

## Public Sector Modernisation: Governing for Performance

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### Introduction

Performance – improving it and measuring it – has pre-occupied governments for at least half a century. Over the past two decades, public sector performance has taken on special urgency as OECD countries have faced recessions, mounting demands for more and better public services, and, in some countries, citizens increasingly unwilling to pay higher taxes. Accompanying these pressures have been demands for more public accountability.

Performance- or results- based budgeting, management and reporting is the latest trend in attempts to improve government performance. These reforms seek to refocus management and budgeting processes away from inputs towards results. In essence this involves writing into the formal management and incentive systems of government organisations and public employees, goals, targets, indicators and measures relating not to how the service is provided but to the results achieved.

The performance movement is here to stay. The benefits of being clearer inside and outside government about purposes and results are undeniable. But to gain these benefits governments need a long-term approach and realistic expectations. They need persistence too. It takes time to develop performance measures and indicators and even longer for them to be used by public servants and politicians. Most importantly, however, there is much in government which cannot be measured – public employees will continue to be mostly influenced by values and culture. “Governing for performance” must develop in a way that strengthens those social factors; it cannot replace them.

This Policy Brief looks at the development of performance or results-based management and budgeting in OECD countries, and what it has achieved, as well as identifying the strengths and limitations of current approaches and possible ways to meet future challenges. ■

*This Policy Brief is the fourth in a series looking at the evolving modernisation agenda and how governments can best adapt their public sectors to the changing needs of their society. The first Policy Brief in the series, Public Sector Modernisation, takes an overall view of the issue and other Briefs deal in more detail with individual aspects of modernisation, such as Modernising Public Employment.*

## What does performance mean for governments?

Citizens judge and evaluate government activities in a variety of ways, but the acid test of how well a government is performing is the degree to which citizens gain benefits from the spending and regulatory activities. Ultimately citizens judge government not by intentions but by results.

Is the desire to improve government performance something new? Of course not. Governments have always wanted results. But what is new is that increasingly governments have come under spending constraints, so if they want to achieve more they have had to pay closer attention to getting better results from existing funds.

Traditionally in OECD countries, performance was formally driven by transcribing policies into laws and regulations and ensuring that these rules were respected. Beyond that, the attention given to performance depended on an informal factor – the motivation of the officials concerned. This system generally worked well when governments had less complex and more standardised tasks to perform – and when complying by the rules was more important than efficiency. In a modern society however – with customised services, the need for constant adaptation, pressure for efficiency, and the increased use of private agents – it is considered that sharper performance incentives are needed than provided in a traditional bureaucracy.

Information on performance is important to governments for a number of reasons. It can help in managing and controlling public services, as well as in enabling parliament to check whether it is getting value for money from the executive branch of government. This information is also useful in meeting increased public pressure for accountability, as it enables government to fulfill its duty to publicly disclose and take responsibility for its actions.

Once governments have decided that they want their public servants to be more performance- or results-oriented, they have to be able to motivate them to achieve this, and to measure the results.

The problem of motivating public servants to be more attentive to public purposes and results has been addressed from a number of different angles. Some governments have chosen an accounting and audit-

based system, built around formal targets. This implies budgets based on performance and auditing of results, not just spending allocations. Evaluation is another approach, using surveys and other social science tools, to assess the impact of policies on individuals and communities. Others advocate a more economic approach, which includes introducing competition to improve efficiency, for instance by contracting out certain services, outsourcing, or structural change.

In some countries, improving performance has involved a whole new vision of the role of the public sector and its relationship to the general population. This approach identifies the public as “customers” of everything from health services to tax demands and then measures performance in terms of the quality of service provided, based on the level of customer satisfaction. ■

## Why not do it all?

But how to decide which method is best suited to helping a government achieve the desired result of improving its performance? It is tempting to think that by using as many different methods as possible, the best results will be achieved, but this is not the case for a number of reasons.

For one thing, people are not machines. Formal systems of management and control are only useful if they help motivate public servants to behave in the desired way. Indeed, good management aims at maximising motivation and minimising the need for formal controls, which are expensive to operate. What is more, at a certain point formal management systems become counterproductive because they reduce internal motivation rather than enhancing it.

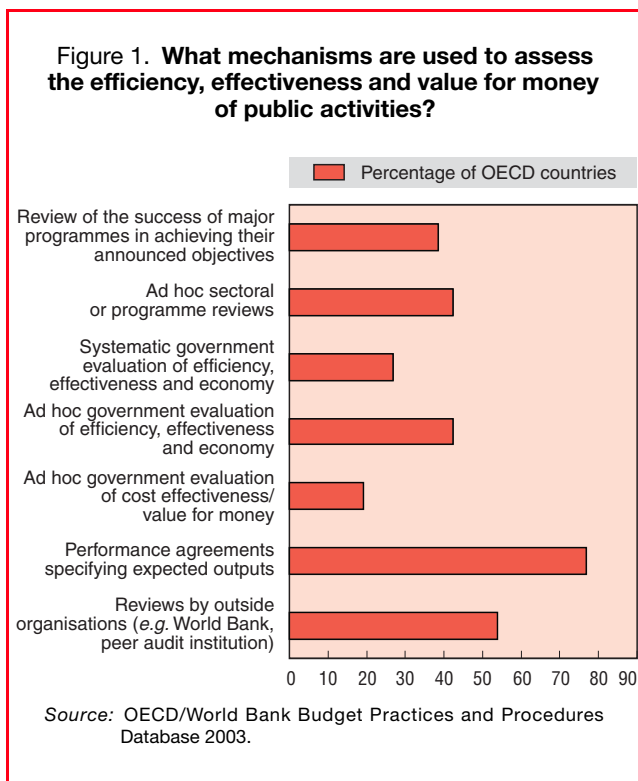
There is also the question of information overload. People, and organisations, can only make effective use of a certain amount of information at a time. Ministers and senior officials often have to make decisions quickly against an already complex political and managerial background. Deluging them with information does not necessarily make the process any easier or more effective.

So governments have to decide what information to collect. The information that could be collected about public sector performance is practically limitless – and would be prohibitively expensive. Its usefulness

would also be limited. It is important to remember that performance targets and information are not an end in themselves: they are only useful insofar as they bring about better performance by public servants. ■

## What are the different formal approaches to assessing and improving performance?

Figure 1 shows the degree to which OECD member countries currently use different formal approaches to assessing and improving performance. These can be divided into two broad approaches – planning and management, and evaluation and performance auditing.



Moves to formalise targets and measurement systems in government are hardly new; in fact results-based or performance-based budgeting was first recommended by the Hoover Commission in the United States in 1949. In the 1950s and 1960s many OECD countries, including the United States, started using performance indicators and targets to assess agencies not on how much they spent but on what they actually produced. But these systems ultimately failed because they were too rigid to take account of uncertainty and unpredictability, and because they failed to

recognise the limitations of formal systems in influencing people's behaviour.

As a result, performance targeting and measurement fell from grace in the late 1970s and mid-1980s, but has witnessed a revival in the past 20 years as budget constraints, changing economic environments, and demands from citizens for higher quality services put improving the performance of ministries and public servants back on the political agenda in many OECD countries.

By this time, however, governments had learned from the failure of central planning, and many adopted a different approach which gave more recognition to both the uncertainty of the future and the limits to "scientific" management of people. Governments focused on strategic management or adapting to new circumstances without losing sight of the main goals, and aligning incentives and directions to staff with the goals also became popular. Formal goal setting was combined with more attention to the internal motivation of staff through leadership and participatory development of a group sense of mission.

All these methods for strengthening performance have demonstrated their validity over the years and remain the most important, and indeed fundamental, steps that organisations need to take in order to become more performance-oriented.

It is one thing to try and improve performance, but how can governments be sure they are being successful, particularly in the increasingly complex societies of the late 20th and early 21st centuries? The simplest way initially seemed to be evaluation – using social science tools to assess the impact of public policies on society. At the same time, budget constraints led parliaments to become more interested in whether programmes were achieving the desired results and whether money was being well spent. This led to the rise of value-for-money auditing and other results-based techniques.

In some countries, evaluation was built into the entire policy process from preparation of the budget to final results, and the evaluations were made widely available. Evaluation of particular sectors or programmes remained important, but the move to integrate evaluation into the whole government performance management cycle did not last. Many countries found it an expensive exercise that did not produce the hoped-

for improvements in decision making, largely because of other incentives on decision makers.

Canada had taken a rather different approach in the 1970s, using external audits of performance, but this system has not lived up to its early promise as a way of ensuring improved performance across government. The complexity of government activity and the difficulty and expense of this kind of review have meant that such audits could never hope to provide systematic coverage of government activity. In fact, performance and value-for-money audits continue to be highly selective, covering only a very small portion of government activity.

The OECD produced “Best Practices” on evaluation in 1999 that raised important issues. This work stressed the need to involve the ministry of finance, the need for evaluation to be driven by demand rather than supply, and the need for monitoring and follow-up. ■

### **Performance based budgeting and management – what are the different implementation methods?**

The strongest current performance-oriented trend in OECD countries is to use performance-based management, budgeting, and reporting. Australia and New Zealand were the first to begin the present round of performance management and/or budgeting in the late 1980s, followed in the early to mid 1990s by Canada, Denmark, Finland, France, the Netherlands, Sweden, the United Kingdom and the United States. And in the late 1990s to early 2000s, Austria, Germany and Switzerland in their turn introduced versions of these reforms.

Countries’ approaches to performance management are constantly evolving. For example, Australia, the Netherlands, and New Zealand began by concentrating on outputs and are now moving to an outcomes approach. Australia is also changing its accounting and budgeting systems to focus on outcomes. France has passed a law which requires the production of results as well as inputs in budget documentation for the majority of programmes.

Governments have introduced performance-based management and budgeting for four main reasons: to improve efficiency; to improve decision making in the budget process; to improve transparency and accountability; and to achieve savings.

Some countries have focused on only one or two of these objectives, while others have embraced all four, aiming to introduce performance-based management and budgeting across central government and to improve performance as well as accountability to the legislature and the public. Australia, Denmark, the Netherlands, New Zealand, the United Kingdom and the United States are all following this approach.

In some countries, such as the United States, ministries have developed strategic and performance plans which include performance targets. Other countries have adopted performance contracts, for example between a ministry and a subordinate agency, and in some cases relating performance to pay.

Countries have adopted different approaches to implementation. Some – for example Australia, the Netherlands, New Zealand, and the United Kingdom – have taken a top-down and total system approach, mandating change across government. Others including Finland, have taken a more bottom-up and *ad hoc* approach giving agencies freedom to develop their own performance-based methods, with less involvement from the top. ■

### **What are the current trends?**

Despite the differences in approach, there are common trends in OECD countries’ efforts to become more performance-oriented. This section examines these trends using data obtained from the *OECD/World Bank Budget Practices and Procedures Database 2003*. In all, 27 out of 30 OECD countries responded to the database survey; all answers are self-reported.

Most OECD countries that responded to the survey (72%) include non-financial performance data in their budget documentation. Some OECD countries have actively attempted to integrate performance targets into the overall budget process, but very few can be said to be carrying out “real” performance budgeting. This means not just including performance information in budget documentation but linking expenditure to targeted results, reporting performance against these targets and using the information to make decisions on future resource allocation.

Using that strict definition, performance budgeting is very rare. Only 18% of countries, including the Netherlands and New Zealand, link expenditure to all or most of their outputs targets, while 41% said it

### Box 1. Performance Management and Performance Budgeting

Both performance management and budgeting are subject to diverse interpretations.

Broadly, **performance management** covers corporate management, performance information, evaluation, performance monitoring, assessment and performance reporting. In the context of the new performance trend however, a stricter definition is a management cycle under which programme performance objectives and targets are determined, managers have flexibility to achieve them, actual performance is measured and reported, and this information feeds into decisions about programme funding, design, operations and rewards or penalties. (OECD, Governance in Transition, 1995).

**Performance budgeting** can be broadly defined as any budget that presents information on what agencies have done or expect to do with the money provided. (Allen Schick, The Performing State, 2003). In this case it can simply refer to performance information presented as part of the budget documentation or to a budget classification in which appropriations are divided by groups of outputs or outcomes.

A strict definition of performance budgeting, however, is a form of budgeting that relates funds allocated to measurable results. These results are measured in the form of outputs and/or outcomes. Resources can be related to results either in a direct or indirect manner.

Indirect linkage means targets are actively used to inform budget decisions, along with other information. Performance information is very important in the decision-making process but it does not necessarily determine the amount of resources allocated. Direct linkage involves the allocation of resources directly and explicitly linked to units of performance. Appropriations can thus be based on a formula/contract with specific performance or activity indicators. This form of performance budgeting is used only rarely and in specific areas in OECD member countries.

was not common for politicians to use performance results in decision-making. This included countries with long experience of this area such as Canada and the United States.

Very few countries have formal mechanisms in place to reward or punish individuals or agencies for reaching or failing to achieve their targets. Almost half of the countries that responded to the survey (41%) said they had no rewards or sanctions related to targets, and only 11% said that performance against targets is always linked to pay, while 26% said it is sometimes linked.

OECD countries have generally made more progress in implementing performance management than performance budgeting, which is widely perceived as one of the most difficult aspects of performance and is very much in its infancy.

A system of performance management incorporates the setting and reporting of targets and their subsequent use in the internal decision making processes of ministries and agencies. The relevant minister or head of department is formally responsible for setting performance targets in 67% of countries. Performance against targets is continuously monitored in the relevant ministry in 56% of countries and is

reported in systematic annual reports for some or most programmes in 63% of countries.

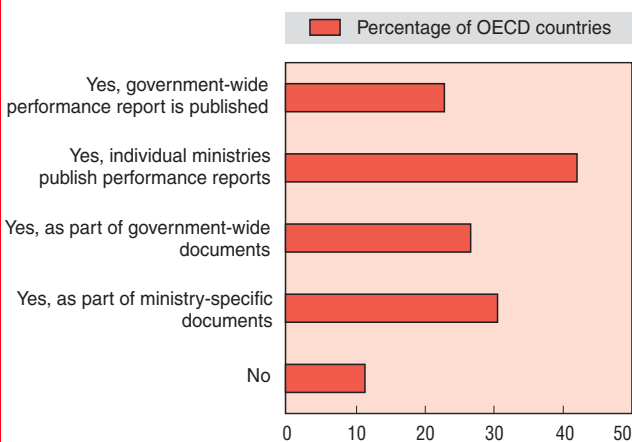
Performance results are used to set programme priorities and allocate resources within agencies and ministries in almost half of countries. However, within a country, the number of programmes and agencies to which performance management is applied varies. Australia, the Netherlands, New Zealand, Norway, and the United States have taken a comprehensive approach and it is applied to nearly all programmes while in Canada, Belgium and Germany it is only applied in around a quarter.

Creating a performance management system does not in itself improve performance, although it does provide information that can improve decision making. Many countries have combined introducing performance management with delegating responsibilities within ministries and to agencies on the theory that managers need more freedom to use resources if they are to achieve results. If performance targets are imposed on top of a traditional system, without delegating responsibility, it raises concerns that performance indicators will become an additional layer of control in an already overburdened system and further restrict managerial freedom. ■

## How to improve accountability?

A number of countries have introduced performance management at least partly to improve the accountability of agencies and ministries to the legislature and the public.

Figure 2. **Are performance results made available to the public?**



Source: OECD/World Bank Budget Practices and Procedures Database 2003.

In the survey, 24 countries said they reported on performance results to the public, but parliamentarians do not seem to make much use of this information. In 72% of OECD countries, targets are routinely included in budget documentation presented to the legislature. But in only 19% of countries do politicians in the legislature use performance results in decision making and the figure is even lower (8%) for members of the budget committee. Much of the new performance information has been developed to meet the needs of the executive. It remains to be proven that this information is also of interest to the legislature. ■

## Has performance improved?

The performance movement in the public sector is here to stay, but it needs refinement. Public servants throughout OECD countries are finding the process of bringing goals, targets, measures and performance

reports into the governmental and managerial process, superior to leaving performance as a matter for the inclination of staff. However recent experience shows that:

**What counts as performance depends on the perspective.** The kind of performance information needed to improve policy advice is not the same as that needed to improve management, nor is it what is needed for public and parliamentary accountability. Initiatives to improve performance should be very clear about the purpose being served.

**Governments should not become fixated by any single instrument for improving performance.** It takes co-ordinated use of a number of influences to change behaviour. Governments should first diagnose their specific environment, before deciding the relative weight to give to interventions in leadership, strategic planning, performance management, performance-based budgeting, or policy evaluation. Each has different strengths and limitations and cannot be done all at once.

**Some initial hopes for performance management, budgeting and reporting have been too ambitious.** These methods are clearly a strong device for priority setting across government, policy alignment and cost analysis. But there is currently limited evidence that measuring outputs and outcomes is effective as a mechanism for central financing and control. Performance budgeting in the strict sense is still in relative infancy, and has so far been stronger on process than proven results.

**Performance information has proven very useful for the executive, but the common assumption that it would also serve the legislature so far remains unproven.** With a few exceptions, OECD country legislatures have not welcomed performance reporting or used it in their oversight functions or in decision making. There is also little evidence that audit institutions have reduced their reliance on more traditional forms of performance auditing such as value-for-money studies.

**There is confusion among governments as to how much weight to assign to the independent evaluation of policies given the advent of performance targets and indicators.** There is room for both – but how much depends on the nature of the performance problem. Performance indicators are no substitute for

the independent, in-depth qualitative examination of the impact of policies that evaluations can provide, but on the other hand evaluations are not well wired into the regular decision-making processes of government.

**And finally, whether performance is improving or not, it is not government's only concern.** Too much emphasis on performance distracts attention from organisational capacity and underlying government values such as equity. Thus caution should be exercised when using formal performance incentives for

senior managers, as a strong collective culture remains essential for sustained public sector performance. ■

### For further information

For more information on the OECD's work on performance management in the public sector, please contact Teresa Curristine

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## For further reading

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