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# **The Performing State: Reflection on an Idea Whose Time Has Come but Whose Implementation Has Not**

*by*  
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The contemporary nation-state exists to perform – to provide financial assistance, public services and other benefits to its people. How well the government performs influences the economic and social well-being of citizens, the mindset that voters take into the election booth, the programmes and behaviour of politicians and bureaucrats, and the relationship between government and the governed. Delivering services and writing cheques are not the sole functions of the modern state, for it still has traditional watchman responsibilities such as defending the country against external threat and maintaining domestic health, safety and order. Although the old tasks are essential, in most nation-states they have been surpassed in the sentiments of citizens and in the fiscal accounts of government by a vastly broader array of public services than were provided generations ago.

Government not only does more than it once did, it carries out many tasks differently. One of the themes of this paper is that a performing state is inherently a state in transition, adapting to changing conditions and opportunities. Performance is not a static measure, but one that requires ongoing feedback from situations and results to policies and action. Among the many transformations that the performing state has experienced is in its role as unifier of the people through symbols and actions that forge a common national identity. As the provision of services has gained prominence, diversity has gained ground over uniformity because citizens differ in the services they want or need. The performing state must serve the people, even if doing so requires that it serve them differently.

This logic has led some modernisers of the nation-state to devise more supple forms of public administration that aim to enhance performance by giving public managers broad discretion in operating programmes and using public resources. Once it is accepted that one size does not fit all, it is easy to conclude that uniform rules and procedures impede good performance by blocking managers from doing their best to produce planned results. This reasoning has impelled some national governments to deregulate public administration, but many others have sought to improve performance within the framework of established administrative controls. Thus, while performance is the common objective of nation-states, governments have chosen different paths to this end. The differences are typically labelled *old versus new public administration*, but an even more critical difference is in the status of the state itself. In some countries, performance has led to reliance on

alternatives to the state for delivering public services, while in others, the state still has a monopoly on the provision of most public services. The most prominent alternatives include devolution of resources and authority from the national government to local or regional bodies, reliance on NGOs (non-governmental organisations) to design and deliver public services, use of international organisations to establish and carry out public policies, and recourse to various market-type arrangements. The anomaly of the performing state is that innovations that begin as efforts to strengthen governmental performance sometimes culminate in arrangements that bypass or undermine the state.

Performance is a demanding test. When the state fails to meet the test, its legitimacy and competence may be called into question, and policy-makers and interest groups may seek substitutes that promise the results they want. To put the matter bluntly, in the performing state, performance is more important than the state. The modern state has primacy only to the extent that it performs. Inasmuch as the state still has first claim on national loyalty and tax revenues, the initial *tranche* of performance enhancing reforms strives to empower the state. But when this fails to produce results, alternatives to the state may be favoured.

The foregoing paragraph summarises a key conclusion of this paper. The process by which this conclusion is reached takes the paper through three stages. Stage one, in the next section, explores the idea of performance, what it means and why it has so much currency. The second stage examines various pathways to performance, and indicates that even when the idea is accepted, there are multiple, sometimes conflicting, routes for bolstering public services. The third stage returns the discussion to the state and the alternatives to it that have gained popularity in recent times. The paper concludes with a discussion of implications of the performing state for national governments and their budget practices.

## 1. The idea of performance

Performance is a deceptively simple idea: simple because it is easy to express key concepts and objectives; deceptive because it is hard to apply these ideas in government. The basic idea is that government should deliver efficient services and operate efficient programmes. In the burgeoning literature on performance, efficiency generally is associated with outputs – the goods and services produced by government – and effectiveness with outcomes – the impacts of government programmes on society. Efficiency has both quantitative and qualitative characteristics that include the volume and cost of services, response times and error rates, the accessibility of services and the courtesy with which they are provided, and citizen/customer

satisfaction with services. Effectiveness means that programmes are in accord with the priorities and objectives of government, and produce the expected or desired impacts.

It is widely accepted that outcomes are the most important dimension of performance, but it is also recognised that outcome data are often unavailable or costly to obtain, and that even when data are available, the causal relationship between government policy and social conditions may be problematic. In countries that take performance seriously, reforms that aim to improve outcomes tend to end up focusing on outputs instead. This “second best” situation certainly is more productive than spending years in the quest for ideal outcome measures. Outputs are a useful indicator of performance because citizens know government by observing the condition of school classrooms and the number of students per class, the distance from home to health clinic and the waiting time once they get there, the treatment given them by police officers, and the countless other contacts that ordinary citizens have with government agencies and public employees. Outputs are the face presented by government to its people. If citizens deem services inadequate, they will not regard government as performing well.

Outputs and outcomes, however, are not sufficient measures of government performance. They are snapshots of what government is doing or accomplishing at a particular point in time; they do not uncover the factors that contribute to or retard the results, nor do they indicate whether government will have the capacity to perform in the future. A full measure of performance must recognise that outputs and outcomes are the end results of government at work, and that there are both antecedent factors that drive the results and future indicators of government’s prospective performance. It is the task of performance measurement to comprehend the past and indicate the future, to dig beneath the surface results to explain why government performs as it does.

Performance does not just happen. Government – political leaders, public managers, civil servants, and the agencies they control or work in – must care about results and actively search out means of doing better. They must continually scan the world outside the four walls of their bureaucracies to discern changes underway that call old policies and methods into question and open fresh opportunities to do better. Caring about results must ripple through the ranks; it must define government and shape what it does and how it operates.

Performance is not a measure frozen in time. For government to perform well, it is not sufficient that its internal operations be efficiently managed; it is also essential that government adapt to changing circumstances. A community health clinic that excels when the women it serves are of child-bearing age

would not be effective if it continues to offer obstetrical services when residents have aged and no longer bear children. True performance requires that the focus shifts from inside government to outside. This shift entails a redefinition of the role played by outcome measures. The prevailing concept is that these measures inform government whether its programmes are having the intended effects. In a performing state, however, much of the utility of outcome measures lies in informing government of how social conditions have changed so that it can adapt accordingly. The key question is not whether government has caused a particular outcome, but whether a particular outcome should spur government to examine its programmes and policies and take corrective action.

A performing state thus is one that continuously reads its environment and adjusts how and what it does in response to new information. In the same way that a successful firm thrives by monitoring its market and changing its product mix, prices and other policies in response to changes in consumer preferences, technological developments and the entrance (or exit) of competitors, an effective government transforms itself in response to changes in family patterns, income distribution, technological advances and other opportunities. Of course, government has a more difficult time adapting because it lacks the pressure provided by markets and the signals supplied by prices. Yet, performing governments do change, even when they profess to be staying the same.

In the performing state, every measure of performance can be constructed as a measure of change. Change can be benchmarked against other governments, compared to past times or measured against targets or objectives. In fact, as will briefly be discussed in the next section, performance targets have become popular because they enable government to assess change against a preset standard. A performing state is not satisfied with the results it gets just by staying the course, but proactively seeks improvement by canvassing the world around it and changing both its objectives and its programmes.

By this standard, few states are good performers, which is one reason why the drive for performance pervades all types of countries – developed, developing, transitional and emerging market. In all types, there is the sense that actual performance is not good enough, that by performing better the state will become a more efficient producer of public services and more effective in operating programmes. But the idea of performance goes beyond these tangible gains to the belief that a performing state has more buoyant economic prospects, sturdier democratic institutions, a more just society and greater political stability. To the extent that these conditions are lacking, the argument runs, it is because nation-states have been sub-par performers.

A cursory survey of the four types of countries suggests that these larger political benefits may be elusive. Developed countries regularly score high on cross-country governance scales and anti-corruption measures. Almost all provide high quality public services, and most have sophisticated information and evaluation systems to assess performance and take corrective action when results fall below expectations. Despite their positive ratings, most developed countries have been beset in recent decades by a decline in trust and confidence in government and political leaders. A recent study found a loss of confidence in all but two of the 13 trilateral countries surveyed.<sup>1</sup> One popular interpretation of this trend is that citizens think less of government because they take its benefits for granted. The fall in public esteem occurred during a period in which the welfare state stretched its boundaries. In every developed country, there has been a significant rise in the share of government expenditure transferred to households through Social Security and other entitlements. Looking at the loss of trust, one is tempted to conclude that citizens are biting the hand that is feeding them. In view of this pattern, it is unlikely that emphasising performance will be reciprocated by more positive attitudes. Arguably, a performance-oriented government may furnish voters with more grist for discontent by shedding light on shortfalls in results and organisational failures. In the same way that no person is a hero to his/her valet, no state is fully successful in the eyes of its citizens when its performance is fully revealed to them.

The drive for enhanced performance has been pioneered in some Commonwealth and Scandinavian countries that some regard as among the best managed regimes in the world.<sup>2</sup> Why should these countries care more about improving themselves than countries that are deficient in providing public services? Part of the answer may be that well-run governments are better positioned to take performance seriously than are countries that have pervasive management shortcomings. Another part of the answer is that performance is to government what self-actualisation is in Maslow's hierarchy of needs. Only when basic requirements have been met is the state ripe to manage for results.

Even the best developed countries can improve by focusing on results. The performance drive implies (and sometimes avers) that nation-states have a natural tendency to under perform. They are held back by lack of competition in the delivery of public services, by rigidities of bureaucratic rules and procedures and by political pressures and constraints. Moreover, if they do not strive to do better, they will surely do worse, because they will not adapt to the opportunities opened up by technological innovation, changes in socio-economic conditions, and other developments. In developed countries, the focus on results aims to narrow the gap between actual and potential performance.

In developing countries, where many or most people live in wretched circumstances, reformers hope – and it may be little more than – that making government more effective will stimulate development and improve the well-being of citizens by creating favourable conditions for investment and entrepreneurship. But half a century of failure should teach us that the path to development is not assured. Performance may prove to be the latest fad that frustrated reformers have grasped in a desperate effort to break out of the path-dependent pathologies that have condemned a sizeable fraction of the world's population to abject living conditions. Some poor countries lack resources to implement significant gains in performance; some are too corrupt to put donor aid to productive use. A strong case can be made that the least developed countries may benefit more from old-fashioned administrative controls than from new fangled performance-based procedures.<sup>3</sup> The shift from compliance to results and from inputs to outputs and outcomes may be premature in countries that still lack basic accountability systems.

It is imperative that poor countries improve public performance; if they do not, they will be no better off a generation from now, regardless of the inflow of donor assistance and the emphasis on millennium development goals. Paradoxically, however, they may progress more by building sturdy administrative processes than by embracing the cult of performance. Rather than introducing pay-for-performance schemes, they would do better to hire and promote civil servants on the basis of merit, pay them fair wages, demand a day's work for a day's pay, and teach them to be accessible and courteous to citizens. Having a budget that corresponds to actual expenditure is more valuable than having a budget that purports to show the outputs or outcomes purchased with public money. Across the gamut of administrative processes, basic skills and capacities should be emphasised; if they are, better performance will ensue, even if there is no explicit attention to results.

The performance orientation may hold more promise for emerging market countries that have already improved their economic capacity. In countries undergoing rapid development there is a tendency for modernisation of the state to lag behind development of the economy. This can be a drag on development, for the government is likely to have weak accountability and widespread corruption, and experience a lack of professionalism in the public service as well as other pathologies carried over from less favourable times. Moreover, as the economy matures and personal income rises, citizens tend to become more attentive to governmental matters and demand improved public services. The schools that once were deemed good enough, no longer are. Poor sanitation, disregard of environmental damage, inadequate health services, primitive transport and other deficiencies are no longer acceptable when the economy surges. In emerging

market countries, economic improvement elevates expectations of what government can or should do for its people. Performance-based government would seem to be the right prescription to boost public services in these countries.

Yet, even in these countries, a performance orientation should be embraced cautiously if it entails the dismantling of established administrative controls. Divesting financial and civil service rules before a performance mindset has been effectively introduced is a risky strategy that may open the door more to misdeeds than to results. A cautious approach developed in Thailand may be worth adopting in other countries. The Thai Government has specified a number of hurdles or standards that public agencies must surmount before they are permitted to operate with broad discretion. The hurdles cover the main administrative processes including budgeting, human resource, procurement and information systems.<sup>4</sup> Although it has not been applied rigorously in Thailand, the hurdles approach enables government to strengthen accountability as a precondition for giving managers operating freedom.

Perhaps more than any other type, transitional countries have come under the spell of performance, especially the European countries that covet accession to the European Community. Transitional countries have had to rapidly transform their economic and governing institutions while raising public services to internationally acceptable levels. Performance has appealed to these countries as an alternative to the centralised public administration carried over from their socialist past. Focusing on performance enables transitional governments to set reasonably challenging targets for improving public services and operations. Nevertheless, there is considerable risk that these countries will be more successful in ridding themselves of old rules and controls than in promoting a performance ethic in the public service.

In all countries, the difficult part of performance is applying it in the ongoing work of government. The idea is inherently appealing and self-justifying, but getting government to operate on the basis of performance requires major changes in managerial culture, the interface between politics and administration, the expectations of civil servants, the allocation of financial resources and much more. The performing state is a different species than the nation-states that reigned in the 20th century. Nowhere is it fully implemented, though some countries have made much more progress than others.

## **2. Pathways to performance**

There are many paths to performance, but none is sufficiently well marked to assure success. Some rely on administrative procedure, others on

political or professional commitment. Some are grounded in New Public Management, others fit comfortably within traditional public administration. It is useful to operationalise performance in sequential terms, arraying various innovations in a logical sequence so that one builds on others. The approach taken in this section emphasises the sequence and conditions under which performance can thrive. It begins with attitudes and moves to managerial actions, and then from management to politics.

All performance has both formal and informal dimensions, but the balance between the two varies with the type of tool used. Internalised norms lie at the informal end of the spectrum, contracts and legal entitlements at the formal end. In the march to performance, governments have increasingly looked to formal remedies, but unless these are underpinned by informal commitment, the forms may prove to be meaningless. One of the shortcomings of the contemporary performance movement is the neglect or undervaluation of the political and normative bases of good government.

Performance also has both managerial and political dimensions. Without political encouragement, managers may have difficulty focusing on what their work is supposed to accomplish; without committed managers, politicians cannot progress in implementing their visions. Because politicians and managers often speak different languages and have variant interests, it is hard to get the interface between them right. When breakdowns in performance occur, the culprit often is confusion or misunderstanding over the respective roles and responsibilities of elected leaders and senior managers. Getting the relationship right is a necessary condition for the performing state.

### **2.1. Performance as ethic**

The performance movement is new, but nation-building through effective state programmes is not. The rise of the nation-state in the 19th and 20th centuries was due in substantial part to truly breathtaking governmental accomplishments. The long list of successes includes universal education, pensions and other income supports, amelioration of poverty, construction of efficient transport systems, prudential regulation of business activity and promotion of science and technology. Because governments in developed countries performed well, life expectancy was extended, urban squalor was diminished, infant mortality plummeted and many contagious diseases were eliminated. How did governments manage to perform well before performance was explicitly on their agenda? Part of the answer has to do with advances in the machinery of government, in particular the introduction of merit-based civil service systems and modern budget systems. The nation-state came of age along with advances in public administration. But this is not the whole of the answer, and possibly the less important part. Government excelled in nation-building because it attracted many of the best and brightest

to public service. Careers in government were esteemed, not merely by those whose meagre skills left them with few employment opportunities, but also by graduates of elite schools who saw public service as a calling. The yearning to do good through government work led many public employees to care about performance, even though the word was not yet in vogue and even though results were not formally measured. Truth be told, the public service ethic co-existed with the spoils system in many countries, but in the managerial ranks, the notion of doing good while serving the state often predominated.

A public service ethic is the bedrock of governmental performance which depends at least as much on people as on machinery and process. This view clashes sharply with the principal-agent model popularised by New Institutional Economics (NIE) and imported into the public sector by New Public Management (NPM). NIE and some versions of NPM teach that public employees are self-interested, opportunistic agents, slackers who feather their own nest at the expense of the public interest.<sup>5</sup> In this view, public agents can be made to perform only if they are actively monitored and given clear instructions as to what is expected of them and strong incentives to do the job right. The notion that agents might do more than is formally expected of them because they have internalised public service values may be alien to NIE/NPM, but it is familiar to generations of students who overcame education handicaps because of teachers who stayed after class to help them, the police officer who coached the community sports team and never asked for pay, the visiting nurse who stopped to see shut-ins after her daily rounds were done, and countless other ways. Of course, this was never the whole story of public employment, or even the larger part, but it was the stuff out of which governments performed and earned the trust of their people, and communities and states were built.

In most developed countries, the ethic of public service still exists, but not as robustly as in the past. It has been eroded by powerful socio-economic forces including the widened gap between public pay and private opportunity, increased reliance on private markets and contractors to provide public services, and decline in the esteem with which public employees are held. When public service is just a job, no special value attaches to having the work performed by government employees. With tasks specified in contracts, it would seem to make little difference whether the work is performed by persons on the government's payroll or by firms which get the contract through competitive tenders. As long as the work process or output can be specified, public service and private employment are interchangeable. The job goes to the better performer, as measured by price or other variables.

Arguably, a public service ethic is most needed when private means are used to provide public goods. In these cases, there is heightened risk that public values will be degraded by firms which live up to the letter of the

contract but do no more than what is specifically required of them or cut whatever corners they can get away with. Contemporary governments face a difficult predicament: attrition in the ethic of public service makes outsourcing and competition attractive, but without such an ethic, entrusting the task to private hands may drive out what remains of the value of serving the public. Some countries distinguish between “core” public responsibilities which they do not contract out and “standardised” services which are subject to commercial tender. Regardless of where they draw the line, all governments face a need to rebuild a public service ethic. Doing so entails much more than recruiting and training qualified, committed public employees. Public service will not be valued in government unless it is valued outside.

## **2.2. Performance as focus**

An internalised performance ethic is no longer sufficiently widespread to sustain the public service. External pressure and reinforcement is needed in most situations to keep public agencies and personnel focused on the purpose of work rather than on the procedures they have been programmed to follow. Focus is the bridge between internalised behaviour and external enforcement and the basis for formal means of enhancing performance. Focus means paying attention to results, keeping them in mind, using performance as a reference point for contemplating how well one has done or how one should go about future tasks. As insipid as it may appear, focus has the potential to be a powerful tool, for it calls attention to the purposes that underlie ongoing work and organisational routines. When politicians and managers are focused on results, they behave differently than when their attention is taken by process.

True focus is ongoing and sustained, not a once-in-a-while reflection on objectives or missions. The latter is tried often enough, but rarely with lasting results. To make a difference, an organisation must be obsessed with purpose, so that the critical actions it takes in allocating staff and resources, designing and delivering services, assessing results and feeding back the findings to new decisions are all done through the lenses of performance. Having explicit objectives contributes to focus, but is rarely enough. It is not uncommon for organisations to specify objectives but to forget them when critical decisions are made. European Community accession is an excellent contemporary example of focus at work, for the candidate countries took many actions, which might otherwise have been beyond reach, with that end in mind. Focus was reinforced by the recurring visits of European Community officials who repeatedly cautioned that accession would depend on progress in fulfilling the Community’s requirements.

Mission and vision statements have become popular means of focusing organisations on missions and objectives. Typically, a participatory process is

used to draft and refine the statement, and once it is finalised it is prominently displayed in the organisation's offices and publications. There is little basis for expecting these to have much impact on the organisation, for once their novelty wears off, they become part of the background clutter that is screened out by employees. They see the statement but rarely reflect on what it means or on its implications for how they carry out their work. These statements begin as a display of public regard and end up as public relations. Focus demands sustained attention; it must be renewed and reinforced. If it is not, work routines will drive it out.

Strategic planning is another popular tool for focusing on organisational missions and purposes. It too is often developed through a participatory process that aims to examine how the entity should transform itself in response to changing circumstances or opportunities. In government, however, these plans tend to be more descriptive than strategic, and serve more to justify expanded budgets and programmes than to re-examine purposes and operations. When confronted with plans that have done little to reposition the organisation, managers often explain that the process by which they were prepared is more important than the document. In other words, the focus attained during formulation of the strategic plan is lost once the agency reverts to business as usual.

Mission statements, strategic plans and numerous other contemporary management innovations that purport to spur organisational change tend to have a short-lived Hawthorne effect. For a time, they energise staff to focus on what they are doing and why, but without reinforcement the effect fades away. In both business and government, this has been the fate of most training programmes, retreats and similar activities. When the message of the retreat clashes with the realities of work, the latter prevails. Maintaining focus has much in common with dieting to lose weight. One has to be obsessive to stay on course. Since most dieters lose focus, the weight loss industry booms with business from repeat customers; much the same occurs in the quest for government performance, as the failure of one reform begets another.

### **2.3. Performance as measurement**

The effort to focus government on results has given rise to a vast performance measurement industry. Measurement is the most conspicuous means of orienting government to performance; it is often the first step, and sometimes the only one as well. Measurement is not a new tool, however. It was central to the scientific management movement early in the 20th century and to the emergence of public administration as a discrete field of study and practice. One of the first systematic treatments was by Clarence Ridley and Herbert Simon who produced a 1938 monograph, *Measuring Municipal Activities*, that proposed specific measures for education, transport, libraries,

public works, health and other public responsibilities. Their measurement scheme was based on the notion that “the result of an effort or performance indicates the effect of that effort or performance in accomplishing its objective”.<sup>6</sup> They proposed, for example, that education performance be measured in terms of truancy and delinquency rates of students and the cultural level of the community.

By contemporary standards, the early measures were unsophisticated. The vast recent literature on performance measurement has undoubtedly added to the methodological stockpile, but it is questionable whether government performance has advanced much as a consequence of having more or better measures. One of the curious features of this literature is the endless arguing over what is an output and an outcome, whether a particular measure is an end outcome or an intermediate outcome, whether goals, objectives and targets mean the same things or are different. Surely, there is something amiss when, after decades of work, so many discussions of this subject contain basic definitions, as if words such as inputs and outputs are beyond ordinary comprehension. The interminable arguments over words make it appear that measurement is an end in itself, that measuring performance fulfils its purpose by generating definitions. Perhaps this is why Donald Kettl, a leading American public administration expert, has suggested that “measuring government performance is like the weather. Everybody talks about it ... but there is no consensus on how to do it”.<sup>7</sup>

Performance measurement has a problem, but not the one noted by Kettl. The big problem is not in measurement, but in application. Much attention has been paid to the former, but not enough to the latter. With some notable exceptions, governments that invest in measuring performance rarely use the results in managing programmes. They do not base civil service salaries on performance, nor do they hold managers accountable for performance or allocate resources on this basis. Efforts to budget on the basis of performance almost always fail, as do reforms that aim to link pay and performance. It is common these days for governments to present performance information in budgets, annual reports and other official documents. But publication is a poor substitute for genuine use.

One of the misconceptions of the performance movement is the notion that organisations are transformed by having information on how well they are doing. This optimism is rarely justified, for organisations – both public and private – have enormous capacity to assimilate or deflect data on results without changing their policies or operations. It requires sustained political and managerial will to re-orient an organisation in response to information on what it is doing or hopes to accomplish. In fact, genuine organisational change may be a precondition for effective use of performance information. It is not

that information transforms organisations, but that transformed organisations are primed to apply information on their performance.

This lesson emerges from the Next Steps initiative in the United Kingdom, which is widely regarded as one of the most successful machinery of government reforms of recent decades. Next Steps transformed the government of the United Kingdom by separating service delivery from the policy functions of ministries. Services were entrusted to more than 100 quasi-autonomous agencies, each of which had an operating charter (called a framework document) that spelled out its responsibilities and the manner in which it would be held accountable. Each agency negotiated annual performance targets with its parent ministry, and each reported results against its targets.<sup>8</sup> To the extent that Next Steps succeeded, it was because newly independent agencies and empowered managers were able to apply performance measures in designing and delivering services. Without transformed agencies, performance measures would have had little impact.

It is exceedingly difficult to measure organisational capacity. Not only do multiple variables come into play, but capacity has more to do with future potential than with past performance. The “balanced scorecard”, one of the most widely applied contemporary innovations in performance measurement, has been applied by both business and government to measure this capacity. It is based on the notion that good performance depends on strong organisations. The balanced scorecard considers outputs to be only one of four essential sets of performance measures. The other measures pertain to internal organisation processes, staff morale and quality, and customer needs and satisfaction. The word “balanced” in this system means that organisation and internal processes have parity with outputs and outcomes in measuring performance. As explained by Kaplan and Norton, the architects of this approach, the scorecard balances “outcome measures – the results from past efforts – and the measures that drive future performance”.<sup>9</sup>

Some designers of performance measurement systems regard the balanced scorecard as a retreat from the basic output-outcome orientation. Harry Hatry, the leading American performance measurement expert, is concerned that the balanced scorecard “implies that all these areas are of equal value. But we’ve been trying to get public officials to focus on outcomes ... there’s a danger of a return to an over-emphasis on internal process”.<sup>10</sup> The balanced scorecard may turn out to be just another fad in the never-ending parade of management reforms. But even if it does not have lasting influence, the scorecard drives home the message that organisation matters; results do not just happen. Performance is not manna that falls from heaven to be harvested without organised effort. For government to be effective, its departments and agencies must perform. Public organisations and the people who work in them must be mobilised and motivated, funded

and empowered, and able to carry out activities that generate intended results. If organisations fail to perform, government will also fail.

#### **2.4. Performance as management**

Getting government organisations to manage for results is the central aim of the performance movement. This is a difficult task, for it requires changes in both the culture of government organisations and the ways they are managed. To perform effectively, organisations must question inherited purposes and objectives, redefine what they are and how they operate, discard embedded habits and routines, and redistribute authority and responsibility among managers and between them and political leaders. These are much harder tasks than popularisers of the NPM promise in best-selling books with upbeat titles such as “Reinventing Government” and “Banishing Bureaucracy”.<sup>11</sup> NPM is only a small part of the performance movement, albeit an influential one, but it would be a mistake to conclude that countries that are still tethered to traditional modes of public administration are uninterested in results and have not acted to modernise public services. Performance is not the exclusive property or interest of one movement; it is the holy grail of most contemporary public management innovation.

Regardless of the path taken, performing organisations require adjustments both in their operating culture and in managerial capacity. It is necessary to “let managers manage” by giving them appropriate operating discretion. But liberated managers cannot be expected to behave much differently if the organisations they lead are hostage to a mindset that blocks them from changing the way they operate.

Performance depends on organisation, that is, the combination of human, financial and other resources to produce a collective result. Yet, if organisation is the enabler of performance, it often is an inhibitor as well, for it values internal needs and norms above outside demands and conditions. This tendency occurs in business when firms disappear because they are unwilling to adjust to changes in market conditions, and in government when civil servants remain wedded to old missions even though newer ones are more pressing. Organisations have a culture, a “shared system of beliefs, mores, values, attitudes, practices, roles, artefacts, symbols and language. It represents a group’s collective wisdom and aspiration ... [and] guides how a group solves problems, how they approach mundane tasks ... Culture is reflected in the structure of social relationships – within and outside the group – and defines obligations and rights among a group of people who possess a common identity”.<sup>12</sup> Culture-bound government agencies have a distinctive personality and characteristic ways of operating that are passed on from one generation of employees to the next. They have a self-image – a shared sense of their fundamental mission or purpose, the things they do, how they

respond to outside demands or resolve internal conflicts – that is not easily uprooted by changing circumstances. They may want to perform better but, trapped in their cultural warp, they may not know how. Change is too high a price to pay. Countless firms disappear because they are unwilling to transform themselves; government agencies have a much lower mortality rate, but not necessarily better performance.

Hundreds of books are published each year advising firms and governments on how to lead and transform organisations. But despite the surfeit of advice, governments have a limited array of tools for getting culture-bound organisations to perform. One is to re-organise existing entities; another is to create new ones. Re-organisation was once a favoured gambit; it no longer is because the cost of reshuffling the organisation chart is high and the gains are uncertain.<sup>13</sup> Creating new agencies is expedient when government is expanding and adding employees, but not when austerity is the order of the day. Some tools mentioned earlier may spur organisations to adjust objectives or operations. These include strategic planning and performance measurement and reports. Organisations committed to self-transformation may change their leadership, retrain staff, cultivate support from interest groups and politicians, and take other steps that evade or weaken roadblocks to change.

NPM aims to transform government organisations. It is predicated on the argument that traditional means of regenerating organisations are inadequate. It favours “shock therapy”, stripping away operations and service delivery from integrated departments and entrusting them to free-standing agencies that have broad operating freedom, privatising government activities or introducing market-type arrangements within governments such as competition, prices and internal contracts. In some countries, NPM has gone even further, empowering the recipients of public services to select their providers. These moves have often generated more controversy than change, for in most countries the provision of public goods through private markets is still rare. The public service ethic may have waned, but the presumption that public services should be delivered by public employees persists.

The second pathway to organising for performance is to enlarge managerial capacity and discretion. In organisations, compliance is usually the enemy of performance. To the extent that managers define their responsibilities and define their accomplishments in terms of following prescribed rules and procedures, their attentiveness to results diminishes. Alternatively, if they are driven to perform and define their work and that of their organisations in terms of outputs or outcomes, they may seek to evade or outwit rules, which get in the way of results. Of course, well-functioning organisations must have rules and should produce results. But it is the accretion of rules and procedures over time that penalises performance, and it

is the compliance mindset engendered by excessively restrictive rules and procedures that the performance movement aims to counter.

Boosting performance thus requires fewer controls and less emphasis on compliance. Governments that are committed to performance within the framework of traditional public administration generally have sought to reduce compliance costs by stripping away redundant or outmoded rules and procedures. NPM-oriented governments have gone much further, removing virtually all restrictions on managerial discretion, dismantling established command-and-control systems and the agencies that run them, and putting managers on notice that they will be held accountable for results. NPM advocates believe that weeding out some controls does not suffice, because new controls grow up in their place, and that managers cannot be truly wedded to performance as long as they are tethered to procedural requirements.

NPM is conflicted, however, on the behaviour of public managers. On the one hand, it liberates managers on the expectation that once free to exercise discretion, they will apply their experience and knowledge to bolster organisational performance. On the other hand, NPM tends to view managers as opportunistic agents who exploit inherent asymmetries in information – they know more about what they are doing and accomplishing than their bosses do – to put self-interest above the public interest. The principal-agent problem is not window dressing for NPM; it underlies the critical NPM argument that it is hopeless to try to improve public performance by restoring a public service ethic. In dealing with the principal-agent predicament, NPM has branched in two directions. One is “managerialism”, relying on the verve and initiative of managers, plus a large dose of accountability, to get them to perform; the other is “marketisation” through privatisation, competition, customer choice, internal markets, pricing schemes and other market-like arrangements.<sup>14</sup> NPM countries typically blend the two together, but managerialism remains the dominant form.

Even in NPM countries, managerialism is an unfinished reform. Much more progress has been made in freeing up managers than in enforcing accountability for results. It is rare for governments to base pay on performance or to fire managers for failing to reach performance targets. Few governments have performance budgets that link allocations to expected or achieved results, and few systematically give feedback on performance to policymakers. Though performance auditing has made some headway, it is much less developed than conventional financial auditing.

There is little doubt that organisations perform better when attention is paid to performance. Effective leadership also adds to an organisation’s performance, as do systems for measuring and reporting on results.

Successful organisations learn and adapt, changing what they do and how they work in response to both internal and external signals. But performance is only one of the drivers of change, and not always the most important one.

## **2.5. Performance as contract**

The fundamental difficulty of transforming government organisations into performing units has induced some countries to devise stronger measures for assuring that promised results are achieved. In the market sector, contracts, and the powers, rights and obligations conferred by them, are essential institutions for holding parties to voluntary transactions accountable for performance. Accountability is enforced through a web of actions and relationships involving: i) the negotiation and implementation of agreements requiring specific performance by each party; ii) monitoring compliance through oversight, reports and audits; and iii) recourse for failure to perform. Although formal contracts are incomplete – for they cannot specify all relevant terms and conditions or anticipate all the circumstances and issues which may arise during implementation – they are a vital means of communicating expectations and getting results. Without formal contracts, the business sector would be significantly smaller and poorer, with less developed economic institutions and fewer transactions.

Governments make extensive use of contracts in purchasing goods and services from outside suppliers, but internal performance contracts within government are still rare, though a few countries (most notably New Zealand) rely on contracts to define relations and obligations of ministers and managers. Internal contracts, like those with outside parties, typically specify the resources to be provided and the goods or services to be produced. For example, New Zealand uses performance agreements to specify the key results to be produced by chief executives, and purchase agreements between ministers and chief executives to specify the outputs that departments are to provide.

In contrast to formal performance contracts, informal contracts based on expectations and relations are quite common. An implicit contract exists when the parties to a relationship know what to expect from one another, even though their mutual obligations have not been formally specified. Government budgets are blends of formal and informal contracts – formal because they legally limit the amounts and purposes of expenditure, implicit because much of what will be done with the money is unstated. Although he was referring to practice in the United States, Aaron Wildavsky’s description of the budget as a contract can be applied, with appropriate changes in terminology, to virtually all national governments: “Congress and the President promise to supply funds under specified conditions, and the agencies agree to spend them in ways that have been agreed upon ... [The budget] imposes a set

of mutual obligations and controls upon the contracting parties. The word 'mutual' should be stressed because it is easy to assume that control is exercised in a unilateral direction by superiors... A budget thus becomes a web of social as well as legal relationships in which commitments are made by all the parties, and where sanctions may be invoked (though not necessarily), equally by all."<sup>15</sup>

Yet, the budget is not a full-fledged contract, for it carries out other functions in addition to expressing agreements on public funds. It is a political appeal to voters, a statement of government ambitions, a guide to economic policy, a basis for organising the work and activities of government agencies, a process for extending past decisions and understandings into the future, a means of financing agencies and activities. Wildavsky concludes "that the purposes of budgets are as varied as the purposes of men... Nothing is gained, therefore, by insisting that it is only one of those things when it may be all of them or many other things as well".<sup>16</sup> By being more than a contract, the budget becomes less of a contract. Its commitments carry weight, but not always or everywhere to the same degree.

Contract-like characteristics pertain to other internal government processes as well. Like the budget, the civil service system is an amalgam of formal requirements and informal understandings. The formal elements specify the manner in which public employees are to be recruited, promoted, reviewed, paid and so on; the informal elements define how people actually get jobs and the work they actually do. In the drive to performance, governments have to rebalance these processes so as to give greater prominence to formal elements. Thus, a true pay-for-performance system bases remuneration on the extent to which *ex ante* targets are met or exceeded, or on the comparative outputs of workers. A true performance-based budgeting system would explicitly link increments in resources to increments in results.

There are few technical impediments to formal contracts such as these. The fact that they are rarely applied in government indicates that there are behavioural barriers to contracting for performance. A full account of these impediments would be too far-reaching, but it should be possible to identify those that bear most directly on the efficacy of contracts as an instrument for enhancing performance.

Contracts narrow accountability to the matters expressly agreed to, in contrast to a normative sense of responsibility for serving the public. When contracts are used to formalise responsibilities and relationships, the specified items often become a checklist that informs the performing party of what it must do to fulfil its obligations. But just as a party to a private agreement is not bound to perform tasks not specified in the agreement, a

party to an internal government contract cannot be called to account for failing to provide unspecified services. Managing by contract thus leads to managing by checklist, as managers take care to assure that itemised tasks are completed. One of the arguments against outsourcing government responsibilities is that in contrast to public employees who have a broad range of unspecified responsibilities to serve the public, private suppliers are bound only by the terms of the contract.

Contracts bias management to emphasise outputs rather than outcomes. The former can be specified in contracts because they are within the control of those providing services; the latter cannot be specified because they often lie beyond the effective control of service providers. New Zealand's contractual model expressly holds managers accountable for outputs, but despite the lip service given to outcomes, the impacts of government policy are often slighted.<sup>17</sup> Governments that define performance in terms of social outcomes tend to eschew the use of contracts in the public sector.

Contracts between politicians (such as ministers) and managers are intended to strengthen political leaders so that managers perform according to their dictates. But contracts within government rarely have the same effect as those between private parties. For one thing, within government, politicians and managers rarely have an arm's-length relationship; for another, politicians often have little or no effective recourse when managers fail to perform. New Zealand's purchase agreements which specify the services to be purchased by ministers from departments typically have been drawn up by the chief executives and agreed by the minister who makes only minor changes. More importantly, politicians often have to turn the other cheek if managers fail to perform according to expectations. They cannot close down the department of education or sack thousands of teachers. In some cases, they are pressured to reward poor performance by increasing the resources provided.

Clearly, contracts within government are not real contracts. Nevertheless, these formal agreements may enhance performance by spurring the parties to the contract to focus on results. In fact, when this writer questioned senior managers in New Zealand and other countries, almost all referred to the relationships facilitated by the contract rather than to its formal terms. In other words, despite their formality, within government agreements are actually relational contracts. In contrast to formal contracts, which are discrete agreements bounded by fixed terms, relational contracts are ongoing; they extend as long as the parties to the relationship continue to interact. These contracts derive their force from the incentives of the parties to behave in a co-operative, trustworthy manner because they are interdependent. Ministers need managers to produce public services, managers need ministers to get them resources and political support. Writing and implementing a

formal contract may strengthen rather than displace this relationship by giving the two sides periodic opportunities to discuss progress and problems. Managers gain access to ministers, ministers gain opportunity to obtain better information on results. When the relationship works well, the parties may review progress under the contract, but they certainly may discuss other matters affecting the relationship as well. They are not confined to the matters formally specified in the agreement.

Thinking about contracts in relational terms has certain advantages as well as drawbacks. The gains include compensating for the incompleteness of formal contracts, establishing expectations and obligations that are recognised by the parties to the relationship even though they may not be recognised in law, building trust and co-operation among persons whose interests are interdependent and who must work with one another on a continuing basis, and lower transaction costs. But widespread reliance on relational rather than formal aspects of contracts may have serious drawbacks. To the extent that the parties to the contract are not at arm's-length, they have weaker capacity to enforce its terms. A cosy relationship may encourage collusion and logrolling at the expense of the public interest; and by making contracts and transactions less transparent, it may open the door to corruption. In low-income countries, informality impedes development by making it difficult to mobilise and efficiently use capital. The formalisation of contracts has undoubtedly been one of the critical enablers of development in western countries. Yet, even in these countries, performance under formal contracts often depends on the quality of the relationship.

## **2.6. Performance as right**

If legal form does not suffice to assure good performance, the ultimate remedy may be to define public goods and services as rights to which eligible beneficiaries are entitled, and to provide for administrative or judicial recourse when government fails to perform. Actually, performance as a right is quite advanced in the developed world and, in the form of entitlements, underpins much of the welfare state. Social Security, health care, unemployment benefits, and numerous other entitlements give eligible persons a right to payment from the government. Because these payments are defined as rights, government has little or no discretion and must provide them regardless of its financial condition or other claims on its budget. In the future, performance as a right will spread beyond payments to services. In the same way that citizens are entitled to pensions and unemployment aid, in the performing state they will be entitled to schools that educate all children, transport that is safe and accessible, civil servants who promptly and courteously process public business, and other services. This rights development is underway in the most advanced democracies; it is likely to

spread in the decades ahead. When the right to good service is universalised, the performing state will be a reality, provided, of course, that the state survives as the provider of public services and guarantor of rights.

Services as rights will not happen at once; they will initially be defined in sectors which directly involve citizens, such as education and health care, and will spread over time to other areas. At first, the rights may be poorly defined, with insufficient specification of the quantitative and qualitative dimensions of performance. But under pressure from interest groups, NGOs, the courts and others, they will be more precisely specified. In most cases, making service rights more precise will expand their scope, so that the net effect will be to enlarge the responsibilities of government. Many of the early service rights will be symbolic and lack effective redress. They will be rights without remedies, but these will set the stage for enforceable rights, including compensation for sub-services or the opportunity to obtain services from alternative providers.

The performance as rights movement will branch off in two directions corresponding to the divergent paths taken in the New Public Management. One will be to define rights as entitlements of citizenship; the other will be to vest power in customers. The first sees performance through the work of public organisations, the latter through market competition. The two versions will co-exist, but the balance between them will vary significantly among countries. Within the same country, certain services will flow through the public sector, while others will be purchased through market-type transactions. It is not an exaggeration to say that much of the future character of the nation-state will depend on how the clash between the citizen and the customer models of service rights is resolved. The future state will look and perform differently if its people are treated as customers rather than as citizens.

Forerunners of both the citizen and customer models have emerged in some advanced countries. Citizen's charters express the rights of citizens to satisfactory public services; contracting out and vouchers manifest reliance on markets for public services. The Citizen's Charter was pioneered in the United Kingdom more than a decade ago and has been partly imitated in a number of countries since then. Although there is reason to suspect that the Citizen's Charter was launched as a political stunt, it rapidly matured into a legitimate effort to spur improvement in public services. The typical Citizen's Charter has three basic elements: service targets, such as the timeliness of public transport; recognition of superior services through awards and other means; and compensation when services are below a certain standard. This process has obvious appeal to governments that want to demonstrate fidelity to performance; over time, however, the Citizen's Charter is likely to become another set of procedures that has little impact on performance.

In the end, the effectiveness of statements ascribing rights to citizens depends on the role of the courts. It is probable that defining services as rights of citizenship will lead to greater judicial involvement in setting service standards, measuring results, and allocating public resources. One should not be surprised if courts prescribe minimum service levels, eligibility rules, and corrective action. The portion of national budgets that is effectively controlled by current political decisions is small in most developed countries; it will shrink further as performance is defined as a right. One can foresee future budget battles over whether particular services should be designated as rights, and over the measures that should be used in assessing public services.

The alternative path would turn citizens into customers by empowering them to select the providers of the services they receive. One option would be for government to distribute vouchers that enable recipients to purchase services from approved providers; another would be for government to allow private vendors to compete in providing public services. Once government decides that it will not be the exclusive provider of public services or that citizens are entitled to choose the services they want, it has an enormous range of possibilities in designing and delivering services. Some of these will be discussed in the next section, which argues that the special role of government is undermined by the strong pursuit of performance.

Favouring markets over government implies that citizens are in a weaker position than customers to demand good performance. One reason is that political democracy gives citizens a limited, usually indirect, voice through the ballot box. They may vote “yes” or “no” on each candidate or each issue, but they lack opportunity to express views or demand improvement on particular services. Once elected, political leaders sift through the cacophony of citizen demands and balance them against pressures from interest groups, public bureaucracies and other political functionaries. Government rarely gives citizens better housing or more accessible health care merely because they voted it into power, and certainly do not change the way services are delivered because of election results. In contrast, the connection between customer and supplies is much more direct, even when the supplier is a government entity. What turns citizens into customers is their capacity to choose suppliers. This characteristic empowers them in ways that citizenship cannot.

This is not the place for considering the full ramifications of transforming citizens into customers, but it should be noted that the contemporary disengagement of citizens in many democratic countries from political activity – whether because the benefits received from government are taken for granted or because the benefits are inadequate or undervalued – feeds into this transformation. The decline of the nation-state begins here – with making citizens into customers. Clearly, this step is not lightly taken, and most democratic regimes have not yet advanced significantly down this path. But if

performance persists as the driver of public policy and the measure of public services, it is likely that additional steps will be taken in this direction in the decades ahead. And if they are, basic roles and attributes of the nation-state may be called into question.

### **3. Governance: Governing without (national) government**

The previous section argued that the drive for performance has impelled governments to devise ever-stronger means of assuring good service. At one time, a strong public service ethic was deemed sufficient, then means of maintaining a performance focus were added, followed by an array of measurement tools, management changes, contractual obligations, and legal rights. Each device was found somewhat wanting, leading to the next step in the chain of performance, with the possible exception of the last one which confers a legally enforceable right on citizens to good service. Anything that gets in the way of the effective exercise of these rights is suspect, even if it is government itself. In effect, government conveys rights, but if it cannot live up to its promises, other institutions may take its place.

The nation-state played a critical role in the rise of political democracy and markets. The world would be poorer and less democratic, and individuals would have less freedom and fewer public services, if the nation-state had not flourished during the past century. It is not happenstance that the nation-state grew in size and prominence at the same time that markets boomed, and individuals gained in affluence and personal liberty. But like other hoary institutions, the nation-state is fraying at the edges, and the demand for good performance has focused attention on its real or imagined inadequacies. The bill of particulars against the nation-state *qua* performer is formidable: it is alleged to be too distant from citizens, too uniformist in the design and delivery of public services, encumbered by rigid, aloof bureaucracies and by cumbersome, performance-draining procedures, insensitive to the diverse needs and interests of citizens, more beholden to compliance and control than to performance and results, more responsive to the powerful and affluent who have less need for their services than to the poor and weak who are utterly dependent on the state, unable to cope with global forces that spill beyond national boundaries. These allegations notwithstanding, the nation-state has not withered away, nor will it in the decades immediately ahead. It still is the main financial engine and rule maker for public services.

Nevertheless, the demand for performance is nibbling at the special status of the state. Fiscal and programme decentralisation have transferred resources and authority from the centre to local governments; free-standing agencies have gained operational autonomy from the state to which they are nominally subservient; global institutions have made inroads in some of the

most vital functions of the state including criminal justice, national defence and economic policy; NGOs have become purveyors of public services and often have quasi-government status at international fora. Finally, as already discussed, markets are increasingly used to provide public services.

These alternatives are encompassed in the word “governance” which has supplanted “government” in many discussions of political institutions and public policy. While some see governance merely as a broader term, others view it as a substitute for the nation-state. Governance connotes that tinkering with the machinery of government through civil service reform, budget practices and administrative re-organisation – the stuff of public management during the past century – does not offer sufficient improvement in performance. The alternatives legitimised by the governance label imply that the trappings of political democracy do not suffice; having free, contested elections does not assure good public services. What is needed instead is a redistribution of political power. Every alternative to the nation-state takes power from some and gives it to others.

The case against the nation-state as a performer rests on two distinct grounds: one is managerial, the other political. The former leads to new means of service delivery, the latter to new arrangements of political power. Every alternative to the state presents a “democracy deficit”, a euphemism invented by proponents of new forms of governance to camouflage serious political deficiencies. For the new governance crowd, sacrificing a little (or maybe a lot) of political democracy on the altar of performance is a reasonable price for getting the results they want.

This posture is evident in the push for new global institutions. International organisations have become self-appointed legitimisers of new forms of governance that lack the most basic elements of political democracy. These have been justified on the ground that there exist “international public goods” that countries cannot adequately supply because of their geographical limits. Public goods are most apparent in environmental policy, for the quality of air and other ecological values do not respect national boundaries. Environmental protection is only one of the public goods that have been internationalised. Maintaining peaceful relations among countries and prosecuting persons accused of crime against humanity are well on the way to becoming international public goods. Economic stabilisation and income redistribution remain critical national responsibilities, but it is not much of a stretch to accept the argument that the world would be a better place if economic policies were co-ordinated and income disparities among countries were reduced. These examples suggest that the internationalisation of public goods is still in its infancy. Deep inroads in the functions of the nation-state are likely to emerge in this century.

At the same time as being pressured to cede policy responsibility to international authorities, the nation-state has faced demands to localise public services by entrusting operational control to municipal or regional governments. The case for decentralisation rests principally on the argument that national governments are too distant and too wedded to “one size fits all” management to accommodate variations in local needs and preferences. The traditional means of bringing government services to the people – for example, regional and field offices – do not go far enough because these entities lack political and managerial independence. They are arms of the national government, and do not answer to local authorities. To make a genuine difference, the decentralisation argument runs, it is necessary for services, particularly in vital sectors such as health and education, along with the money to pay for them, to be transferred to local governments. The state may continue to play a role in prescribing basic or minimum requirements, but operational details, including the manner in which services are delivered, should be decided locally.

Fiscal and service decentralisation usually widens the democracy deficit. In most countries, voter turnout is lower in local than national elections, government activity is less transparent, and the risk of corruption is higher. However, these deficiencies are often brushed aside by the claim that services improve when responsibility is localised. Decentralisation is part of a broader strategy to divest national governments of direct responsibility for delivering services. The main roots of this strategy can be traced to an influential article “The Sickness of Government” by management guru Peter Drucker a generation ago.<sup>18</sup> Arguing that national governments are inherently inept providers of services, Drucker urged that they should focus on policy rather than services – they should steer and leave the rowing to others. The notion that steering should be separated from rowing has led not only to decentralisation but also to the creation of autonomous agencies responsible for providing public services. Although agencification has not made as much headway as decentralisation, it, too, leads to the hollowing out of the state.

Can a state efficiently steer, but not row? What leverage does it have when the rowers – local governments or autonomous agencies – want to go in a different direction? Perhaps not enough, for once they have operational independence and resources, local government and agencies have political weapons of their own to blunt pressure from the national government. They certainly are not passive, compliant implementors of the national will. Shorn of operational control, the state may become the tax collector that pays for services provided by others, but has little say in how they perform. This is not a politically attractive position, but it may be the one that characterises the future nation-state.

Decentralisation and agencification keep public services within the ambit of government, but there are those who argue that performance will not improve unless there is genuine competition and unless recipients have choice in selecting their providers. As long as government has a monopoly, the argument runs, it has weak incentives to respond to the differentiated wants of citizens. The claim that the state is an uncaring, inefficient provider is strongest in poor countries where government is often absent or corrupt. In some poor countries, international organisations and others have disinvested in the nation-state by channelling resources to NGOs, organisations whose self-proclaimed legitimacy does not depend on adherence to the tenets of political democracy. NGOs are a mixed bag, and many do not have significant service responsibilities. But those that do often combine services with lobbying and various quasi-governmental responsibilities. NGO is a strange appellation: it indicates what these entities are not, but does not say what they are. It conveys a powerful anti-state message. As varied as they may be, NGOs have one common, overriding characteristic: they are not governments. They are alternatives to the state because, in the eyes of the proponents of this new form, the state has failed.

Most NGOs violate basic principles of political democracy. They are self-appointed, not elected; they claim to represent the people, but the people do not pick them. They usually are not accountable to anyone else, with the exception (in some cases) of their funders; they sit alongside elected government leaders at international fora, but are not governments; they have few of the checks and balances that characterise most democracies, but instead often combine lobbying, policy-making and service delivery functions. Yet NGOs are justified on the grounds that governments elected to serve the people do not serve them well. They do not perform. And in a world where performance matters, this is justification enough for legitimising NGOs.

While they disown the state, NGOs have a strong interest in public policy, defined as policy that affects society. This distinguishes them from markets, another non-governmental challenger to the nation-state. As private mechanisms for providing public goods, markets differ from NGOs in that choice resides with consumers rather than leaders. On this ground, therefore, markets come closer to fulfilling democratic requirements than NGOs. Markets, however, have other characteristics that may impair their capacity to fairly provide public services. They deny services to those unwilling or unable to pay the going price. To ease this problem, countries that rely on markets typically provide financial assistance such as vouchers to low-income persons and require private vendors to serve all eligible customers.

In one sense, markets are the most radical alternative to the state, for they take the provisions of public services out of public hands. But in another sense, they are far less radical, for they have long co-existed with government

in providing social goods. The new instruments – global institutions and NGOs – have entered a world long dominated by big government and big markets. Like for government, the language and methodology of performance is familiar to markets, though the latter typically define performance more narrowly than public institutions do. Global institutions and NGOs, however, have generally thrived on promises and potentials, and they have not been put under the microscope of performance as intensely as governments and markets. But as they grow in prominence, they too will be reviewed and challenged in terms of the results they produce.

#### **4. The performing state: From idea to practice**

Where do the inroads made by local authorities, autonomous agencies, global institutions, NGOs and markets leave the state? To stress what was said at the outset, the state still is the provider or financier of most public services. The state has not withered away, nor is it likely to do so in the foreseeable future. Yet the disinvestments in the state should not be ignored, certainly not the erosion in public support and trust. But as argued early in the paper, the nation-state may find that better performance does not absolve it of the charge that it is an inadequate performer, either because expectations rise faster than results or because results are rarely good enough. One failure of the state can outweigh hundreds or even thousands of successes. The fate of the contemporary state is to fail even when it performs.

Of course, this generalisation does not apply to all countries. It fits the best managed countries best, and poor countries hardly at all. In between are the many states that do a reasonable job of serving the public, but can (and should) do much better. Some of these countries may be abetted by the performance-enhancing instruments discussed earlier, such as measurement, management and contracts. But there is considerable risk that these devices will be introduced as substitutes for performance, as ends in themselves rather than as means of revitalising or re-engineering public service. In many countries, management reform has been a substitute for genuine reform of management. This has been especially true with respect to performance measurement. At the end of the day, improving performance is essentially a matter of getting organisations and the people who work in them to behave differently. Caring about results, as part of a public-regarding ethic or imposed changes which impel politicians and managers to focus on what they are accomplishing and how well they are serving the public, remains a necessary element of a true striving to perform.

It is in poor countries where the call for performance is most urgent that the case for alternatives to the state is most persuasive. Decades of development work have had little impact on states mired in corruption and

inefficiency. Good intentions have gone awry and waves of managerial and government reforms have yielded a meagre harvest. These are countries in which the gulf between the idea of performance and the practice is so wide and the outlook so hopeless that it is necessary to design new modes of governance based on the alternatives discussed in the preceding section. Transitional countries face a different prospect. Their need is to rebuild the nation-state on the foundations of political democracy and markets. Most already have a performing state, albeit not as effective or efficient as it can be. They should be wary of alternatives to the state. The same generalisation fits emerging market countries, which have strong states but inadequate political accountability. They, too, should rehabilitate the state and not unduly rely on substitutes.

It is characteristic of reform movements that they sweep aside differences in the conditions of countries. If a few countries claim success with agencies or decentralisation, others climb or are pushed on board the bandwagon. This reformist zeal leads to much imitation and little replication, as countries mindlessly turn good ideas introduced elsewhere into technical exercises. In the march to performance, every country must be mindful of where it is now; if it is not, it will not reach the promised land of performance.

## 5. Getting the budget to perform

Government cannot perform if its budget does not. No matter how determined government is to orient management and service delivery to results, if budget allocations disregard performance, politicians and managers will too. But getting the budget to be an instrument of performance has proven exceedingly difficult to implement. The history of budget reform is laden with many failures and few successes. Yet, it is also true that budgeting can contribute to performance even when the government lacks a formal performance budget. This concluding section explores why performance budgeting is an elusive goal and what can be done within the framework of conventional budgeting to bolster government's commitment to results.

Budgeting combines several of the performance-enhancing characteristics discussed in Section 2. First, it brings extraordinary focus to government, marshalling managerial and political resources to produce an annual statement of revenue and expenditure. There are few things that government does that are so focused, and certainly few that recur each year. Although evidence is lacking, participants in the budget dialogue inevitably touch on matters of performance – how well programmes are working, what can be done to improve them, is government getting value for money and so on – when they negotiate spending levels. Second, budgeting is ready-made for robust use of measurement. The quantitative character of budgeting makes it

an ideal instrument for linking the amounts spent with the results produced. Yet, few governments link money and results quite this way, which is one reason why performance budgeting lacks success.

Third, budgeting is a critical element of public management. No public organisation can operate without money, and control of the money would seem to be an expedient means of driving it to perform. But, to anticipate one of the arguments made later in this section, the connection between performance budgeting and management may be the reverse of what reformers have expected. Rather than the budget leveraging and defining management, it is management that sets the condition under which budgets are made and implemented. If managerial conditions discourage performance, the budget will not be oriented to performance. One important implication of this hypothesis is that it is futile to reform budgeting without first reforming the overall managerial framework.

Fourth, a budget can be conceived of as a contract, both in the sense that it stipulates the resources that will be made available and the activities to be carried out, and also in the sense that it links politicians and managers in an understanding of how organisations are run and what they do. Performance budgeting can be thought of as an effort to formalise these contracts by explicitly stating the results that will be produced. But budgeting may be an example of relationships in which informal contracts are superior to formal ones, at least to the extent that the latter are difficult to negotiate and enforce.

Finally, budgeting operationalises the concept of performance as a right by entitling citizens to certain payments from government. Performance budgeting seeks to extend the reach of entitlements to services as well – that is, to vest citizens with a right to accessible, high-quality services. This is performance budgeting's most difficult challenge, for it goes to the core of what it means to be a performing state. In a performing state, performance budgeting will be assured and superfluous. It will be assured because government will be driven to perform, and unnecessary because government will perform even if the budget is not formally structured to do so.

Performance budgeting is an old idea with a disappointing past and an uncertain future. Its American debut took place in 1949 when the Hoover Commission on the Organisation of the Executive Branch of the Government recommended that “the whole budgetary concept of the federal government should be refashioned by the adoption of a budget based upon functions, activities, and projects; this we designate a ‘performance budget’”.<sup>19</sup> The fact that this concept re-emerged half a century later (but relabelled by some as performance-based budgeting) suggests the lack of progress in the intervening years. Despite repeated efforts, the budgets of almost all countries are centred around inputs, the items that go into running government organisations such

as personnel, supplies, travel and accommodation. These line items dominate budgetary discourse; they are rarely purged by performance budgeting. When performance budgeting was launched in the United States, a prominent scholar wrote that its simplicity is a delusion. "In fact, it is extremely difficult budgeting... it is easier to budget and control funds simply on the basis of organisation and object. For the performance budget does not replace these; it is in addition to them. Accounts still have to be kept, payments still have to be made, and accountability still must be maintained in terms of organisation and object."<sup>20</sup> In other words, when a manager has to choose between alternative budget formats – one that provides information on the amounts needed to cover the wages of employees and other expenses, the other providing information on the cost of producing goods and services – the former is likely to be preferred.

Performance budgeting is complex in yet another way: it comes in numerous varieties. Just about every government that puts information on workload, activities or services in its budget claims to have a performance budget. To clarify what the term means, it may be useful to distinguish two polar versions of performance budgeting, a broad definition that accommodates virtually any application and a strict definition that is limited to budgets that meet certain criteria. Broadly defined, a performance budget is any budget that presents information on what agencies have done or expect to do with the money provided to them. Strictly defined, a performance budget is only a budget that explicitly links each increment in resources to an increment in outputs or other results. The broad concept views budgeting in presentational terms, the strict version views it in terms of allocations. Many governments satisfy the broad definition, few satisfy the strict definition.

The difference between the two approaches goes to the heart of the performing state. Supplementing the usual budget schedules with information on activities cannot inspire government to take performance seriously; allocating money on the basis of the volume of goods and services delivered has a chance. But for this version of performance budgeting to work, it must be supported by cost measurement that enables government to link increments in resources to increments in results. Few governments have this capability. Cost accounting is a prerequisite for this version of performance budgeting, and few governments have invested in it because they have little incentive to do so. In contrast to business, they do not have to recover costs and they rarely charge for services on the basis of the volume supplied. Moreover, government budgets are fixed; the amount allocated does not vary with the volume. Agencies do not typically obtain more money during the year if volume rises above budgeted levels, nor do they have to return money if volume falls below. Most firms by contrast have variable budgets in which the resources available vary with the volume produced.

If performance budgeting is so difficult, is the performing state beyond reach? Not necessarily, for it is erroneous to assume that governments which have conventional input-based budgets ignore performance. They do care about results and they do strive to allocate incremental resources, and it is not often the most influential one. Performance has a seat at the budget table, but it must interact with those who have different orientations.

How much influence performance has depends on who else is at the table – that is, the orientation of the politicians and managers who make budget. As mentioned earlier, performance budgeting can thrive only when it is embedded in managerial arrangements that make results paramount. This writer is not aware of a single sustained implementation of performance budgeting that was not accompanied and reinforced by transformations in public management that enhanced performance. Governments that do not manage for results do not budget for results, even if they install the outward trappings in performance budgeting. The same interdependence pertains to all major budget innovations, not only those that deal with performance. Budgeting cannot be significantly changed in isolation from the management context in which it operates. This linkage makes budget reform harder and easier – harder because the reform agenda must be broadened to encompass public management, easier because performance budgeting can be successfully implemented when management drives for results.

Performance budgeting has a prominent niche in the performing state, perhaps more as the end result of being attuned to performance than as the enabler of performance. This entails a sort of Copernican revolution in budgeting. Rather than being the locomotive that drives government to change, performance budgeting is the caboose that confirms the transformations that have been made. To achieve true reform, it may be better to follow the parade than to lead it.

## Notes

1. Susan Pharr and Robert D. Putnam (eds.), *Disaffected Democracies: What's Troubling the Trilateral Countries*, Princeton University Press, 2000.
2. Managerial reform in Australia, France, New Zealand, Sweden, and the United Kingdom is discussed by Allen Schick in *Modern Budgeting*, OECD, 1997.
3. See Allen Schick, "Why Most Developing Countries Should Not Adopt the New Zealand Model", *World Bank Research Observer*, 1998.
4. The hurdles system is described in Poverty Reduction and Economic Management Network (PREM) Note, The World Bank.
5. This view of public service was expressed in The New Zealand Treasury, *Government Management*, 1987. This brief prepared by the Treasury for the newly

elected government exerted a strong influence on subsequent reform of the public sector in New Zealand.

6. Clarence E. Ridley and Herbert A. Simon, *Measuring Municipal Activities: A Survey of Suggested Criteria for Appraising Administration*, The International City Managers' Association, 1943, p. 2.
7. Quoted in David Osborne and Peter Plastrik, *The Reinventor's Fieldbook*, Jossey-Bass, 2000, p. 249.
8. A favourable assessment of the Next Steps initiative is presented in David Osborne and Peter Plastrik, *Banishing Bureaucracy*, Addison-Wesley Publishing Company, 1997.
9. Robert Kaplan and David Norton, *The Balanced Scorecard: Translating Strategy Into Action*, Harvard Business School Press, 1996, p. 10.
10. Quoted in Jonathan Walters, "Buzz over Balances", *Governing* (May 2000), p. 60.
11. David Osborne and Ted Gaebler, *Reinventing Government*, Addison-Wesley Publishing Company, 1992. David Osborne and Peter Plastrik, *Banishing Bureaucracy*, Addison-Wesley Publishing Company, 1997.
12. The Ewing Marion Kauffman Foundation, *Set For Success*, 2002, p. 51.
13. There are exceptions to this generalisation. In the late 1980s, Australia consolidated its departments into large "portfolio ministries", and in 2002, the United States consolidated various units which had previously been in separate departments into a new homeland security department.
14. See B. Guy Peters, *The Future of Governing*, University Press of Kansas, 2001 for a discussion of these and alternative models of governance.
15. Aaron Wildavsky, *The Politics of the Budgetary Process*, Little, Brown and Company, 1964, p. 2.
16. *Ibid*, p. 4.
17. See Allen Schick, *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, State Services Commission, 1996.
18. Peter F. Drucker, *The Age of Discontinuity*, Harper Torchbooks, 1978, p. 233.
19. Commission on the Organisation of the Executive Branch of the Government, *Report*, Government Printing Office, 1949, p. 8.
20. Frederick C. Mosher, *Budgeting: Theory and Practice*, Public Administration Service, 1954, p. 81.

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