

Government Performance: Lessons and Challenges

by

Teresa Curristine*

This article concentrates on attempts by OECD countries to introduce performance-based or results-based budgeting and management. The need to enhance public sector performance has become more urgent as governments face mounting demands on public expenditure, calls for higher quality services and, in some countries, a public increasingly unwilling to pay higher taxes. Performance budgeting and performance management seek to move the focus of budgeting, management and accountability away from inputs towards results, i.e. better value for money. Drawing on data from the OECD/World Bank Budget Practices and Procedures Database, the article explores the trends and country approaches (different phases, various objectives), discusses accountability to the public (including external performance auditing), and recognises the importance of context and a whole-of-government approach, in particular for changing the behaviour of key actors and motivating politicians to use performance information. The limitations and tensions of performance budgeting and performance management are also discussed, as well as problems of measurement and the efficient use of performance information.

* Teresa Curristine is Administrator in the Budgeting and Public Expenditures Division of the Public Governance and Territorial Development Directorate, OECD.

1. Introduction

Over the past two decades, enhancing public sector performance has taken on a new urgency in OECD member countries as governments face mounting demands on public expenditure, calls for higher quality services and, in some countries, a public increasingly unwilling to pay higher taxes.

To address these challenges, various OECD countries have sought to enhance their public sector performance by adopting a range of new levers and approaches to management, budgeting, personnel and institutional structures. Within government, these have included the introduction of performance measures into budgeting and management, the relaxation of input controls, the delegation of responsibility to line ministries/agencies, and changes in public employment typified by the adoption of contracts for public servants and the introduction of performance-related pay. Examples of institutional change include the creation of executive agencies and the privatisation or outsourcing of the provision of public services.

This paper concentrates on attempts by OECD countries to introduce performance or results-based budgeting and performance management. This lever of reform seeks to move the focus of budgeting, management and accountability away from inputs towards results. Managers and/or organisations are given flexibility in order to improve performance and are then held accountable for results measured in the form of outputs and outcomes. The provision of performance information is not an end in itself; rather, its overall objective is to support better decision making by politicians and public servants leading to improved performance and/or accountability, and ultimately, enhanced outcomes for society.

The quantity of performance information available to decision makers has substantially increased; however, countries continue to struggle with issues of quality and with ensuring that information is used in decision making. It takes time to develop performance measures and indicators, and even longer to change the behaviour of key actors in the system (politicians and bureaucrats) so that they use this information and develop a performance culture adapted to their particular country. 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, realistic expectations, and persistence. This paper looks at the development of performance-based

budgeting, management and reporting in OECD countries and identifies the trends, the strengths and the limitations of current approaches and future challenges. First it discusses the wider perspective of government performance.

2. What does performance mean for government?

“Performance” is a term that encompasses many different concepts. Performance means the yield or results of activities carried out in relation to the purposes being pursued. Its objective is to strengthen the degree to which governments achieve their purposes.

The desire to improve government performance is not new. Governments have always wanted results from their spending and regulation. What is new is that, increasingly, governments are facing overall spending constraints. With no new money to spend, more attention must be given to achieving better results from existing funds. At the same time new ideas have emerged about how to re-organise and better motivate public servants to achieve results.

In the traditional public sector bureaucracy, performance was driven by ensuring compliance with set rules and regulations, controlling inputs, and adhering to the public sector ethos. This system generally worked well when governments had less complex and more standardised tasks to perform – and when complying with the rules was considered more important than efficiency or effectiveness. The system has been criticised, however, because employees tended to become more focused on process than on results, and there were weak incentives to use funds efficiently to achieve objectives. Modern public administrators not only have to serve collective interests of fairness and probity, but also have to meet individual needs and address complex social problems. Traditional public administrative systems were not designed to be flexible and adaptive in a modern society with customised services, the need for constant adaptation, pressure for efficiency, and the increased use of private agents. There is a call for sharper performance incentives than are provided by a traditional bureaucracy. Furthermore, governments have taken on more challenging and complex tasks, which do not lend themselves to the traditional approach.

Performance information is important for governments in assessing and improving policies:

- in managerial analysis, direction and control of public services;
- in budgetary analysis;
- in parliamentary oversight of the executive;
- for public accountability – the general duty on governments to disclose and take responsibility for their decisions.

Governments have adopted a number of different approaches to improving the efficiency and effectiveness of the public sector. These include: strategic management; business planning; performance budgeting and management; devolved and delegated decision making; structural change such as the creation of executive agencies; the use of contracts; and the introduction of competition and market-type mechanisms in service provision.

This variety of approaches towards improving public sector performance is rich but confusing. Each approach has different strengths and weaknesses and the best choice of approach depends on the purpose to be served. This paper explores the introduction of performance measures into budgeting and management and their use in decision making.

3. Performance budgeting and performance management

OECD countries use a variety of mechanisms to assess the efficiency and effectiveness of programmes and agencies. These include performance measures, benchmarking and evaluations. Evaluations can incorporate programme reviews, cost effectiveness evaluation, *ad hoc* sectoral reviews and spending review.

The term “performance information” includes both evaluations and performance measures. While this paper concentrates on examining the latter, it is important to acknowledge that evaluations have a valuable role to play in assessing the performance of programmes.¹

Currently, the strongest trend in performance across OECD member countries is the introduction of performance-oriented budgeting and performance management. Many governments have sought to adopt an approach to both management and budgeting which seeks to shift the emphasis of budgeting, management and accountability away from controlling inputs towards achieving results. In theory, input controls are relaxed and managers and/or organisations are given flexibility to improve performance. In return they are held accountable for results measured in the form of outputs and/or outcomes.

Moves to formalise targets and measurement in government management and budgeting systems have a long history. In fact, performance budgeting has existed in one form or other since the first Hoover Commission in the United States recommended it in 1949. Performance budgeting and performance management are used to describe a range of rather diverse of interpretations and approaches (see Box 1). For example, they can simply refer to the presentation of performance information as part of the budget documentation or to a budget classification in which appropriations are divided by groups of outputs or outcomes. A more narrow definition of performance budgeting is a form of budgeting that relates funds allocated to results measured in the form

Box 1. Performance management and performance budgeting

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, 1995).

Results/performance-based budgeting too is subject to diverse interpretation. It can be broadly defined as any budget that presents information on what agencies have done or expect to do with the money provided (Schick, 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-based 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 being 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.

of outputs and/or outcomes. Performance management also has diverse definitions: it can refer to corporate management or systems for evaluating and assessing individual or group performance. A more holistic definition, which is applied in this paper, 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.

Although various interpretations of performance budgeting and management exist, the common trend is that governments have sought to

adopt a results-based approach to both management and budgeting which shifts budgeting, management and accountability away from inputs towards a focus on measurable results.

4. Country approaches to implementing performance budgeting and performance management

Many OECD member countries have introduced performance measures into their management and budget systems. However, countries are at different phases of introduction and have varied objectives and approaches to implementing these reforms.

4.1. Different phases

New Zealand was among 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, the Netherlands, Sweden, the United Kingdom and the United States. A further phase began in the late 1990s to early 2000s (Austria, Germany and Switzerland). Turkey has recently begun a pilot phase of performance budgeting and management.

Country approaches to performance management are constantly evolving. For example, New Zealand began by concentrating on outputs and is now moving to an outcomes approach. Denmark is changing its accounting and budgeting systems to focus on outcomes. France recently passed a law which requires the production of outputs and outcomes in budget documentation for the majority of programmes.

4.2. Various objectives

It is possible to discern four broad objectives for which countries have adopted the formalisation of targets and measures in the government management process:

- Managing the efficiency and effectiveness of agencies and ministries and/or the internal control and accountability within individual ministries.
- Improving decision making in the budget process, and/or in the allocation of resources and accountability of ministries to the Ministry of Finance.
- Improving external transparency and accountability to parliament and the public and clarifying the roles and responsibilities of politicians and civil servants.
- Achieving savings.

Some countries have give attention to one or two of these objectives only. Other countries (Australia, Denmark, the Netherlands, New Zealand, the United Kingdom and the United States) have embraced all four objectives,

seeking to introduce performance-based management and budgeting across central government and to improve both performance and internal and external accountability to the legislature and the public.

4.3. Various approaches

In some countries (the United States is a good example) ministries have developed strategic and performance plans which include performance targets. Other countries have adopted performance agreements either between a minister/ministry and a subordinate agency, or between a minister and a department. Such agreements can also be between the Ministry of Finance and a ministry or agency.

In New Zealand there are purchase agreements between the minister and the relevant department which set out the agencies' agreed outputs. There are also formal performance agreements between ministers and chief executives of the departments. In the United Kingdom, ministries approve agencies' annual business plans, which establish performance goals and targets for the coming year. There are also performance agreements between departments and H.M. Treasury stating agreed objectives and targets. In Australia there are resource agreements between the Department of Finance and Administration and the relevant departments and agencies. In Denmark, there are performance contracts between ministries and agencies and between chief executives and ministries; these include links to performance-related pay.

4.4. Implementation

Some countries have adopted an incremental approach. For example, the United States had a four-year pilot phase before the government-wide implementation of the Government Performance and Results Act. Other countries have chosen an incremental approach which allows agencies to participate voluntarily in these reforms without moving towards total implementation across government. Germany and Ireland both use pilot schemes.

Australia, the Netherlands, New Zealand and the United Kingdom have taken a top-down and total system approach to implementation. Others (Finland in particular) have taken a more bottom-up and *ad hoc* approach where agencies have been given freedom to develop their own method with less enforcement from the top.

5. What is the current state of play?

Despite the differences in approach, a common trend in OECD member countries is to introduce a focus on measurable results in management and budget processes. This section examines the current trend in performance

management and budgeting in OECD member countries using data obtained from the OECD/World Bank Budget Practices and Procedures Database Survey.²

5.1. Performance information and targets in budget documentation and the budget process

Among OECD member countries there is a strong trend of routinely including non-financial performance information in budget documentation:

- 72% of countries include non-financial performance data in their budget documentation.
- In 44% of countries, these data are available for more than three-quarters of programmes.
- In 71% of countries, performance data include performance targets although there is a wide variation in terms of programme coverage.
- In 65% of countries, these results are included in the main budget documents and/or the annual financial documents.

While the introduction of performance information into budget documentation is becoming common, it has not been embraced by all OECD member countries. Over a quarter of countries that responded to the survey do not include any non-financial performance data in their budget documentation. Iceland includes performance data but not performance targets.

The most common way of including performance targets in the budget process is a combination of outputs and outcomes. Only 27% of countries include mostly outcomes and no country has mostly outputs. Countries appear to have recognised the difficulty in following an approach that concentrates solely on either outcomes or outputs. Only concentrating on outputs can give rise to goal displacement as agencies lose sight of the intended impact of their programmes on wider society and concentrate solely on quantifiable measures at the expense of activities that are less measurable. It can also result in less attention being paid to cross-cutting issues. While outcomes incorporate a wider focus on the impact of programmes on society and have greater appeal to politicians and the public, they are very difficult to measure. As will be discussed later in this paper, in many cases a mix of outputs, outcomes and inputs is desirable.

5.2. The current trends in performance budgeting

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 including performance information in budget documentation and linking expenditure to outcome/

output targets, reporting performance against these targets and using the information to make decisions on future resource allocation. Using this strict definition, performance budgeting is very rare. The OECD surveyed the degree to which countries apply performance budgeting in this strict sense.

While 72% of OECD member countries routinely display targets in budget documentation given to the Ministry of Finance, the linking of expenditure to output and outcome targets is not common among OECD member countries:

- 46% of countries either do not link expenditure to targets or only do so for a few programmes.
- 35% of countries reported that they link expenditure to some targets.
- Only 18% of countries reported that they specifically link expenditure to all or most of their output or outcome targets.

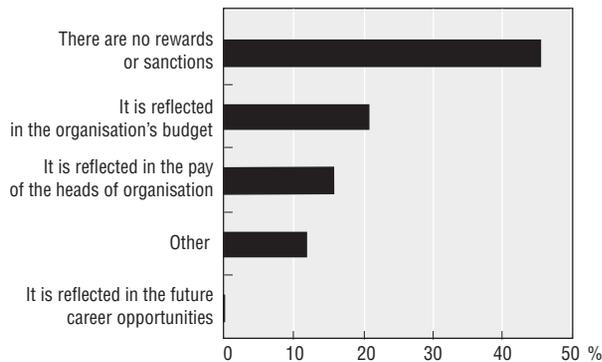
A mixed picture emerges with regard to the use of performance results in determining budget allocations, with over 31% of countries stating that performance results are not used for this purpose. It is not common for politicians to use performance results in allocating resources between programmes or in any sort of decision making. Forty-one percent of OECD member countries reported that it was not common for politicians in the executive or the legislature to use performance measures in any decision making. This includes countries that have long experience of this area, such as the United States.

It is apparent that very few countries engage in any form of direct performance budgeting, since many countries do not even link expenditure to output and outcome targets, let alone make the appropriation of funds an explicit function of performance. This form of budgeting is only applied to a limited number of functional areas and only in a few countries. It is most commonly found in health and education, especially higher education. In Denmark, Finland, Norway and Sweden, for example, it is the main form of budgeting used to fund higher education.

As Figure 1 highlights, very few countries appear to have formal mechanisms in place that relate the success or failure in achieving a target to the reward or punishment of individuals or agencies:

- In 46% of OECD member countries, no rewards or sanctions are applied if a target is met or not met.
- In 20% of countries, rewards/sanctions are reflected in the size of the budget for the government organisation.
- In 16% of countries, pay is sometimes linked to performance. In all these cases performance is linked to the pay of a civil servant or a number of civil servants. For example, in the United Kingdom, performance against organisation targets is linked to the pay of the agency's chief executive.

Figure 1. **Are rewards and/or sanctions applied if performance targets are met or are not met?**



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

5.3. Current trends in performance management

Greater progress has been made in implementing performance management reforms than performance budgeting. This section examines if OECD member countries have a system of performance management which incorporates the setting and reporting of targets and their subsequent use in the internal decision-making process of ministries and agencies:

- In 67% of countries, the relevant minister or the head of department is formally responsible for setting performance targets.
- In 56% of countries, performance against targets is continuously monitored internally in the relevant ministry.
- In 63% of countries, performance against targets is reported in a systematic annual report for some or most programmes.

Performance results that feed into decision-making processes appear in a number of countries. In nearly 50% of countries, performance results are used internally within agencies/ministries to set programme priorities, to allocate resources within programmes, and to change work processes. Performance results are used by the parent ministry in approximately half of countries to set programme priorities and in over a third in adopting new programme approaches. This information is used least in setting individual staff performance plans.

While this information is used in the decision-making process, it is not clear what other types of information are used (if any) and how much weight is given to performance results compared to these other types of information.

Approximately 50% of countries reported having a system of performance management. However, within a given country, there is variation in the

number of programmes and agencies to which performance management is applied. Australia, the Netherlands, New Zealand, Norway and the United States have taken a comprehensive approach and it is applied to nearly all ministries and agencies. In Belgium, Canada and Germany it is only applied in approximately a quarter of programmes.

The introduction of output and/or outcome targets as a system of management control requires relaxed input controls in order to give managers the freedom to use resources to achieve results and improve performance. To what extent has this trade-off between performance and controls been achieved in practice? In terms of the whole-of-government control processes, the information gathered from the OECD/World Bank Budget Practices and Procedures Database does not provide much evidence that this trade-off has occurred.

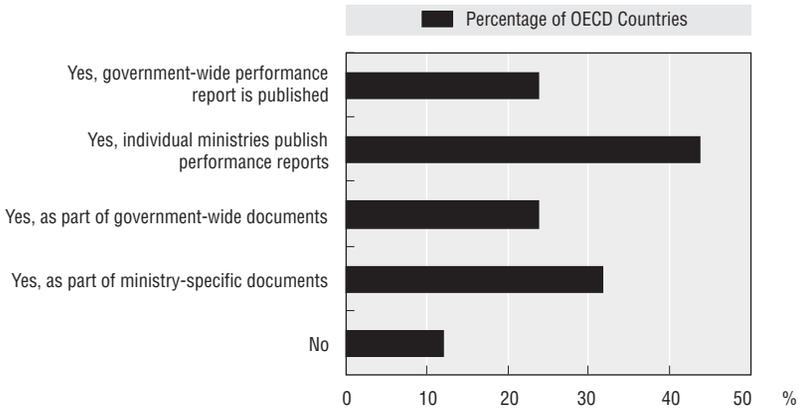
Among countries with a long experience of introducing performance indicators into budget and management systems, there is a large variation in terms of the degree of relaxation of input controls. Australia and the Netherlands appear to have extensively relaxed central controls. Others (such as Denmark, New Zealand and Norway) have also made substantial moves in that direction. However, in some countries (for example the United States), the introduction of performance indicators in management and budgeting does not appear to have been accompanied by a relaxation of central input controls.

Countries like Finland and Sweden register a high degree of management autonomy. This is to be expected given their long tradition of agencies. Equally, given that performance budgeting is a centrally driven device, they have only a moderate level of formalisation of performance indicators in their budget system. It is of interest that Australia, the country which shows the strongest trend of substituting input controls for performance controls, is, according to recent advice from the Department of Finance and Administration, finding the current reporting from departments insufficient for whole-of-government purposes.

6. Accountability to the public

As Figure 2 indicates, in OECD member countries the provision of information to the public on government performance is widespread.

In the survey, 24 OECD member countries claimed to report to the public on performance results. This is strong evidence that transparency has improved. In presenting this information to the public, the aim is to improve trust in government by showing what government does and most importantly how well it does it. As improving public sector performance becomes more important to citizens, in electoral terms it becomes increasingly necessary for governments to demonstrate that they are achieving these improvements.

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

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

The problem for governments is that improvements in performance take time to achieve but the electoral pressures are such that they need to show improvements in the short term. Some governments believe that the public will be more convinced that services have improved by the presentation of numerical performance information. However, even with numerical information there are questions about quality and accuracy. While governments present performance results as objective evaluations, this information, depending on the nature of the political system, can become part of the political dogfight between the government and the opposition. This is more a problem in political contexts where the norm is adversarial rather than consensual politics. In this context, the opposition can use the very same results to discredit the government's performance and to raise questions about their objectivity. The media has also a large role to play: if the information is presented as pure party political propaganda and government spin, this could do more to increase public scepticism than to create trust.

A related issue is whether the public and interest groups are willing to accept the government's presentation of performance results. Performance results are generally aggregated outcomes for the whole country, a region or a single large institution. Even if accurate the general conclusion may be at odds with some individual experience. Thus it is almost inevitable that performance results will be challenged on the basis of that experience. The views of the public are more likely to reflect personal experiences or views presented in the media rather than the government's performance reporting.

6.1. External performance auditing

Having externally audited performance information would help to assure the public of the quality and accuracy of the information presented in government reports. One might have expected that, with the great increase in the number of countries with performance information in their formal reporting systems, there would be a commensurate rise in the routine auditing of performance reports by supreme audit institutions. There is indeed some trend in this direction, but it lags behind the introduction of performance reporting.

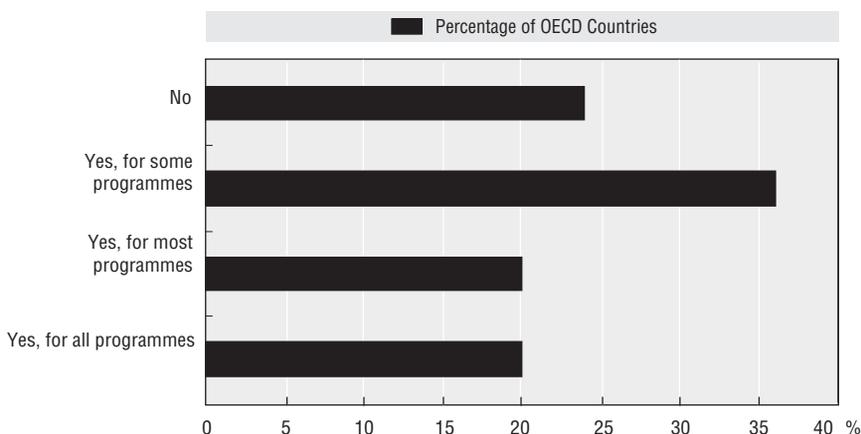
Assuring the credibility and quality of performance data is a key issue for OECD countries; taking performance information at face value can give a distorted picture. Threats to quality can come from poor practices in gathering and analysing data and from political pressure to look good (Schwartz and Mayne, 2005). The independent audit of performance data helps to reduce these problems.

Auditing performance information is costly and it is also different from auditing financial information. Therefore, auditors must have the necessary expertise and training to conduct these audits. In addition, there is a danger that performance becomes compliance – that is, too much emphasis on compliance with rules and regulations can reduce emphasis on flexibility and innovation needed to improve performance.

6.2. Summary of trends

Across OECD countries, there is a strong trend of introducing performance indicators into management and budgeting. There is also a strong common trend

Figure 3. **Is the performance data externally audited?**



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

of introducing a systematic approach to performance management. While many countries have reached the stage of introducing performance targets into their budget documentation, fewer countries have integrated this information into their budgetary decision-making process and even less have used it in the allocation of resources. There is also a strong trend of reporting this information to the public and the legislature, although the tendency is for legislatures not to make much use of this information. In general, the performance budgeting movement seems at the moment to be stronger on process than on results.

7. Why context matters

The successful use of the formalisation of performance in the budgeting and management processes depends on other factors in the political and administrative environment of the country concerned. Reformers do not begin with a blank sheet; performance indicators and targets are introduced into existing and established systems of accountability and control, which have both informal and formal components.

Performance is only one dimension of accountability. Other aspects include assuring that correct administrative procedures have been followed and that funds have been spent as allocated. Traditional accountability mechanisms designed around input controls have not been extensively relaxed in some countries. Accountability for performance will co-exist alongside traditional mechanisms. The issue is not about completely replacing input controls with outputs/outcomes, it is more a question of how to find the desired mix of mechanisms within the system. Concentration on only one instrument of control can have distorting effects. For example, concentrating only on outputs can lead to goal displacement. Table 1 shows the different potential and limitations of control regimes for inputs, outputs, and outcomes.

Table 1. **Potential and limitations of different management control regimes**

	Potential	Limitations	Suitable contexts
Input	Easy and affordable; Strengthens compliance.	Does not support efficiency; Can be inflexible.	Low confidence and variable competence.
Output	Facilitates efficiency; Facilitates control of aggregate expenditure; Accountability for results.	Can distort focus; Measurement problems; Information overload.	Confidence, sound accounting and professionalism.
Outcome	Supports policy formulation and co-ordination; Long term.	Measurement problems; Accountability problems; Costs; Information overload.	The above plus dedicated politicians and the ability to set clear objectives.

The most appropriate balance of controls will depend on the country context and the problems these reforms are seeking to address. For example, if the problem is the susceptibility of a system or organisation to corruption, then placing the stress on input controls is a more suitable approach than stressing outcomes. For other systems and organisations where the problem is inflexibility and lack of adaptation, a combination of outputs and outcomes could be a more suitable approach. Within each system it is necessary to find the desired combination of controls between outputs and inputs. Furthermore, it can be desirable to have some flexibility to allow for a different mix of controls for different organisations.

7.1. Whole-of-government approach: changing the behaviour of key actors

Whatever the balance or mix of controls in a given country, when outputs and outcomes are introduced they have to be accommodated within the existing control system and this requires a realignment of relationships. In introducing these reforms it is important that governments take a whole-of-government approach – as the integration of performance measures into budgeting and management systems is not just about changing processes but is also about transforming the behaviour of both public servants and politicians throughout the political system. This is especially the case if governments have taken a comprehensive approach and seek to apply this reform across government to the majority of programmes. The key actors in this case can include public servants and managers in ministries/agencies and in the Ministry of Finance, and politicians in the legislature and the executive. The challenges in changing the behaviour of public servants in ministries/agencies and in the Ministry of Finance have been discussed elsewhere.³ This section will briefly examine the challenges in changing the behaviour of politicians.

Performance-oriented budgeting and management as a reform lever has wider governance implications: it has the capacity to help elected leaders to steer the public sector towards their policy objectives. It provides a mechanism for politicians to clearly articulate their goals and objectives for the government as a whole or for the relevant ministry and the means to monitor progress towards achieving these goals.

In theory, this model should help to clarify the respective roles and responsibilities of ministers and public servants. Politicians set the objectives; these cascade down to the relevant ministry and/or organisation and are translated into performance measures and/or targets. The results against these targets are used to hold agencies to account and to provide better information to be used in decision making on policy, budget and management

issues. For this model to succeed it is important that politicians use this information in decision making.

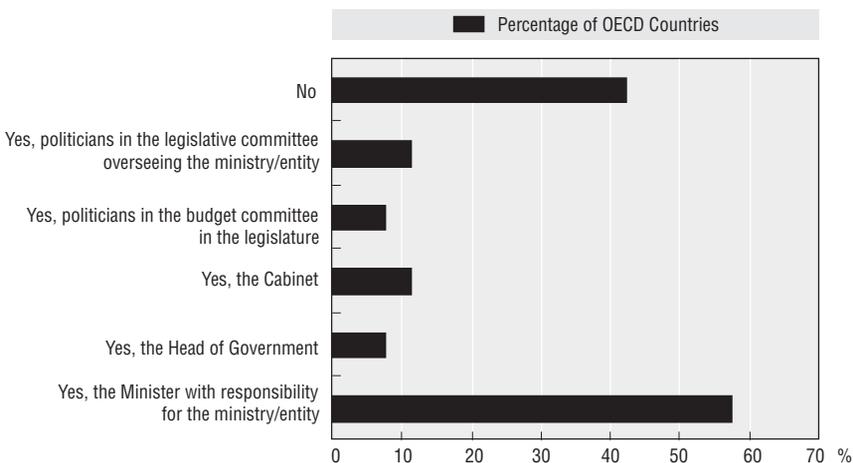
7.2. Motivating politicians to use performance information

Do politicians use performance information? The answer, it appears, according to Figure 4 is “not much”, with the exception of ministers responsible for the department delivering a target.

In 72% of OECD member countries, targets are routinely displayed in budget documentation presented to the legislature. However, in only 19% of countries do politicians in the legislature use performance measures in decision making. The percentage is even lower for politicians in the legislative budget committee, with only 8% using this information.

For countries that have introduced these reforms, clearly a major challenge is to change the behaviour of politicians and to create the right mix of incentives to motivate them to use this information. Table 2 summarises the necessary but not sufficient behavioural changes that are needed from politicians in the executive and legislature if these reforms are to achieve their aims. The table lists some of the possible incentives that could motivate these actors to change their behaviour and also the negative factors that discourage them from adopting this approach and using the performance information provided. This list of behavioural changes and incentives is not meant to be exhaustive.

Figure 4. **Is it common that politicians use performance measures in decision making?**



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

Table 2. Incentives influencing whether politicians in the executive and the legislature change behaviour and use performance information in decision making

Key actors	Behavioural changes needed	Positive incentives and factors encouraging change	Negative incentives and factors discouraging change
Ministers and politicians in the executive	Provide leadership support for reforms.	Process to set objectives and monitor progress in achieving them.	Concerns about quality of information.
	Set clear objectives and targets.	Good quality information.	Information not relevant for real political issue and day-to-day concerns.
	Use performance results to hold agencies to account.	Information relevant to political needs.	Cost of being informed and monitoring.
	Use performance results in decision-making processes on policies/programmes or budgeting.	Provide information to voters on achievement of political goals.	Lack of time to use information.
Politicians in the legislature	Respect managerial freedom granted – by non interference in delegated areas.	Compatible with existing informal and formal mechanisms of oversight.	Little or no influence on career advancement.
	If applicable, set objectives.	Help to oversee government progress in achieving outcome goals.	Poor quality of information.
	Use performance results for oversight purposes.	Good quality information.	Information less relevant to political needs.
	Use information in decision making on programmes and/or policy and/or budgeting.	Relevant to political needs.	Cost of learning about new lever, continuing costs.
	Respect managerial freedom.	Presented in easy readable manner.	Lack of time to use this information in decision making.
		Compatible with existing informal and formal mechanisms of oversight.	Information presented in an unreadable manner.
	Provide benefits over and above traditional approach.	Receiving less detailed information.	
		Concerns about having less control.	

The impact of these incentives will vary with the political and institutional contexts and to some extent with the individual minister. In Westminster systems, accountability is focused on individual ministerial responsibility, and there can be a strong emphasis on faultfinding and blame. In these systems, there is a danger that despite the formal system of accountability, which concentrates on performance, politicians may be more concerned with avoiding errors and managing public perceptions and will use the various accountability mechanisms selectively to that end. Systems in which responsibility is more collective and the political system less adversarial may offer more room for the constructive use of performance information.

Despite these issues, according to the OECD survey, ministers with responsibility for a relevant ministry/entity have paid more attention to performance indicators than other politicians. There is a particular problem, however, with getting politicians in the legislature interested in using performance results. The factors which can discourage them are listed in Table 2. They include questions about quality, readability and relevance of information.

In a system of separation of power with a strong legislature that has a say over the setting of objectives like, for example, in the United States, there needs to be a high degree of institutional co-operation between the two branches of government. This need for strong co-operation is less of an issue in a country like the United Kingdom with a very powerful executive branch. Again, the behavioural changes required and the influence of incentives will vary to some extent with the political and institutional structures.

However, if performance management and budgeting is to have any impact in any political system it is important that the key actors in decision-making processes are provided with motivations and incentives to change. Without these provisions, performance information becomes a mere paper exercise. The combined experiences of OECD countries highlight the importance of taking a long-term approach. It takes time to change behaviour and to see the benefits of this approach emerge.

8. Limitations and tensions

This section considers some of the limitations and tensions which need to be considered when introducing performance budgeting and management.

8.1. Performance measures: only one source of information on performance

Performance indicators and targets provide a snapshot of performance in time. They do not provide a guide to future performance nor do they explain why a target has been achieved. Therefore, when making decisions about the performance of an agency or a programme, it is important to consider different types of performance information. To obtain an encompassing picture of organisational and programme performance, evaluations and performance indicators can be considered with other formal and informal sources of information and feedback. Unlike targets, evaluations can explain the results of a policy or programme and what changes will improve its performance.

8.2. Not everything can be measured

Unlike financial information, with performance information it is difficult to apply a “one size fits all” approach across government. Governments carry

out a large variety of diverse functions, from building roads to providing advice on foreign travel. The experience of OECD countries indicates that performance indicators and measures are more easily applied to certain types of functional and programme areas than others. Three types of programme can be distinguished: tangible and non-tangible individually tailored services, and non-tangible ideal services (OECD, 2001). Performance indicators are more easily applied in programmes which involve the delivery of a tangible good or service with observable outputs such as issuing passports or driving licenses or collecting taxes. It is easier to create reliable unit cost measures for this type of activity. It is possible, although more difficult, to design performance measures for complex services to individuals such as education and health care. Performance indicators are very difficult to apply to activities such as policy advice where the service is non-tangible and outcomes are not visible. In these areas where process is readily observable, a more obvious approach is to assess and control organisations on the basis of compliance with procedures.⁴ In some activities and organisations where neither outputs nor outcomes are observable, performance indicators are not a suitable option.

Given the different functions performed by government, consideration should be given to adopting an approach to performance management that is flexible enough to allow for the diversity of programmes and also for the fact that for certain functional areas other methods of assessing accountability and evaluating performance are potentially more effective.

8.3. Limitations of costs, capacity and time

Public sector performance information is, potentially, limitless, complex and expensive to collect. Any formal system of gathering such information must of necessity be highly selective. Complex areas of government are primarily managed in the context of a well-developed professional culture. Performance targets and information are of value only insofar as they strengthen the performance orientation of that culture. Good management seeks to maximise the internal motivation of staff and to minimise the need for formal management controls. These controls are expensive to operate, and at a certain point formal management systems reduce internal motivation.

There are limits to how much information decision makers can use; people have “bounded rationality” and so do organisations. Decisions are taken by busy, often distracted ministers and senior managers who operate under complex incentives. Providing them with more information does not necessarily help their decision making and may actively hinder it.

9. Future challenges

A great deal of rhetoric has surrounded the introduction of performance management and budgeting. Supporters claim that it has the capacity to transform governments. However, it is important that this reform should not be seen as a panacea and that governments have realistic expectations about what it can achieve and the time needed to reach these objectives.

9.1. Measurement

Even countries that have been using this approach for over 15 years continue to struggle with issues of measurement; this is especially the case for outcomes. A key challenge for all countries is obtaining good quality information which is valid, reliable, and timely. Numerous challenges can be encountered including setting clear objectives, finding accurate measures of performance and having good systems of data collection.

Setting objectives: For some agencies or programmes, even setting clear objectives can be a problem when there is no agreement on what the mission is, or there are diverse missions, overlapping and fragmented programmes, and stakeholders with different interests.

Finding accurate measures of performance: The design of measures is made difficult by finding measures for specific activities, and by relating what an agency or programme actually contributes towards achieving specific outcomes. Output and outcome measures each present a different set of challenges (OECD, 2002b). Outcomes are technically more difficult to measure; they are complex and involve the interaction of many factors, planned and unplanned. Also, there are problems with time lag issues and in some cases the results are not within the control of the government. Outcomes, however, have a strong appeal for the public and politicians. Most countries appear to have adopted a combination of outputs and outcomes.

Establishing and maintaining systems of data collection: To ensure quality there needs to be a process by which data collected are verified and validated. However, setting up and maintaining these systems can be both complex and costly. As discussed in Section 6, the auditing of performance information can help to improve standards and provide some legitimacy for the reported results. It is especially challenging to assure the quality of the data when agencies are dependent on third parties to provide the information. This is particularly a problem in federalist systems (Curristine, 2002).

9.2. Setting and using performance targets

Performance targets help to clarify performance expectations for an organisation for a given time period. Countries, however, continue to struggle with the issues of target level and numbers. There are problems with setting

targets too low and/or too high. Setting targets too low means that agencies are not challenged to improve performance. Setting them too high, while it can motivate organisations, also creates unrealistic expectations and situations in which agencies will fail (Perrin, 2002). It takes time to get the right level and to get the comparative data to realise that targets are set at too high or too low a level.

Too many targets: There is also an issue about how many targets to have. Too many targets create information overload and make it difficult to select priorities; too few targets create distortion effects. Again it takes time to get a realistic balance. Several countries have started out with a large number of targets and subsequently reduced them. For example, in the United Kingdom when performance agreements for departments were first introduced as part of the comprehensive spending review in 1998, there were in total 600 targets across government. By the time of the revised spending review in 2002, that number had been reduced to 130 targets (H.M. Treasury, 2004).

Avoiding distorting behaviour: This is a challenge for all governments. Possible perverse effects include goal distortion – that is, organisations and managers focusing on a few specific indicators and targets, usually the most achievable or “saleable”, at the expense of the overall objectives or programme. In extreme cases of goal distortion, agencies or staff, under pressure to meet targets, may deliberately present misleading information.

9.3. Challenges with using the budget process to improve performance

In many OECD countries, the objective of introducing performance into the budget process is to improve budgetary decision making and to act as an incentive for agencies to improve performance. Most countries, however, continue to struggle with this approach. As discussed above, one of the key issues is obtaining good quality and reliable performance data. Briefly, other challenges include establishing some link between financial information and performance information. This is particularly challenging for outcome measures. In many countries there are also problems with the structure of the budget and accounting issues. Budgets tend to be structured in accordance with institutional and functional boundaries and not according to results categories. Also if there is no system of cost recording, it is difficult to relate true costs to results.

Getting the right mix of incentives: This is particularly important when countries use performance information in resource allocation. A fundamental question is whether financial rewards should be given for good performance and bad performance should be punished and, if so, how. Punishing failure by removing resources creates a clear signal to other agencies that performance is considered important. However, it does not help address the underlying causes of poor performance. Indeed in some cases failure to meet targets can be the result of lack of funding or other resources. While rewarding good

performance is intuitively appealing, it does not take into account cost issues and government priorities. In a climate of budgetary saving, a question is whether to give additional funding to an agency, especially one that is not a government priority. In either case, there is always the danger that linking results to financial resources can create incentives to distort and cheat in presenting information.

9.4. Changing the behaviour and culture

One of the most difficult challenges is to create a results-based culture within organisations and throughout government. To achieve change in behaviour and culture across government requires a whole-of-government approach and the creation of the right mix of incentives that takes account of how the actions of key actors influence each other. Most countries continue to struggle with achieving change in the behaviour of public servants and politicians; this is a long-term process.

Obtaining and maintaining the support of managers and employees within government organisations is crucial. This reform has the potential to improve the focus on organisational goals, to provide managers with better information for decision making on programmes, budgets and policies, and to improve internal reporting and controls. Gaining these benefits is challenging because it requires technical as well as cultural change. In technical terms it can be difficult to measure what an agency does and to link organisational objectives to individual goals. It is important to obtain the buy-in of front line employees; this can be facilitated by the right mix of formal and informal incentives and controls. Obtaining the strong support of the organisational leadership and managers can be facilitated by giving them the necessary flexibility to achieve goals. Without this flexibility, managers will have the responsibility for achieving targets without the ability to deliver, and no one wants to be held accountable for targets that are not within his/her control.

Within the context of a government-wide approach, if and how the performance information is used by politicians and the Ministry of Finance can create incentives which impact on how managers behave. If performance information is required but not used by leaders or managers in decision making, there is a danger of it becoming a burden on organisations in terms of cost of information systems and staff time. The provision of this information, in addition to the requirements of the traditional control mechanisms, can interfere with getting the job done. If this happens, then performance management and budgeting can become a distraction, a distortion or an expensive paper exercise rather than a means to transform organisations and an essential part of good management.

Obtaining and maintaining the support of politicians: As discussed in Section 7, this is a key challenge facing reformers. The support of politicians in the legislature and the executive helps to reinforce the need for change and to push reform, although it is particularly difficult to obtain the support of politicians in the legislature.

Issues of horizontal and vertical co-ordination: Many goals and outcomes cut across government organisations and involve the work of many agencies. While some OECD countries have established cross-governmental horizontal goals and targets, it is proving difficult to achieve co-ordination across departments and to hold them accountable for results. At a vertical level there is an issue with different actors wanting the same information for diverse purposes; their informational needs are not the same.

Managing expectations: Realistic expectations are needed both about what can be achieved by this reform and how long it will take. A long-term approach and persistence are needed: it takes time to overcome the technical issues and to change the behaviour of public servants and politicians.

10. Findings and conclusion

The performance of government can be improved through a focus on results in policy advice, central and departmental management processes, and parliamentary and public accountability. It is important to first identify the relative priority of these areas in a particular country. What a government should do is different in each case.

The majority of OECD countries are implementing performance management and performance budgeting, although the extent and the approaches vary widely across countries. The introduction of performance management and budgeting appears to be an important and enduring innovation in public management. It is clearly a strong device for horizontal priority setting, policy alignment and cost analysis. These reforms have improved transparency through the provision of more information on government performance to the public. However, some initial hopes have been too ambitious.

Most countries continue to struggle with changing the behaviour of public servants and politicians. This is a long-term process. To achieve change in behaviour and culture across government requires a whole-of-government approach and the creation of the right mix of incentives and controls (formal and informal) and an understanding of the systems and how the actions of key actors influence each other.

There is no clear pattern of input controls being lightened as performance indicators are strengthened. This raises issues about balancing accountability and flexibility. Whatever the accountability systems in place, they need to be balanced against the freedom required by managers to do

their jobs. Critics of the traditional system of accountability argue that rules had become ends in themselves, that accountability stressed compliance, and that hierarchical structures hindered efficiency and performance. Thus, the critics emphasised the needs to relax input controls.

There are obvious dangers in relaxing input controls too soon after the introduction of output and outcome measures. However, there are also dangers in failing to relax these controls sufficiently, with the possible effect that output and outcome measures become an expensive paper exercise, with little impact on managers' ability to improve performance. If the system has too many restrictions and managers do not have enough freedom to improve performance, then failure to relax input controls can result in inefficiency.

The common assumption that the performance information that is useful for the executive would also serve the legislature remains unproven. With a few exceptions, performance reporting has been neither welcomed nor used by OECD member country legislatures in their oversight and decision making. Performance measures and targets are only one source of information about performance, and they are no substitute for the independent, in-depth qualitative examination of the impact of policies that evaluations can provide.

The combined experiences of OECD countries highlight the importance of taking a long-term approach and having realistic expectations about the capacity of performance management and budgeting to improve performance and accountability. A long-term approach and persistence are needed to achieve the necessary technical and behavioural changes that this lever requires.

Finally, from a wider perspective, the design of cross-government performance interventions needs careful analysis and consideration of options. Broadly, these interventions are: leadership; strategic planning; performance management; the inclusion of targets and measures in the formal budgeting, management and oversight processes; and policy evaluation. Each has different strengths and limitations. There is a danger of governments becoming fixated on a particular formal solution to the problem of improving performance.

The performance orientation of public management is here to stay. It is essential for successful government. Societies are now too complex to be managed only by rules for input and process and a public-spirited culture. The performance movement has increased formalised planning, reporting and control across many governments. This has improved the information available to managers and policy makers. But experience shows that this can risk leading to a new form of bureaucratic sclerosis. More attention needs to be given to keeping performance transaction costs in check, and to making optimal use of social and internalised motivators and controls.

Notes

1. See OECD (2005) for more details on evaluations in the budget process.
2. These data were originally collected in 2003. Out of the 30 OECD countries, 27 responded to this survey. All answers are self-reported.
3. See articles in OECD (2002a).
4. Although outputs can be observed in limited cases (see Wilson, 1989).

References

- Curristine, T. (2002), "Reforming the U.S. Department of Transportation: Challenges and Opportunities of the Government Performance and Results Act for Federal-State Relations", *Publius: The Journal of Federalism*, Vol. 32, No. 1, Center for the Study of Federalism, Temple University, Philadelphia, Pennsylvania.
- H.M. Treasury (2004), *The United Kingdom's Public Service Agreement*, H.M. Treasury, London, www.hm-treasury.gov.uk/spending_review/spend_sr04/psa/spend_sr04_psaindex.cfm.
- OECD (1995), *Governance in Transition: Public Management Reforms in OECD Countries*, OECD, Paris.
- OECD (2001), "Integrating Financial Management and Performance Management", *OECD Journal on Budgeting*, Vol. 1, No. 2, OECD, Paris.
- OECD (2002a), *OECD Journal on Budgeting*, Vol. 1, No. 4, OECD, Paris.
- OECD (2002b), "Overview of Results-focused Management and Budgeting", PUMA/SBO(2002)1, OECD, Paris.
- OECD (2005), "Performance Information in the Budget Process", GOV/PGC/SBO(2005)6, OECD, Paris.
- OECD and World Bank (2003), "OECD/World Bank Budget Practices and Procedures Database", www.oecd.org/gov/budget.
- Perrin, B. (2002), "Implementing the Vision: Addressing Challenges to Results-Focused Management and Budgeting", presented at the meeting on Implementation Challenges in Results Focused Management and Budgeting, 11-12 February, OECD, Paris.
- Schick, A. (2003), "The Performing State: Reflection on an Idea Whose Time Has Come but Whose Implementation Has Not", *OECD Journal on Budgeting*, Vol. 3, No. 2, OECD, Paris.
- Schwartz, R. and J. Mayne (2005), *Quality Matters: Seeking Confidence in Evaluation, Auditing and Performance Reporting*, Transaction Publishers, New Brunswick, New Jersey.
- Wilson, J.Q. (1989), *Bureaucracy: What Government Agencies Do and Why They Do It*, Basic Books, New York.

Table of Contents

Opening Budgets to Public Understanding and Debate: Results from 36 Countries by Pamela Gomez with Joel Friedman and Isaac Shapiro	7
Budgeting in Switzerland by Dirk-Jan Kraan and Michael Ruffner	37
Market-type Mechanisms and the Provision of Public Services by Jón R. Blöndal	79
Sustainable Budget Policy: Concepts and Approaches by Allen Schick	107
Government Performance: Lessons and Challenges by Teresa Curristine	127