

MEASURING PERFORMANCE IN PUBLIC SECTOR PROGRAMS

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Summary

The quest for high performance in public sector programs is not new. For nearly a century, politicians, administrators and the public have been concerned about economy, efficiency and productivity in government organizations. Efforts to measure the outputs of public agencies and to evaluate their impacts or outcomes have long been goals for reformers seeking improvements in government performance.

In recent years, the impetus to measurement has taken on added urgency as confidence in government has declined, budget pressures have intensified, the emphasis on managerialism has increased, and the role of government intervention has been reassessed. Performance measurement and evaluation are now integral parts of an agenda for reform, whose primary elements include greater flexibility in carrying out government activities; loosening of traditional forms of accountability; devolution, decentralization and privatization; more attention to the demands, convenience and choices of the public; and reconsideration of what governments should actually provide both directly or indirectly.

Thus, performance measurement and evaluation of the activities of the public sector may be seen as critical to efforts to streamline governments; gain greater efficiency, productivity and effectiveness; enhance transparency and accountability; regain public trust in governmental institutions; and contribute to a reorientation of the role and functions of government. Following a brief discussion of the significance of

performance measurement in public sector programs, we begin with a review of the state of the art, continue with analysis of experience in implementation, the limitations of performance measurement, and institutional considerations. We conclude with recommendations for public organizations to publish regular reports on their performance, and requirements for successful implementation.

1. Introduction

For over fifty years, efforts have been made to measure the results of government activities. Most recently, performance measurement and evaluation have been key components of government reforms in many countries, in reaction to loss of confidence in governments and budget stringency. Emphasis is on measuring outcomes or results within a general framework of strategic planning and objective setting, and in a context of devolution, managerial decentralization, and privatization. While it seems reasonable that governments should justify their use of public funds by demonstrating the effectiveness of their programs and activities, performance measurement in practice is by no means straightforward and demands considerable thought in its design and implementation.

2. Significance

During the 1980s and 1990s, many western industrialized countries embarked on wide-reaching governmental reforms. The reasons for this were similar. Slowing economic growth provoked alarm that continued public sector expansion was inimical to investment and productivity in the private sector. Common assumptions regarding the responsibility of governments for individuals' welfare came under scrutiny. Governments found it more difficult to respond to unprecedented serious social and economic problems—immigration, aging, accelerating inequality, growing crime and disorder, impacts of technology, unemployment—in traditional ways.

In the face of resistance to higher taxation, lagging revenue yields, and entrenched, inflexible expenditures, budget deficits seemed intractable, and made it impossible to respond to demands on governments by increasing spending. Public dissatisfaction with government grew, varying from generalized grumbling about arrogant and wasteful public officials, to full scale attacks on the legitimacy of government functions.

For both pragmatic and ideological reasons reforms seemed necessary. They were designed with two main purposes. First, there was a general direction to cut waste in government, improve efficiency and productivity, increase managerial flexibility and responsiveness, enhance transparency and accountability, and put the consumer first, viewing citizens as customers of public goods and services. Second, these reforms in turn would contribute to a reassessment of what government organizations did, and whether they should continue those activities. The question was not merely whether government organizations were carrying out their existing functions well, but whether they should be engaged in them at all.

This new generation of administrative reform, therefore, went well beyond the purely technical realm. Reform posed a series of complex dilemmas, which could only be

resolved practically (and if the reforms were to amount to anything) on a case-by-case basis. Ideology, general theories and principles would not be enough, either to overcome inevitable political and bureaucratic resistance, or to provide realistic, plausible and well-grounded justifications for changes in rules, dismantling or shrinking of organizational structures, reevaluation of longstanding activities, and a long-term, steady and persistent transformation of the role and *modus vivendi* of government bureaucracies. Performance measurement, monitoring and evaluation were not merely ornamental or incidental to the reforms. They were (or should be) the essential levers of change, as well as the evidence reform was taking place, and the continued reassurance that governments were operating competently, efficiently and effectively in the public interest.

The linkage of the reforms with performance measurement and evaluation was not one of happenstance. As they developed, the reforms followed a predictable and fairly uniform direction. Within an overarching ideological commitment to deregulation and smaller government, they stressed devolution (moving functions and services to lower levels of government), privatization, managerial decentralization, transparency, and customer satisfaction. All of these depended, for credibility and maintenance of accountability, on measures of results and assessment of programs. Deregulation demanded evaluation of the effectiveness, costs and consequences of existing regulations, and monitoring of the effects of their elimination or replacement by alternative means of delivery.

Devolution, particularly where at least some central funding continued, required tracking of funds and monitoring of effects. Privatization, as contracting out of services, invoked the need for standard setting, compliance monitoring, and measurement of performance. Where user fees were imposed, it was necessary to examine the real cost of services and their market value. Decentralization of management, involving loosening the traditional budgeting and personnel controls in the interests of managerial flexibility and entrepreneurship, implied concomitant managerial responsibility for results which had to be measured. Where government reforms set up quasi-independent agencies run on essentially commercial principles, performance measures were essential to ensure that the agencies actually conformed to the quantitative objectives that had been set out for them. Transparency and customer satisfaction required objective published standards, by which the public could judge whether government agencies were performing satisfactorily and even doing a good job.

All these aspects of recent reforms take on greater salience as concepts of governance come to replace more traditional views about how governments should operate. A fundamental component of the notion of governance is the idea of partnership and cooperation among the public, private and non-profit sectors. In this partnership, government may no longer be the sole or even dominant provider of many public services. Its role is rather one of funder, lender, contractor, purchaser, or regulator for services provided by others. It is therefore highly dependent on information from a variety of sources regarding the meeting of standards, compliance with contract requirements, tracking of funds, effectiveness in achieving objectives, and quality and quantity of services. Although governmental organizations may operate with greater autonomy, governments ultimately still remain responsible for ensuring that public

goals are met effectively (irrespective of the means used to achieve them). For this purpose they need measures of performance and evaluation, for use in policy making, funding, staffing, accountability and control.

3. The State of the Art

Both performance and evaluation measures should be designed to answer the basic question "How are we doing?" Evaluation is a searching investigation of a program or agency, undertaken at periodic or episodic intervals. Performance measures are systematic quantitative or qualitative assessments over time of what an organization is doing, how well it is performing, and the effects of its activities. Some of the most commonly used performance measures include:

- *Inputs*, such as money, personnel, equipment, materials.
- *Workload or activity levels*, such as applications processed, inventory levels, inspections carried out, students in class.
- *Outputs*, such as the number of children vaccinated, miles of road built, tons of trash picked up, students graduated.
- *Outcomes of products or services*, such as illnesses prevented, percentage of taxes collected, clean air levels achieved, accident free workplaces attained, poverty alleviated.
- *Productivity*, such as cases conducted per case worker, applications processed per person, emergency calls handled per dispatcher.
- *Costs*, such as average costs to build one mile of highway, educate one child, maintain one public swimming pool or other public facility.
- *Customer satisfaction*, such as numbers of complaints received, results of surveys, use of participative processes.
- *Service quality and timeliness*, such as police response times, ability to access an agency, waiting time, compliance with transportation timetables, breakdown rates, service availability.

Where levels are specified for any measure, these constitute *performance standards*. Where reference is made to identifying and implementing best practices, in order to set out a standard for comparison of results and to enhance performance, this is known as *benchmarking*. When output is not directly measurable, proxies known as *indicators* may be used. *Performance incentives* may be used to assess individual performance, to determine appropriate remuneration and reward productivity. These measures are designed to assess the economy, efficiency and effectiveness with which a public organization delivers its services. *Economy* is concerned with the capacity of an organization to operate at the lowest possible cost, and may be assessed through input measures and comparisons through benchmarking.

Efficiency is the relationship between inputs and outputs, i.e. using minimum inputs to achieve a given output, or gaining maximum outputs for a given level of input. It may be measured through output, productivity and cost measures. *Effectiveness* delineates the success of programs and focuses on their results, as assessed through outcome measures. In addition, the quality of services may be assessed through process measures relating to customer satisfaction and perceptions. By the early 1990s, usage of

performance measurement in one form or another had become quite common in the public sector. Surveys reported that over two-thirds of United States cities used performance monitoring systems, and about half of federal government agencies stated they used such information as an aid to decision making. In several countries comprehensive management improvement systems, incorporating an emphasis on evaluation of results, were initiated. In Australia, Programme Management and Budgeting, and the Financial Management Improvement Programmes, used strategic planning to match goals with outputs and outcomes. In Canada, various reforms initiated performance agreements with greater managerial flexibility, to focus on improving the quality of government services and achieve performance goals. New Zealand's reforms emphasized business methods through the State Sector Act 1988 and the Public Finance Act 1989, concentrating on output measures. In the United Kingdom, ambitious decentralization through the Next Steps Program, at the end of the 1980s, emphasized performance achievements largely in terms of outputs.

These efforts have since been continued, and are reflected in the pamphlet *Modernising Government*, issued by the British government in March 1999. Perhaps the boldest attempt to measure the performance of public sector programs has been undertaken in the United States of America, where the Government Performance and Results Act (GPRA) 1993 mandated federal agencies to conduct strategic planning, to set goals and measure the results of their activities. Under the GPRA, agencies developed strategic plans that contained mission statements covering their major activities; identified strategic goals and objectives, including outcome-related goals and objectives for their activities; described the resources and processes required to meet their goals and objectives; identified the key external factors that significantly affected the achievement of the goals and objectives; and described how the performance goals included in annual performance plans were related to the agencies' strategic goals and objectives. In developing their strategic plans, agencies consulted with Congress and considered the views of other key stakeholders affected by, or interested in, agency functions and operations. The strategic plans covered at least five years and were to be updated as often as was appropriate, but at least every three years. Beginning in 1999, a government-wide performance plan and an annual performance plan for each agency are submitted with the proposed budget.

All this experience suggests that there is no single way of conducting evaluations or selecting performance measures. It has been suggested that multiple measures would be more useful in "capturing" an organization's or program's effectiveness, and that the development of reliable and valid measures should not depend on immediately available data, but rather on deliberate choice and discretion. One might construct a "chain" or "hierarchy" of measures, starting with inputs and ending with ultimate outputs (or results). While at the beginning of the chain inputs might be easy to obtain and track, they might bear little relationship to actual agency effectiveness. On the other hand, efforts to measure results might be difficult because of their long-range and diffuse nature, although they represent the real impact of agency activities. It depends on public management to select and balance the most useful and feasible measures.

Performance measures and evaluation, in other words, have a variety of uses. They may be employed in accounting for past activities, managing current operations, and

assessing progress toward planned objectives. The federal agency performance plans in the USA are intended to establish annual performance goals to be achieved by each program; to briefly describe the processes and resources required to meet the performance goals; to establish performance indicators to be used in measure the relevant outputs, service levels and outcomes of each program; to provide a basis for comparing actual results to the established goals; and to describe the means used to verify and validate measured values.

One of the oldest systematic uses of performance measures has been for purposes of accountability, specifically related to the budget process. Performance measures were to be incorporated in agency budget presentations, in an effort to replace traditional line-item budgeting with performance budgeting. Decisions on future resource allocation would be based on performance data, which would reveal the degree to which agencies had met their targets. In fact, this reform and similar later attempts (program and performance budgeting, zero base budgeting) encountered serious difficulties, since apart from the political nature of budgetary allocations, it was not at all clear how performance measures could be used to determine budgets. This experience seems to have contributed to a recent de-emphasis on the budgetary aspects of performance measurement, although a major purpose is to improve accountability for program results, including strengthening the audit process. However, the 1993 GPRA still sets a clearer linkage between resources and results.

More jurisdictions report that they find performance measures useful in managing current operations and improving productivity. They may promote cost consciousness, form a basis for the introduction of performance related pay systems, and set standards for acceptable work norms. They may also be used to improve the quality of public services, by identifying and meeting changing public needs; comparing performance over time, between organizations and against standards; and monitoring and controlling the results of policies and programs. They should help improve agency management by focusing on results, service quality, and customer satisfaction, and by planning to meet program objectives. They should help optimize efficiency, clarify decisions, and report publicly on program performance. They should improve legislative policy-making, spending decisions and program oversight.

A further use of performance measures is to assess work being performed under contract. Contracts should set out clear standards for performance, make provision for monitoring them, and specify terms of compliance. Where one level of government provides funding for another to carry out certain functions, again, performance standards need to be set out, monitored, and compliance enforced.

But in recent years, advocates of performance measures and evaluation have moved beyond regarding them as a modest addition to productivity improvement, to seeing them as an integral aspect of strategic planning, in which they might be used to work out goals and assess progress toward planned objectives. For example, under the GPRA, performance measures are closely tied to strategic planning in a three fold process. First, agencies are called upon to produce a strategic plan identifying their goals, including the outcomes of program activities. From this they derive annual performance plans which develop performance measures to indicate their progress toward the stated goals.

Finally, they collect and analyze data to report their results in annual performance reports. In this way it is hoped to make outcome measures an integral part of planning and policy making at all levels of government. There is now quite a substantial literature on how to construct performance measures and conduct evaluation of public organizations, as well as case studies and reports detailing experience. But it is clear that many difficulties are still being encountered in their development and use. Implementation of useful performance measures and evaluation information require more than technical expertise. It is necessary to build capacity and gain cooperation in the development and use of performance information, so that it actually influences decision making. However lofty and worthwhile the purposes of performance measures may be, if they cannot be implemented, for whatever reason, they will not be used. Past experience suggests caution.

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Biographical Sketches

Naomi Caiden is Chair and Professor in the Department of Political Science at California State University, Los Angeles. Professor Caiden's research and teaching interests are focused on public budgeting and public administration. Her path-breaking book (with Aaron Wildavsky), *Planning and Budgeting in Poor Countries* (Transaction, 1980), related context and process to explain why officials in poor countries employed strategies in budgeting that ran counter to accepted wisdom of consultants. For six years, she was the editor of *Public Budgeting and Finance*, the leading United States journal in public budgeting. She has written numerous articles on United States and comparative budgeting, and has worked as a consultant with the World Bank and United Nations on various aspects of public administration. Most recently, she has been involved in revising editions of Aaron Wildavsky's classic, *The New Politics of the Budgetary Process* (5th edition, New York: Longman, 2004).

Gerald Caiden, a native of London, England, graduated from the London School of Economics and Political Science, and has served on the faculties of the University of London (1957-1959), Carleton University (1959-1960), The Australian National University (1961-1966), The Hebrew University (1966-1968), University of California, Berkeley (1968-1971), Haifa University (1971-1975), and The University of Southern California (1975-). He has published over thirty books and monographs and over two hundred and sixty journal articles, and has acted as editorial consultant to several leading journals in the field of public administration and as a reader for notable publishing houses. He has acted as consultant, researcher and administrator of a wide variety of public organizations ranging from the World Bank and the United Nations Organization to local authorities and public utilities. He is known best for his research in administrative and public service reform, corruption and administrative ethics, and administrative culture and organizational diagnosis.