotiate to cope with some unexpected contingencies, such as natural disasters.

The role of the development and reform commissions is to turn the general policy goals into specific targets and to produce quantifiable measures or evaluation criteria for the targets at each administrative level. Thus, in 2006 the Development and Reform Commission (DRC) of Xi'an City identified various projects that had been allocated to the Xi'an City government by the central and provincial governments. The Xi'an DRC then allocated these projects to various counties within Xi'an. The county DRC then distributed targets to the various townships (Gao, 2007, p. 126). Clearly, the development and reform commissions play a key role in setting targets and in identifying indicators and assessment criteria to be used to evaluate performance.

**Monitoring compliance and rewarding achievements:** Officials have tasked auditing agencies and other functional bodies with responsibility for monitoring the extent to which the targets are achieved. In the Shaanxi case, the provincial audit bureau, for example, was responsible for auditing the extent to which the province met the goals regarding GDP and per capita GDP. Other provincial bureaus were made responsible for

delivering the appropriate performance for other goals. For example, the provincial Finance Bureau was made responsible for the local budget revenue target, while the provincial Commerce Bureau was responsible for the target regarding total value of imports and exports. The provincial DRC itself was responsible for the “total investment in fixed assets” goal (see Table 6) (Gao, 2007, p. 151). At Xi’an City and county levels, the relevant agencies in charge of the functional area were made responsible for reporting the results of performance in their area. Thus, county governments converted the policy goals into core targets and signed performance contracts with the relevant organisations and agencies and with township-level organisations. At the county level, development and reform commissions (the county-level counterpart to the development and reform commissions at higher levels) and county audit bureaus monitored and reported on GDP and per capita GDP. Audit played a role in monitoring target achievement in other areas as well, such as in per capita net income of peasants. The leadership groups of the townships and relevant county offices and organisations were held responsible for achieving these targets which were set out in performance contracts (Gao, 2007, p. 158).

**Table 6. Selected policy goals on economic growth and economic structure, their indicators, and agencies responsible for monitoring and reporting target achievement, 2006**

	Target	Agency
Economic growth	GDP.	Audit.
	Per capita GDP.	Audit.
	Local government budget revenue.	Finance Bureau.
	Total investment in fixed assets.	DRC.
	Total value of imports and exports.	Commerce Bureau.
	Total retail sales of consumer goods.	Commerce and Trade Bureaus, Audit.
Economic structure	Ratio of added value of high-tech industry to GDP.	Technology Bureau.
	Ratio of expenditure on R&D to GDP.	Technology Bureau.
	Ratio of non-public economy to GDP.	State-owned Assets Supervision and Administration Commission.
	Ratio of primary, secondary and tertiary sectors.	DRC.
	Urbanisation rate.	City Construction Bureau.

Source: Adapted from Gao (2007), “Performance Management in the People’s Republic of China during the Market Reform Era: A Case Study of Two Counties in Shaanxi Province” (unpublished PhD dissertation, City University of Hong Kong), p. 154.

Although indicators or measures were classified as “obligatory”, “anticipative” or “guiding”, the Xi’an plan “required local officers and organisations to accomplish all these policy goals no matter what their attributes were. However, the priority of these targets in implementation was different” (Gao, 2007, p. 157). Not surprisingly, obligatory targets were non-negotiable since they were the required work proposed by the central government, provincial government and city government. Management of the other targets was “relatively more flexible because it was not reasonable for the higher-level authorities to establish concrete performance standards for these localised tasks. Guiding indicators were more negotiable than anticipative indicators because their application relied more on market forces. They were more likely to encounter irresistible and unforeseeable risks” (Gao, 2007, p. 157).

In Xi’an township, governments did not negotiate with county-level authorities on the establishment of performance standards. Negotiation was allowed only in certain cases where there was a need to cope with unanticipated contingencies. The ORS system was

used as a planning and regulatory tool to ensure that local governments complied with higher-level key policy goals. Higher-level authorities established key performance goals, determined the priorities of policies in implementation, and allocated these policies to lower-level agents (Gao, 2007, p. 174).

The incentive to complete specific projects laid down in the five-year plans went beyond bonuses and promotion opportunities (see above). Xi'an City, for example, paid out CNY 500 000 to units that completed their projects (so-called advanced units), while county governments provided CNY 3 000 to each organisation that successfully accomplished key projects plus an additional CNY 5 000 for organisations that got into the top ten in terms of completion rates. Moreover, local organisations that collected revenue could retain some of it if the amount collected exceeded the target. Thus, local tax offices could retain 15% of the revenue they collected if they met the specified tax revenue objective. Some kind of fee retention scheme applied also to the general offices of township governments, family planning offices, offices for attracting foreign and domestic investments, and social insurance offices which could retain 30-40% of fees collected if they met other specified objectives (Gao, 2007, p. 162).

In addition to monitoring carried out by DRCs and auditing agencies, the Xi'an City government set up a General Office of the Leading Small Group of Inspection for the Implementation of Core Targets and Key Projects, which sent out municipal-level inspection teams to monitor and evaluate the performance of county-level officials on a quarterly basis. To ensure compliance with key financial and revenue targets, county governments also dispatched their own monthly inspection team visits to check up on officials at the level of section head in the finance bureau, the local and state tax bureaus, the land and resources bureau and all tax offices in township governments. County inspection teams also checked on the progress of all indicators and objectives on a monthly basis, except GDP which was inspected on a quarterly basis and per capita net income of peasants which was inspected annually (Gao, 2007, p. 163).

Random inspections were also part of the system. Thus the Xi'an City inspection team carried out random monthly audits of key projects and published the results of their inspections on the inspection team's website. According to guidelines, all key projects were evaluated quarterly and officials would issue warnings that they were failing to achieve their goals. Regulations required the inspection team to give biannual comprehensive evaluations of all key projects, summaries of which were published (Gao, 2007, p. 163). The Xi'an City inspection team ranked districts and counties according to the accomplishment of goals, and made the ranking public. According to one sample 2006 progress report on local government budget revenues for various districts and counties of Xi'an City, all 13 districts and counties achieved their goal by 91-112% (Gao, 2007, p. 165). All districts overachieved "use of foreign investments" by 101-150%, and key projects of districts were overachieved by 109-213% during the same period (Gao, 2007, p. 166).

The case study indicates that, after local governments experimented with a kind of performance management technique (especially establishing targets and holding local officials responsible for achieving them), the central government became increasingly involved. With central involvement, performance measures became more specific and quantifiable. Central and provincial governments saw the value of linking the achievement of the targets to personnel management decisions, such as bonuses and promotions. The Shaanxi case demonstrates that the links were relatively tight for some targets (many

so-called “common” targets), and indicates that considerable resources were spent on monitoring and evaluating performance results. Still, performance measures have taken a variety of forms that have often neglected outputs and outcomes and, by focusing on the achievement of provinces while leaving provincial auditing in the hands of provinces, unintended consequences have resulted. We return to this issue below.

### **2.2.3. Citizen participation in performance management**

The ORS in the 1980s was designed primarily for internal hierarchical control rather than outward public accountability. Consequently, performance measurement was primarily an internal exercise within the government system, initiated, executed and used (results consumed) by the government. Beginning in the late 1990s, with the change in performance management to better reflect the needs and concerns of citizens, public involvement in performance measurement made some progress. First, the rate of resident satisfaction was listed in the evaluation framework and its weight was increased. For example, in the municipal government of Hangzhou (the capital city of Zhejiang Province), the city’s Comprehensive Performance Assessment Scheme has set four orientations as its core value: strategy orientation, responsibility orientation, public orientation, and performance orientation. Within a total credit of 100, the areas of assessment and their credits are allocated as follows: attainment of pre-defined objectives or targets (45), appraisal by municipal leadership (5), and public assessment (50). “Public” here is composed of members of the Municipal People’s Congress and Political People’s Consultative Conference, as well as representatives of ordinary residents, known as “scholars, businessmen, and journalists” (Sun, 2007). The case of Hangzhou is radical in that “public assessment” accounts for half of the total credits.

Qingdao City in Shandong Province also considers the rate of resident satisfaction as part of the departmental performance measurement system, and the satisfaction survey involves enterprises, residents and focus groups. The survey focuses on the problems that concern the residents the most, and is conducted through questionnaires or computer-aided telephone investigation (CATI). The satisfaction survey in 2006 had more than 10 indicators covering four areas including solving problems of great public concern, the situation of public security, community management and services, and government work style. For instance, questions for the state of public security included: “Do you feel there are many cases of theft or robbery in your neighbourhood?”, “Do you feel safe when you go out or on your way home alone at night?”, “Can you see the security patrol cars and patrolmen around you?” and “Are you satisfied with the public security situation in your residential area?”. The relative weight of satisfaction rate in performance measurement was 8% in 2006, increasing to 14% in 2007. The authorities claim that the survey intensified the citizen orientation among public officials and effectively made them “look not only upward but also downward”, pay more attention to people’s living conditions and needs, and put into practice the principle of “fixing affection on the people, exercising power and seeking benefits for the people” (Office of Performance Measurement of Qingdao Municipality, 2007).

Another more radical approach was to take public assessment as the sole channel for government performance. A campaign of inviting 10 000 people to assess the performance of government was launched in many cities like Zhuhai, Shenyang and Nanjing. In the case of Nanjing (capital city of Jiangsu Province), public assessment covered three main areas: government work style, integrity and clean government, and some basic work, with a credit of 50, 30 and 20 for each area respectively. In 2001, the city authority sent out 8 438 assessment

forms and received 6 373 responses, a response rate of 76.34%. In addition, simplified questionnaires were sent to 37 400 residents, and 36 380 suggestions and proposals were received in reply. Ninety agencies under the municipal government were ranked in accordance with the results of the public assessment. Chief executives of the top eight agencies received recognition and rewards of different kinds while those of the agencies ranked last were punished through forced resignation, demotion, and “exhortation” (Deng and Xiao, 2007).

The above discussion shows that government performance measurement in China experienced two new features or trends of development in the past decade. One may be called “leaning to citizens” in the design of performance indicators, as illustrated by the greater emphasis on social functions and public services, and another is the increased citizen involvement in performance measurement of government, which mainly takes the form of resident satisfaction surveys and public assessment.

Though public participation in government performance measurement has made progress in recent years, it is nevertheless still at the stage of limited participation. First, high-level public participation means engaging citizens in the whole process of performance measurement and improvement, from the first step of identifying programmes to be evaluated down to the last step of using performance information. The current level of public participation in China belongs to the category of “partial participation” in only a few steps. Another indication of limited participation is the restricted roles played by citizens and the limited channels available for participation. In both satisfaction surveys and public assessment, citizens only play the role of passive “information provider”. With regard to important issues such as whether or not to conduct performance measurement, the department or project to be evaluated, the relative weight attached to the satisfaction rate, and so forth, all are left to the willingness or self-consciousness of party and government leaders. Ordinary citizens, by and large, have little voice in the process, let alone sharing in decision making.

Although citizen satisfaction has great value and is generally recognised by all countries throughout the world, it is still a kind of subjective appraisal of government performance. Excessive reliance on subjective measures in performance measurement has obvious limitations. For public services like fire fighting, first aid and many others, most citizens simply have no chance of experience by themselves. With regard to most services, the British Cabinet Office observed in 2007 that “very few citizens have a strong sense of what a ‘public service’ is and, without anything to compare it with, find it hard to express a firm opinion as to how satisfied they are” (Cabinet Office, 2007). Peters (2001) also points out that, for many services, the public may not know what to expect and what constitutes “quality”:

... For more complex services, such as medicine or education, however, is the average citizen capable of determining what high-quality service is? Even for the more mundane services, it is still difficult to say what is “good enough”. Circumstances will inevitably cause some trains to run late. In fact, if the trains are late for safety reasons that may be a higher-quality service than if they are on time but inordinate risks are being taken. Also, good services for some citizens (travelers wanting to get through customs quickly) may not be good for all citizens wanting protection against smuggling (Peters, 2001, p. 72).

In China, because of its closed government and the general lack of transparency and openness, the possibility of citizen participation is even more limited.

Another point to be stressed is the relativity of satisfaction assessment. Academics generally agree that customer satisfaction has no objective standards but depends mainly on the gap between expected quality and experienced quality. Under the circumstance of low expectations caused by long-term bad quality of service, a small improvement will lead to a higher satisfaction rate. However, in another place or service area, relatively higher service quality may fail to gain a higher satisfaction rate, since citizens there have been accustomed to high-quality services and have much higher expectations. In view of this, the British Cabinet Office put forward the advice that it is best not to rely on these methods in isolation, as customer satisfaction measures tend to be influenced by many drivers. Strengthening public participation in this regard, therefore, implies a move away from the current excessive dependency on and isolated application of subjective measures like the rate of satisfaction. A good citizen-oriented performance measurement system should be a reasonable balance between subjective and objective measures.

### **2.3. Public service delivery**

Reforms in the public service first involve changing responsibilities for public service provision and improving public service delivery. Measures to improve public service delivery include specific innovation schemes and management fads to enhance service quality and customer satisfaction, as well as market mechanisms in public service provision.

A good example of an innovation scheme is the Service Pledge System (SPS), the Chinese version of the United Kingdom's Citizen's Charter. The basic content of the SPS was to make public the responsibility, standards and procedures for handling governmental affairs with fixed time limitations, to set up supervisory institutions and channels for complaints, and to specify compensation standards and demand that the units or persons failing to fulfil the pledge give compensation to the party concerned in accordance with stipulations. As a mechanism to improve public service quality, the SPS actually contains three core elements: customer consultation so as to identify the real needs of clients; establishment and publicity of service standards and assessment of service delivery according to the standards; and accountability when the standards fail to be met and with effective measures for improvement (Hu *et al.*, 1998; ADB, 2003). The SPS system was originally a local initiative by Yantai City of Shandong Province. Drawing on the experience of the United Kingdom and Hong Kong, China, the Construction Commission of the Yantai City government took the lead in implementing SPS in June 1994. In July 1996, on summarising the experience of Yantai City, the Publicity Department of the Chinese Communist Party Central Committee and the Working Style Correction Office of the State Council decided to make publicising and popularising the SPS as "a key work in strengthening the building of healthy working style and professional morality, and promoting socialist spiritual civilisation" in the second half of the year. It was required that eight ministries and commissions, including the Ministry of Construction and the Ministry of Power, start before the others in spreading the SPS. Later, SPS was implemented in government agencies and multiple industries around the country.

Introduction of new management techniques in public service institutions involves management tools such as strategic management, programme evaluation, total quality management, quality accreditation (*e.g.* ISO 9000) and performance measurement, as well as newly emerged management fads like best practice benchmarking, business process re-engineering (BPR), balanced score-card (BSC), etc., all aiming at enhancing service quality and customer satisfaction.

Due to the influence of New Public Management (NPM), privatisation and public-private partnerships (PPP) have been realised as measures to improve public service delivery. These include competitive outsourcing or contracting out, build-operate-transfer in infrastructure construction, internal markets such as voucher schemes in primary and secondary education, and franchise arrangements for public utilities and other services. Up to the present, the reforms produced different results and are encountering different fates. The reform of the public transportation system under franchise arrangements is a good case to illustrate the point.

The reform of public transportation under franchise arrangements took a number of forms and was adopted by many cities including Nanjing (the capital city of Jiangsu Province), Xi'an City in Shaanxi Province, Hefei City in Anhui Province, and numerous mid-sized cities all over the country. The case of Shiyan City in Hubei Province was special because it was regarded as the first city to introduce the wholesale and exclusive franchise arrangement for public transportation. In 2002, the Public Transportation Company of the Shiyan City made a loss of millions of yuan renminbi and the municipal government paid more than CNY 5 million to the company in the form of a subsidy. In the face of the heavy financial burden and increasing demand for expansion of bus services, the municipal government of Shiyan signed an agreement with a private businessman (Zhang Chaorong) in April 2003. Under this agreement, the Public Transportation Company of Shiyan City was transferred to Zhang for CNY 23 million, and Zhang was granted the exclusive right to operate public buses in the city for 18 years on the condition that he pay CNY 8 million to the city each year. The reform received extensive publicity and was hailed as a pilot programme of innovation with the potential to find a new solution to the problems plaguing municipal public services for years. In April 2008, however, the municipal government of Shiyan announced that it was taking over Zhang's company, and the bus service in Shiyan changed hands "in a flash". The reform was widely perceived as a failure, leaving a number of legal problems unresolved. In fact, disputes and conflicts accompanied bus service under private ownership in Shiyan City. Zhang accused the municipal government of failing to provide a subsidy as required by the central government in the face of the soaring gasoline prices beginning from 2006, of violating the agreement by refusing to cover the losses imposed by the half-price privilege for the elderly, the disabled, military men in service, and pupils of primary and secondary schools, totalling CNY 97 million in five years, and of failing to protect bus dispatch sites when they were no longer publicly owned. In response, the municipal government explained that Zhang failed to pay the CNY 8 million annual transfer fee as agreed, and that the total amount of the transfer fee would cover the gasoline subsidy and the losses imposed by the half-price privilege for the designated groups. In the view of the municipal government, Zhang's management incompetence and thirst for profits drove the company into the awkward situation. The income of the employees of the privatised bus company remained unchanged for five years and Zhang's Taylorist management style caused much resentment. The company set up a series of performance standards covering the number of services, level of gas consumption, number of traffic accidents involved, and so forth, and failure to meet any of them would result in the reduction of an employee's basic wage. In December 2007, a bus driver with four years of service received a payment of CNY 220, one-fifth of the average monthly wage because of the "under-performance" reductions. This led to an industrial strike and city-wide stoppage of bus service in January 2008, without prior notice to the residents. Actually, the trigger for the sudden takeover of the

company was the fourth city-wide stoppage of bus services on 15 April 2008. What happened in Shiyan was not a single case in recent years. Similar takeovers occurred in Hefei, Xi'an, Wuxi and many other cities (Quan, 2008; Jin, 2008).

Cases of takeovers mean a setback for privatisation of municipal bus service and have led to heated debates among scholars and public officials. Some stressed that municipal bus service is a kind of public goods and therefore not subject to privatisation of any form. Others question the misplaced goal of the governments involved, namely treating privatisation as an off-loading exercise to solve fiscal stress rather than a strategy to improve efficiency and service quality. The failure of governments to provide policy guidance and post-privatisation management on a continuous basis were also under scrutiny. As in the Shiyan case, government officials in many cities announced that the takeover of bus service did not mean a return to the old system of government provision on a monopoly basis. But it remains to be seen how the new system differs from the old one.

Local governments, then, have adopted a wide variety of management techniques in an attempt to improve public services, with mixed results.

### 3. Assessment

Clearly, during the last 15 years or so, China's performance management regime has come a long way. We highlight China's achievements and areas for improvement in the paragraphs that follow.

Structural reform has probably improved the performance of government, and has clearly strengthened key performance management agencies such as the development and reform commissions and audit. Still, both functions continue to be managed by local governments, rather than being brought into a semi-vertical arrangement that would allow for more central control. Both are still organised along territorial government lines, with strong incentives to tailor performance reporting to fit local needs (inflating growth and under-reporting performance in other areas as required by the performance management regime).

China's civil service system is now more oriented towards merit and performance, with rewards (including promotion) formally tied to performance. In particular, the "veto power" system discussed in the case study of the ORS above ties personnel decisions to performance. Not surprisingly, officials focus on goals that directly influence their career opportunities and tend to ignore others. In recent years, performance criteria have been broadened to include more social and sustainability goals, rather than economic development narrowly conceived. China's experience with ORS shows how the system has progressively developed, focusing on increasingly concrete, specific, measurable targets. Still, targets continue to focus overwhelmingly on inputs, to an increasing extent on outputs, but very little on outcomes, such as increasing efficiency or equity. From a local initiative, the ORS has developed into a system managed at the centre, with profound consequences for the careers of local officials. Insofar as corruption is a serious problem, however, the incentives built into the ORS are compromised.

Relying on local governments to report their own performance has its limitations. First, it encourages inflated reporting or under-reporting. The problem of inflating GDP growth is well known. In 2004, the gap between the national GDP growth figure and provincial figures was 19.4%, prompting a central government investigation. Provincial governments then moderated their GDP reports until this year. For the first three quarters of 2009, while the central government reported GDP growth of 7.7%, most provinces

reported double-digit growth. The total GDP reported by all 31 provinces and provincial-level units was CNY 2.5 trillion higher than the national figure. The discrepancy might have been higher, except that the National Audit Bureau ordered half of the provinces to cut their GDP figures at a national statistics meeting in October 2009 (*South China Morning Post*, 30 October 2009). Given the strong incentives for local governments to achieve GDP growth targets, and the fact that auditing is controlled locally, inflated figures are to be expected. The incentive system also encourages under-reporting, for example of accidents in Liaoning Province (Gao, 2007, pp. 185-186), of riots and social upheaval, and of petitioners and petitioning.

Second, ranking systems encourage competition which can have deleterious consequences. By focusing so much on territory targets, cross-boundary co-operation is undervalued. Managing common pool resources requires the co-operation of many different governments, and targets should be designed to encourage collaborative arrangements. For example, keeping rivers and lakes free of pollution is the responsibility of many different levels of government across many provinces. No cross-border performance management system exists that focuses on outputs, such as clean water. A cross-border river or lake authority with responsibility for these matters is an obvious need.

Although the "objective responsibility system" provides no formal mechanism for citizen participation, local governments have begun surveying public satisfaction with government performance as part of the process. Still, citizen participation in performance management is limited to a passive role even when surveys are carried out. We conclude then that ordinary citizens have little voice in the process, let alone a share in decision making about the system.

China has improved public service delivery through the introduction of performance pledges, on the one hand, and by outsourcing public services to improve their efficiency and make them more sensitive to customers' needs, on the other. Public pressure to improve government performance has grown in recent years and will continue to use new resources, such as the Internet, which are difficult for the government to control. Attempts to improve the delivery of public services through outsourcing and privatisation, however, have met with mixed results.

#### 4. Conclusion

Since the mid-1990s, in step with the market economy, China's performance management system has developed relatively quickly. Officials have provided incentives to improve performance embedded in the human resource management system. Although there was an initial heavy emphasis on economic growth, this emphasis has given way to targets that focus on social and public service functions, sustainable development, and administration by law – a welcome development. We have seen that initiatives to improve performance management have come from both the centre in a top-down style and from local governments. As they sought to better position themselves, local governments have been active in identifying performance-enhancing strategies, sometimes only symbolically. China's experience of the objective responsibility system indicates that further efforts are needed to encourage collaborative arrangements to address pressing public problems, such as environmental protection and water conservation. More effort is also needed to focus on policy outcomes and try to bring outcomes into the performance management equation. Finally, enhancing public participation in China's performance management regime will strengthen its legitimacy and help to ensure that government programmes are effectively meeting human development needs.

## Notes

1. Xi reports that in 1998 there were 5.3 million civil servants in China. Hon Chan and Edward Li Suizhou (2007, p. 389) report that, as a result of the expanded coverage of the civil service, there are now about 6.3 million.
2. "An Outline of the 11th Five-Year Plan for National Economic and Social Development of the PRC", 16 March 2006, [www.xinhuanet.com](http://www.xinhuanet.com) and "Outline of 11th Five-Year Plan for National Economic and Social Development of Shaanxi Province", 22 January 2006, [www.shaanxi.gov.cn](http://www.shaanxi.gov.cn) and same for Xi'an, dated 19 February 2006, in Gao (2007), p. 125.

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