

Joel Turkewitz

World Bank

**Overall Design and Framework
of Performance Management :**
An Overall Framework for Considering
Performance Management

Session 2-1 : Conceptual Framework
PRESENTERS

An Overall Framework for Considering Performance Management

by
Joel Turkewitz, Sweden

This paper provides a brief overview of major issues in the design of performance-enhancing reforms in the public sector. As this paper is written as an input into a dialogue between the Government of Korea and the World Bank on improving public expenditure management, specific particular attention has been given to experience and learning in achieving greater performance orientation through alterations in the allocation and spending of public financial resources. The first section of the paper reviews some current thinking about the fundamentals of improving performance in the public sector. The second section present a discussion of different approaches to generating enhanced performance orientation in the budget process, and the final section examines the evidence to date on the impact of performance-oriented reforms and the implications of that evidence on the design of performance management programs.

Section One: Performance in the Public Sector

1. Performance is not a new idea in the public sector. The earliest state bureaucracy, established in ancient China, was founded upon the importance placed on a highly trained cadre of people working in the interests of the state. As the public sector has evolved over time, it has consistently retained a commitment to performing work in the public interest in an effective and efficient manner- a concept enshrined in the notion of a “public service ethic.”
2. While the general concept of performance has a long history, the idea of performance in the public sector has been reinvigorated over the course of the past two decades. As governments expanded in the post-World War II era, pointed questions started to be asked by the voting public as to what was being accomplished. The greater the external pressure on politicians to demonstrate that money was being well spent, the greater the internal need on public servants to identify and quantify public sector products and positive societal outcomes. “Performance” in the public sector became increasingly associated with measuring, monitoring, and evaluating the outputs of projects and the outcomes of policy initiatives.¹ The last 20 years has witnessed the introduction of reforms throughout the developed and developing worlds designed to orient public sectors towards the more effective and efficient delivery of services.

¹ For a discussion of the idea of performance in the public sector, see Allen Schick, “The Performing State: Reflection on an Idea Whose Time has Come but Whose Implementation has Not,” background paper for the 24th Annual Meeting of OECD Senior Budget Officials, June 2003, GOV/PUMA/SBO(2003) 17

3. The drive to improve public sector performance has given a new look to the public sector as it enters the 21st Century. Processes and organizations have been remade through innovations like program budgeting, medium-term expenditure frameworks, accrual accounting, and performance auditing. Privatization, decentralization have reshaped the state, while contracting-out and performance contracting has modified public sector employment. Enhanced monitoring and evaluation, program reviews, and increased civil society participation in setting policy and reviewing results have changed how managers and politicians are held accountable for results.
4. Decades of reform efforts have achieved mixed results. Initial expectations in countries like the United States and Sweden that improved performance could be rapidly achieved through changes in the budget process have failed to materialize, while experiences in such places as New Zealand, South Africa and many smaller public sector organizations has been much more positive. The inability to state definitively whether performance management works is not a data problem but instead reflects the fact that reforms vary greatly in their objectives, the traditions and histories of the countries undertaking reform, and the variations in the reforms that have been tried. Some countries that have undertaken performance-oriented reforms have succeeded in improving their overall public finance performance, reallocating resources across sectors, and improving efficiency within programs. In other countries, reforms appear to have done little more than reshuffle arrangements within the public sector with no discernable impact on public finance or service delivery.
5. Reforms that have succeeded in creating well-performing public sector have benefited from inputs that can neither be planned nor designed - such as good timing, effective leadership, and governmental stability. Successful reforms have drawn upon a generally accepted group of ideas regarding the organization and operation of high-performance public sector environments. As stated by Allen Schick, those ideas include:
 - “Performance improves when managers are told what is expected of them, and results are measured against these expectations.
 - Performance improves when managers are given flexibility in using resources to carry out assigned responsibilities.
 - Performance improves when operational authority is devolved from central agencies and departmental headquarters to operating levels and units.
 - Performance improves when government decisions and controls focus on outputs and outcomes rather than on inputs and procedures.
 - Performance improves when managers are held accountable for their use of resources and the results that they produce.”²

² Allen Schick, “Opportunity, Strategy, and Tactics in Reforming Public Management,” paper presented at the OECD Symposium Government of the Future: Getting from Here to There, September 1999, PUMA, SGF(99)4, 1999, p 8.

6. It is interesting to note that ideas about performance improvement look not to specific processes or rules but rather at the role of managers and the alignment of managerial incentives. Performance-enhancing efforts that have focused on adopting new techniques, even those as far ranging as the implementation of a medium-term expenditure framework, have succeeded in impacting on performance only to the extent that they have generated a change in the informal rules and culture that defines how managers operate.
7. Convergence on the factors that generate performance improvements, does not equate to convergence in reform design. Efforts to increase performance in the public sector are as varied as the countries that have designed them. At the same time, the individual reform programs that have been developed have at their core a limited number of drivers of change.. Some reforms seek to engender improvement through increased competition, some by greater managerial authority. Others look to enhanced program oversight and review, or deregulation and simplification to generate change. A particular reform might draw upon multiple drivers of change, although not all combinations are equally compatible.³ For example, New Zealand has worked hard to enhance competition in the public sector, but has combined this with increased attention to program review. Canada, on the other hand, has repeatedly worked to introduce program review, while the U.S. has tried a combination of enhanced managerial autonomy and program review.
8. There is no evidence to suggest that any single driver of change dominates other models. Successful reforms are crafted around the strengths of existing organizations and institutions and are specific to their environment. The importance of categorizing reforms based upon their central change strategy is that each strategy raises a specific set of challenges. Reforms designed around enhancing competition need to find ways to minimize transaction costs and ensure that clients have sufficient information to make informed choices. Alternatively, freeing up managerial authority is likely to succeed only if accountability system are strong and managers have the ability to manage for results.
9. Up until now, I have not included in my discussion of performance-oriented reform a discussion of the role of monitoring and measurement. Performance and measurement are undoubtedly linked in the minds of many people as is evident by oft-repeated phrases, such as “If you do not measure results, you do not know if you are succeeding” or the stronger “That which gets measured gets done.” Much writing on the subject often assumes that monitoring performance leads directly to improving performance. Work in the area has focused disproportionately on the monitoring side with little attention given to the pathway by which performance monitoring gets translated into performance improvement.
10. There is little empirical reason to be sanguine about the impact that performance information per se has on organizations and individuals since both

³ See Schick, 1999, for a discussion of strategies for reform, and the associated case studies for analysis of specific reform efforts. Efforts to increase managerial autonomy may have a hard time co-existing with efforts to enhance program oversight, especially when those efforts are introduced simultaneously.

frequently have a variety of ways to deflect or reinterpret performance data in ways that allow them to retain comfortable patterns. Indeed, it may very well be that performance information is valuable only after an organization has been transformed into one that is oriented to continuous improvement in its effectiveness and efficiency. Britain's Next Steps Initiative, widely regarded as a successful performance innovation, is an example of this pathway – the impact of robust performance information was predicated on redesigned service organizations solely focused on the efficient delivery of services.⁴ While monitoring and results information have a vital function within performance reforms, they are not the foundation for change.

Section Two: Improving Performance through the Budget Process.

11. Much of the work designed to enhance performance in the public sector has focused on altering budgetary processes in order to more closely link spending and performance. Attention to the budget process is completely sensible given the role of the budget as the primary instrument for setting government policy. The link between budgetary reform and performance-oriented change is so strong that sometimes the entire performance movement is grouped together under the banner of performance budgeting. This is a mistake since there are many efforts to enhance public sector outcomes that do center on the budget.
12. While it is useful to distinguish between broader performance management and performance budgeting, it is also useful to define what is meant by performance budgeting. For the purposes of this paper, we will utilize Professor Marc Robinson's definition: "performance budgeting refers to procedures or mechanisms intended to strengthen links between the funds provided to public sector entities and their outcomes and/or outputs through the use of formal performance information."⁵ This definition does not limit performance budgeting to government-wide budgeting or exclusively relate the concept to central allocation processes.⁶
13. Like performance management, efforts at performance budgeting have existed for some time. Attempts in the early 1960's in the United States and later in Sweden were undertaken with the expectation that it would be possible to create a system that relatively mechanically linked allocations and performance. It is perhaps not surprising that these efforts to reform the budget process into a technocratic exercise divorced from politics did not succeed. The U.S. Planning-Programming-Budgeting System (PPBS) attempted in the 1960's and the famous performance budgeting effort of its time has been described by one noted observer as a producing "a vast amount of inchoate information characterized by premature quantification of irrelevant items."⁷

⁴ See Schick, 2003, for a discussion of the fallacy of performance as measurement.

⁵ See Marc Robinson, "Does Performance Budgeting Work? An Analytical Review of the Empirical Literature," draft IMF paper, 2004, on file with the author.

⁶ An alternative term "performance-informed budgeting" has been suggested recently in the United States. See Philip Joyce, "Linking Performance and Budgeting: Opportunities in the Federal Budget Process," Managing for Performance and Results Series, IBM Center for the Business of Government, 2003.

⁷ See A. Wildavsky, "Planning-Programming-Budgeting: Rescuing Policy Analysis From PPBS," Washington, D.C., 1969.

14. Although early efforts were not promising, performance budgeting has grown to be a standard feature of the budgeting process in most developed countries. An OECD 2001 survey found that 70% of member countries included performance information in their budgets. Perhaps a better measure of the penetration of performance ideas into the budget process is that 40% of survey respondents answered that their measures distinguished between outputs and outcomes.⁸

15. As we will see in the case studies that accompany this piece, performance budgeting comes in many different forms. All of the reforms share a movement away from traditional concentration on inputs and an attempt to counter-balance the forces of incrementalism in budget setting.⁹ The following table, from Professor Philip Joyce expresses some of the major differences between performance and traditional budgeting.¹⁰

Traditional Budgeting	Performance Budgeting
Inputs as ends in themselves	Relationship between inputs and outputs
Changes in inputs as the margin	Change in inputs and results for the entire program (for example, how much more money for how much more results)
Divorced from planning and management in agencies	Budgeting integrated with planning and management
Budgeted resources	Costs

16. The different approaches to performance budgeting can be largely divided into efforts that focus on tighter ex ante linkages between results and budgets (through targeting) and those that concentrate drawing tighter ex poste linkages between performance and allocations through the use of budgetary incentives.¹¹

17. The strongest example of ex ante targeting is provided by the U.K. Public Service Agreements (PSAs). The PSAs, signed by each agency, set out key objectives and targets. "Headline" targets focus on broad outcomes such as improving literacy in children. These targets are translated into operational targets at the agency of program level which concentrate on outputs, activities, and processes. The PSA approach was adopted at the start of beginning of the Labour

⁸ K. Kristensen, "Overview of Results Focused Management and Budgeting in OECD Member Countries," OECD, Paris (2002). For a useful discussion of performance budgeting, see Jack Diamond, "From Program to Performance Budgeting: The Challenge for Emerging Market Economies", IMF Working Paper 2003, WP/03/169.

⁹ Incrementalism refers to the tendency for budgets to be determined by slight modifications in allocations based upon a determination of what is needed this year to do what was done last year.

¹⁰ Joyce, 2003, p. 15.

¹¹ The following discussion draws heavily on Robinson, 2004, and Marc Robinson, Performance Budgeting: Lessons from a Comparative Overview, 2004 manuscript, on file with author.

Government in order to ensure that planned increases in funding for education and health were tied to concrete improvement commitments.

18. Output-purchase budgeting represents an alternative approach whereby government purchases a specified output based upon detailed unit cost calculations. This radical version of budgeting for results has been pursued most vigorously in New Zealand starting in the late-1990s. The creation of a budget model based upon a purchaser-provider relationship is the extreme form of budget reform that focuses on outputs. In such a system, each agency is viewed as a business and failures within the production function can cause governmental organizations to register losses.¹²
19. The two approaches discussed above work by linking budgeting with ex ante expectations of performance. Efforts of this sort have frequently experienced incentive problems since the consequences of not meeting targets has remained relatively uncertain. Poor performance can be a justification for increasing budgets (since an objective may be critical and poor performance may indicate insufficient funding) just as good performance can justify holding a budget allocation steady or even reducing it (program goals have been achieved or the program has demonstrated its ability to produce results with existing funding). For this reason, some commentators have questioned the extent to which budgeting based upon expectations of future performance provide adequate incentives for managers to truly improve agency and program performance.
20. Performance approaches that link ex poste evaluations with future allocations seek to increase the pressure on managers to perform. The Bush administration's President's Management Agenda (PMA), and the complementary Program Assessment Rating Tool (PART) in the United States is a leading example of a strategy dedicated to incorporating past results into future allocations. The PMA requires the OMB to assess the management of agencies, with a focus on the degree to which the agency's senior management utilizes performance information in their strategic and day-to-day decision-making. The PART program requires the Office of Management and Budget (OMB) to determine whether a program is well functioning, with over 50% of the PART score determined by an analysis of results and accountability. Both PMA and PART are integrated into the budget process by the OMB, as well as through the unusual step of making PART scores public and using a traffic light scale (green for go, yellow for caution, and red for halt) for its PMA evaluation in order to ensure maximum accessibility of agency rating to politicians and their constituencies.¹³
21. The current U.S. approach is fundamentally similar to a series of reforms undertaken by the Government of Canada. An extensive program review was

¹² For a discussion and analysis of the reforms see, Allen Schick, "The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change", a report prepared for the State Services Commission and the Treasury, Wellington, 1996; Marc Robinson, "Output-Purchase Funding and Budgeting Systems in the Public Sector," *Public Budgeting and Finance*, 22 (4), 2002, 17-33.

¹³ The Bush Administration has combined these enhanced agency and program reviews with a significant increase in the use of monetary performance bonuses to reward managers for high performance. The effectiveness of such performance rewards in generating effective and efficient public sectors has been challenged.

initiated in 1994 on the heels of an efforts to rationalize programs that was begun in the 1980s. While the initial efforts focused on building up evaluative capacity in the Comptroller General's Office, the later, more successful efforts have required explicit reallocation of resources within fixed budgets and have been combined with other reforms designed to enhance managerial attention to service delivery and citizen needs. Detailed program evaluations have also been a feature of the Australian governments approach to improving performance, especially in the period from 1987 to 1997, but have been abandoned in the period since 1997.¹⁴ The challenge faced by all efforts to conduct systematic program evaluations is the sheer time and cost required to perform rigorous evaluations. In many cases, program evaluations appear to have been forced to compromise on quality, and have led to enormous conflicts within public administration with relatively minor gains.

22. As with performance reforms in general, there does not appear to be a compelling case for promoting one performance budgeting reform over the other. The case studies that accompany this report will provide greater detail as to the mechanics of each of these strategies – information that will be essential for Korean policy makers in their determination of a suitable approach for the country. Instead of looking at their differences, I want to turn now to a brief consideration of two features that are common to all performance budgeting efforts – the restructuring of budgets around programs and the selection of performance indicators. It is the author's belief that the former, the creation of programs, has generally received insufficient attention while the latter has received too much focus.
23. If one were to read through recent discussions of performance budgeting, it would be easy to get the impression that the core of the effort was defining the right set of indicators and ensuring their rigorous monitoring. It might come as a surprise that such efforts would likely be useless if the operative budget retained its traditional line-item structure. In a traditional line-item model, it is hard if not impossible to determine the policy objectives that are driving spending or to identify the amount of money spent on achieving a particular goal. Enhanced expenditure classification systems can sometimes allow for expenses to be more closely allocated to individual projects but inherently fail to capture all relevant costs. Restructuring the budget into a program structure creates the foundation for any serious performance budgeting effort.
24. We choose the term restructuring the budget rather than reconfiguring it because it requires ministries and agencies to rethink their activities as well as recalculate their spending. The initial stage in the process is for a government body to define its programs – a group of activities and projects, usually under a single manager, which contributes to a specific program objective. This is anything but a trivial exercise, as the initial PART review revealed. In the 2003 exercise, the OMB determined that fully 50% of programs could not be evaluated because they failed to have defined objectives or measurable results – an astounding conclusion given that the Government Performance Results Act (GPRA) had been enacted in 1993 precisely to get agencies to define programs and objectives.

¹⁴ For a discussion of the role of evaluation in the Australian reforms, see Keith Mackay, "Two Generations of Performance Evaluation and Management Systems in Australia," draft paper, 2004, on file with author.

25. Program budgeting is now a common feature within the OECD. A set of generally accepted principles exist that may help guide the transition from line-items to programs that provide a constructive basis for performance budgeting. As stated by Jack Diamond, these principles include:

- “Programs are mono-functional so that each program is linked to only one function.
- Programs are hierarchically constructed, so that each program has a number of subprograms, each subprogram can be decomposed into a number of activities and projects. Each subprogram is related to only one program, likewise each activity and project is related to only one subprogram.
- Each program has an appropriate size for efficient management.
- Programs and subprograms should be defined in a way to support political decision-making and prioritization, by making clear the relationship between the resources used and the envisaged outputs and envisaged policy results (outcomes).
- Programs must consider all related activities (including regulatory ones) and projects, which together assist in achieving their objectives. This means that capital and recurrent spending should be considered together in judging program performance relative to its objectives.
- Accountability of subprograms should have clear managerial responsibility, usually and preferably, within a single organizational unit.
- Responsibility for implementing each particular program should almost always align by administrative unit to one chapter in the budget. Where it is not possible to maintain this, it is important to assign lead roles to a particular chapter.”¹⁵

26. Defining a program is an exercise in translating policy into action. It involves policy makers working alongside managers in order to ensure an alignment between agency functions, managerial responsibilities, and oversight arrangements. Moreover, it also requires that financial management arrangements be configured in order to ensure the accurate assignment of costs, both direct and indirect, as well as the creation of system to supply relevant and timely data on finances and outputs. The integration of financial management with budgeting is an enormous task, frequently requiring new cost coding as well as new accounting practices, such as accrual accounting.

27. Establishing a program structure to budgets is, therefore, improperly understood as a procedural step on the way to introducing performance measures. When it is properly done, establishing a program structure requires changes within agencies, as well as the creation of a completely new relationship between budgeting and financial management. The importance of the changes that can be introduced in the programming exercise have already been mentioned in the discussion of overall performance reform – the process of

¹⁵ Diamond, p 17.

organizational and institutional restructuring precedes the capacity to utilize data to improve performance.

28. Against this backdrop, the selection of performance indicators can appear to be a relatively minor component of reform. This is incorrect since it is clear that selecting inappropriate indicators or establishing unreasonable targets for performance can destroy the momentum of reform. Indeed, establishing useful indicators and utilizing data in the budgetary process is critical to achieving the objectives defined in the programming process.¹⁶
29. Struggles to define useful indicators have been reported almost universally among the countries in the vanguard of reform. This reflects the complexity of the task as well as the unfamiliarity of most public sector managers in thinking in monitoring terms. Undoubtedly, problems will be encountered by nations or agencies embarking on their own performance budgeting effort, especially in the tricky area of identifying realistic outcomes and ascribing causality in areas effected by multiple programs. At the macro-level, monitoring of performance is likely to be a frighteningly inexact undertaking.
30. Countries are fortunate in that they now have the ability to examine a growing glossary of indicators defined in the course of previous reforms as they develop measures that are suitable for them. Experience also suggests that the development of indicators is a continuous process, as measures evolve over time due to dialogues between managers and policy makers and the modification of programs.

Section Three: Results of Performance Reforms and Implications for the Design of Performance-enhancing reforms.

31. The author has repeatedly stated in the sections one and two that evidence on the impact of performance reforms in general, or specific strategies, is hard to come by and generally inconclusive. This result obtains from a variety of factors already discussed. For the most part, performance management remains, in Allen Schick's elegant turn of phrase an idea whose time has come but whose implementation has not.
32. The above statement should not be understood to mean that performance reforms have generated no improvement in performance since this clearly not the case. The implementation of performance-orienting reforms in countries like New Zealand, the U.K., and others is associated with improvements in overall public finance performance, as well as more efficient service delivery. The case studies that accompany this piece, along with other studies referenced in this paper, suggest some of the successes along with the challenges of demonstrating impact.
33. One of the problems in coming to empirical based conclusions on effective program design is a result of the restricted nature of existing analysis. As one commentator has recently noted, "Regrettably, the empirical literature on *government-wide* performance budgeting is disappointingly limited in scope and

¹⁶ As Diamond writes, "Experience suggests that the benefits of a budget program format will soon be lost unless departments (and most central agencies) continue the momentum and purpose of reform by moving to develop standards of service delivery and search for ways by which these standards can be continuously improved and services delivered more effectively." Diamond, p 19.

methodology, and does not provide for strong conclusions about the efficacy of these systems.”¹⁷ The absence of a robust empirical literature may be due in part to the complexities of reform but also may be related to somewhat mistaken preconceptions as to where performance management and performance budgeting would have greatest impact.¹⁸

34. Early efforts at performance management and performance budgeting were invigorated by an interest in centralized management of economies and social programs. The early attempts at government-wide performance programming, borrowed from the U.S. Defense Department, envisioned the ability to distribute budgetary resources across the government in order to maximize societal welfare. Since that time, the performance movement has evolved greatly but has retained a over-whelming interest in improving the allocative efficiency across sectors through centralized processes involving a limited number of organizations. In the U.S., this has meant that attention has focused on the creation and approval of federal budgets, with a specific concentration on those processes involving the O.M.B.
35. The initial and continuing focus on centralized allocative processes has perhaps decreased appreciation of the other processes that determine how public money is allocated and spent. For example, agencies provisionally allocate money through their budget submissions, and managers further reallocate money once budgets have been determined in the operation of their programs. Money also gets reallocated within the execution process through delays in payment or via payment to third parties.¹⁹
36. It may well be that performance budgeting and performance management is most likely to have impact at levels that have been obscured by our preconceptions. There is significant evidence to suggest that managers in a large variety of programs within the United States have made use of performance information to direct resources to greater effectiveness and inefficiency. This has included defining inter-agency allocation processes that are influenced by performance as well as mid-year reallocations based on interim program results.²⁰
37. Ultimately, improvements in public sector performance come about through some combination of better calibrated allocative processes distributing resources to better designed programs that are managed in an environment that demands performance. In this brief review, we have suggested some of the choices to be made in program design, and some of the factors associated with changing

¹⁷ Robinson, 2004, p. 42.

¹⁸ Robinson suggests that the paucity of data is due to a lack of interest on the part of economists and financial management analysts in the issue, as well as the preponderance on performance budgeting reform that has taken place in the United States.

¹⁹ See Joyce, 2003, for an excellent discussion of the variety of allocation processes within the federal budget process, as well as an examination of how performance information can be utilized across the entire budgeting process.

²⁰ See Joyce 2003. For an discussion of how outcome information is being used at the federal level in the U.S., see Harry Hatry, et al., How Federal Programs Use Outcome Information: Opportunities for Federal Managers, Managing for Performance and Results Series, IBM Center for the Business of Government, May 2003.

managerial cultures and improving decision-making. I conclude this brief piece with a quote from Allen Schick, “At the end of the day, improving performance is essentially a matter of getting organizations and the people who work in them to behave differently...To make a difference, an organization 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 lens of performance...Governments that don’t manage for results don’t budget for results, even if they install the outward trappings of performance budgeting...Rather than being the locomotive that drives government to change, performance budgeting is the caboose that confirms the transformations that have been made.”²¹

²¹ Schick, 2003, p. 8, 19, 22.