Performance measurement in the UK public sector: Poisoned chalice or Holy Grail?

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New approaches to measuring performance in the British public sector may yield some valuable lessons for Canada’s Special Operating Agencies.

There have been many changes in the public sectors of a number of western countries over the last 20 years. Collectively, these have been referred to as New Public Management (NPM), with the main theme being “the idea of a shift in emphasis from policy making to management skills, from a stress on process to a stress on output, from orderly hierarchies to an intendedly more competitive basis for providing public services, from fixed to variable pay and from a uniform and inclusive public service to a variant structure with more emphasis on contract provision.”¹ In Canada, the federal government has initiated reforms such as Increased Ministerial Authority and Accountability in 1985, Public Service 2000, Shared Management Agendas, and the creation of legislative agencies. In the UK, reforms with similar themes have been launched, such as the Financial Management Initiative of 1982 and the Citizen’s Charter of 1991.

Many of these reforms resonate with the ideas of rational management promulgated by such writers as Drucker,² Argenti,³ and Kaplan and Norton.⁴ Key themes connected to such an approach are that the strategy should come about by highly systematized forms of planning, and there is a need for specific and quantified goals, objectives, targets and performance measures. An important idea behind many of these reforms is that performance in the public sector should be improved and such improvement must be measured in terms other than how much money is spent. The reforms are aimed at better management: how

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resources are allocated; how performance is measured; and how accountability is discharged. Improvement is expected because managers have clear objectives and the necessary freedom of action to meet these objectives.

Whether such an approach can deliver on its promises is by no means universally accepted. While certain writers zealously support applying the rational management model to the public sector (the “Holy Grail” writers), others are more critical. In possibly the most extreme form, these criticisms concern an insensitivity to context and often relate to what is seen as the pervasive and all-consuming influence of accounting and rationalistic planning in inappropriate settings (the “poisoned chalice” proponents). The objective of this paper is to present the case for a system of performance measurement based on the rational management approach in the public sector and then to examine the difficulties and criticisms of such an approach. Furthermore, the paper presents recent evidence of the use of performance measures in UK Executive Agencies, which have a similar organizational form to Canadian Special Operating Agencies (SOAs). From this, it is hoped that the sometimes polarized views on performance measurement can be seen as extreme positions and a more balanced assessment of the contribution of performance measurement can be taken.

Why measure performance in the public sector?

It is common to view the performance of a public sector organization in terms of a simple production model consisting of three stages: inputs, outputs and results. Inputs are the resources used to provide a product or service (e.g., personnel, money, equipment). Outputs represent the activities carried on by the organization, or the immediate products or services generated by the organization (e.g., number of visits made, number of passports issued). Results represent the impact of the product or service on society (e.g., a healthier population, safer roads). In this scheme, the two key criteria for judging performance are efficiency and effectiveness. Effectiveness is concerned with the relationship between the outputs or results of an organization and its objectives, while efficiency is the ratio of outputs to inputs, or the amount of input per unit of output. Two key reasons for measuring performance are:

- it provides essential information to improve management within the public sector, and
- it can form the basis for discharging accountability.

Performance information: planning and control

A major reason advanced for measuring performance in the public sector is to improve management. The authors Anthony and Young distinguish between the following three levels of planning and control (or decision making) within an organization:

- **Strategic planning**, which is concerned with the long term and is broad in focus.
- **Management control**, which focuses on the shorter term and is narrower in scope but more detailed than strategic planning.
- **Task control**, which is concerned with day-to-day tasks and is the most detailed of all.5

A conventional planning and control model advocates the following approach: objectives, plan, targets, monitor, and control. Such an approach is summarized in Figure 1. As illustrated, performance targets (i.e., quantified, time-bound objectives) and measures of performance related to these targets are integral parts of this process. While there may well be a political influence on the process, this model is widely accepted and used when considering management in the public sector.

Performance information: accountability

Performance measures can also form the basis for the discharge of accountability by a public sector organization. This gives a visibility to the activities and achievements of the organization, thus enabling informed discussion. Public sector organizations are accountable to government and to the public for the resources entrusted to them. These resources are provided with expectations as to
actions to be undertaken or results to be achieved. Accountability can be viewed as the requirement to explain or justify what has been done, what is being done and what has been planned (performance accountability). While there may be other bases of accountability (e.g., for probity in the handling of public funds), the importance of performance accountability has increased significantly in recent years.

The Governmental Accounting Standards Board highlights three groups that have a particular need for information from public sector organizations: the citizenry, legislative and oversight bodies, and investors and creditors. The information needs of each of these groups may be different. For example, the citizenry may be most interested in the results, or effectiveness, of an organization, while the concern of oversight and legislative bodies may be jointly focused on wider performance information, including efficiency and probity. Investors and creditors may be primarily interested in financial information relating to solvency.

Many of the recent NPM reforms have emphasized the need for the use of performance information in discharging accountability (see, for example, the arguments for the publication of “league tables” for schools, hospitals and universities by the UK government). It could be suggested that while obfuscation of performance may suit some managers, the external pressure provided by the disclosure of performance information encourages a focus on performance and provides a catalyst for managers as they seek to achieve performance improvement. Some writers have viewed the disclosure of performance information as an essential aspect of the principal-agent relationship, while others have claimed that without the disclosure of performance information “... the concept of accountability and indeed the whole democratic process is simply a sham.”

FIGURE 1
Conventional planning and control model

- Needs and resources assessed
- Vision and strategic objectives defined
- Service proposals and resource allocations translated into specific plans, targets and budgets
- Outputs, achievements and resource use monitored

Feedback to next period
The difficulties of measuring performance in the public sector

The use of a planning and reporting system utilizing specific and quantified goals, objectives, targets and performance measures is not without problems. A detailed discussion of the difficulties of measuring performance in the public sector is beyond the scope of this paper; however, the following examples provide some balance when considering performance measurement in the public sector.

Ignorance of context

If systems are rigidly implemented and operated, major dysfunctional effects may occur. This may be the case where a “one size fits all” view is taken. P. Smith has suggested a number of possible adverse consequences, including tunnel vision, suboptimization, myopia, ossification and misrepresentation.9 G. Hofstede argues that consideration must be given to the organizational context in which a system operates and highlights the danger that “the more formalised a control system, the greater the risk of obtaining pseudo-control rather than control.”10 He goes on to suggest that where outputs are ambiguous and are not easily measured, and where the effects of management intervention are not well-known, the adoption of mechanistic, rationalistic, techniques-driven management systems are likely to have unintended consequences.

Poor coordination

Some writers have questioned the use of a rational management approach in the public sector because of the way in which changes have been implemented. In certain cases there has been evidence presented of a lack of coordination between the mission, objectives, targets and performance measures.11 This can lead to inappropriate behaviour on the part of managers or misjudgments by outside parties. The problem of lack of coordination is illustrated by the following quotation from The Economist when commenting on the HM Prison Service (a UK Executive Agency):

The toll of disasters that can be laid at the feet of management theory is rising. . . . a British government report into an escape from Parkhurst prison published last year complained that “any organisation which boasts one Statement of Purpose, one Vision, five Values, six Goals, seven Strategic Priorities and eight Key Performance Indicators, without any clear correlation between them, is producing a recipe for confusion.”12

Pure ritual

At the extreme, there is the danger that defining mission and objectives, and setting targets and reporting performance against them, will degenerate into a formal ceremony that has little impact on the behaviour of managers and does nothing to improve the efficiency, effectiveness and accountability of an organization. G. Thompson warned that unless care was taken in developing useful systems, there was a possibility of the whole exercise lapsing into a senseless ritual, which, sooner or later, would be abandoned as cost-ineffective.13 This view is expressed even more strongly by the authors Sharifi and Bovaird:

... it might . . . be argued that in the public sector the potent symbol of performance orientation has helped to establish the myth that public sector organisations have a sense of direction and an explicable rationale for their actions. This myth is reinforced by the rituals of performance measurement and reporting.14

Recent evidence from UK agencies

In the UK, the Executive Agencies have focused on the issue of performance measurement. Following a 1988 report by the Efficiency Unit to the Prime Minister, these agencies were created under the Next Steps Initiative (NSI) with the stated aim of providing government services more efficiently and effectively within available resources for the benefit of taxpayers, customers and personnel. The first agency was established in August 1988. By September 1998, 138 agencies existed, with 76 percent (378,000) of all civil servants working in such organizations. These agencies include the HM Prison Service (39,365 employees), Employment Service (28,610 employees), UK Passport Agency (1,275 employees), Historic Scotland
(625 employees), and the National Weights and Measures Laboratory (50 employees).

The agencies work within structures developed by government. The objective is that operational responsibilities be clearly delegated, with the chief executive of each agency being personally responsible to the minister for the management and performance of the agency. A published framework document is developed for each agency which typically covers such matters as:

- the aims and objectives,
- the reporting and accountability, and
- the financial and accounting arrangements.

Each agency is required to produce a corporate plan, typically covering a three- to five-year period, with annual business plans being developed from this base. Performance targets, financial projections, assessment of prospects and other information are included in the plans. These are normally made available to the public, unless the agency operates in a competitive environment or there are other operational reasons for maintaining confidentiality. All agencies are required to produce an annual report and accounts for each year of operation, which provides information on issues such as the agency’s financial performance and its achievements against key targets. Such a report is available to all stakeholders, including the public.

Three recent pieces of research with respect to the UK agencies provide some insight into:

- the use, and trends in use, of performance information in the annual reports;¹⁵
- the nature and breadth of performance targets used in the main planning documents;¹⁶
- the extent to which mission, objectives and targets are coordinated, or linked, in a rational manner;¹⁷ and
- whether the underlying belief behind the creation of the agencies (i.e., giving managers significant freedom to manage their agency) would lead to the provision of more effective and efficient services and whether the NSI program had delivered on this aim.¹⁸

The various researchers used a number of approaches to gather data, including: the analysis of 245 annual reports (covering four accounting periods); the analysis and mapping of over 80 planning documents; a questionnaire survey of 75 managers; and interviews with 21 managers. While it is impossible to present all the detailed conclusions from these research projects, the identification of some of the main thrusts provides useful evidence as to the impact on the agencies of focusing on performance targets and performance measures.

Managers perceive they are providing better value for money

As a result of the agency program and the focus on performance, managers believe that they are providing a more effective service and giving increased value for money. The reaction by senior managers to systems requiring targets and performance measures has been positive, with Karbhari and Pendlebury stating that, despite limitations:

... performance indicators had been invaluable in focusing attention on the important objectives of the agency, sharpening up attitudes towards the effectiveness of operations and service quality issues and improving accountability and responsibility.¹⁹

The use of performance information in annual reports has increased and improved over time

Although weaknesses were identified, evidence was provided of the increased use of performance information in annual reports over time. The number of performance disclosures per annual report increased in total by approximately 40 percent over the four accounting periods considered. Furthermore, the later reports placed greater emphasis on the higher measures of performance (i.e., efficiency and effectiveness) than on the component parts of performance (i.e., inputs, outputs and results). Moreover, the later annual reports stressed quality as a basis for evaluating effectiveness. These changes were viewed as improvements and possibly indicate an evolution of performance reporting. It was suggested that this perhaps provides hope for continuing improvement.
The most frequently set targets are non-financial

While it is clear that financial targets are important (such as unit cost indicators), the most frequently used targets were non-financial. Often these related to volume of output achieved or quality of service provision. A number of agencies distinguished between key targets and other targets. The use of quality-based targets came to the fore with respect to key targets. Evidence was also provided concerning the way in which performance indicators and targets were set and used. The impression presented was one of participative target setting (with targets most frequently being set jointly by the agency and parent department) and a degree of flexibility in monitoring performance against targets. The vast majority of agencies monitored performance against targets on a monthly basis.

The range of targets developed by agencies and included in the key planning documents was not comprehensive

It was suggested that without targets in important areas such as quality of service, efficiency, volume of service and financial performance, management’s ability to plan and control an agency may be impaired. Within each of these important target categories, a significant number of agencies failed to publish a single target. Furthermore, it was argued that such a restricted range of performance targets in the planning documents may create external reporting difficulties. A lack of targets in the planning documents reduces the ability of an agency to report (ex post) on its performance.

A degree of linkage between mission, objectives and targets was identified

The vast majority of objectives (although not all) developed by the agencies could be related to their targets, and the majority of targets could be related back to the objectives. This indicated a degree of rationality, but much weaker than would be expected if a rigid rational management view were dominant (where all targets and objectives would be tightly and clearly linked). It was therefore suggested that a tight rational model, as articulated in the UK government literature supporting the NSI program, is not present in many agencies.

A flexible approach is used

The research suggested a much more fluid approach to management than would be expected from a rigid rational management model. Both the analysis of plans and the results from the questionnaires and interviews indicated gaps in the degree of quantification (with judgment being necessary to interpret results) and a fair degree of flexibility in developing and using the targets. A suggested explanation of this is that the application of a rigid, top-down, tightly coupled set of targets and performance measures for agencies to pursue (as would be the case if a rigid rational philosophy were operational) is not found in practice. What may be the case is that, although formally articulated in terms of a comprehensive rational model of management, in reality there is recognition of the need to understand the context in designing and using systems. This difference between the articulated model and the model found in practice may be due to the dominant emphasis on traditional administration found in the UK public sector prior to 1979. To counteract this legacy, and to bring about a change to a more rational approach, it may have been thought necessary to articulate stridently the rational management model, regardless of whether or not such a model was considered totally appropriate in all settings.

Conclusion

The evidence from the UK presented in this paper illustrates a degree of progress where performance measurement has been stressed. Evolving systems of external reporting that focus on key aspects of performance are identified. These are viewed as contributing to an appropriate discharge of accountability by public sector organizations. The widespread use of targets is seen in the planning systems of agencies and a reasonable degree of
coordination is evident. Although weaknesses remain, managers in these organizations are convinced that these systems have been invaluable in focusing attention on the important issues and providing a foundation for improving the provision of service.

Limited evidence gathered by the authors suggests a much less comprehensive adoption of these systems by Canadian SOAs. After contacting all 21 SOAs and interviewing several of the CEOs, it appears that the notion of performance measurement has not been embraced by all organizations, with one or two notable exceptions. A lack of development of performance targets and an unwillingness to expose performance to external scrutiny was apparent in many cases.

What is needed is that public sector managers avoid the temptation of taking a polarized view of performance measurement (either a Holy Grail or poisoned chalice position) and seek to develop appropriate systems for their particular organizations. It is certain that, first, there will be no “one size that fits all” and, second, the production of performance measures will not replace the need for management skills (including substantial judgment in using such measures). The danger in Canada is that the poisoned chalice writers, with their emphasis on the potential for adverse consequences, will dominate. Indeed, many UK government publications articulate such a rigid management model that they encourage such critics. With respect to the agency sector in the UK, this rigidity is not found in practice. Judgment is used in interpreting quantitative feedback. An understanding of context when developing individual agency systems is suggested. Polarized positions have been abandoned and progress has been made in the UK. Canada can learn from this experience.

Endnotes


13. G.D. Thompson, op. cit.


19. Ibid., p. 51.