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Summary

This evidence review has been prepared for the Commission on Public Service Governance and Delivery. It draws together research from around the world to address four questions that are directly relevant to the Commission's work: what is performance management; does performance management lead to improvement in public services; what kinds of performance management are most effective; and in what circumstances do performance management systems work best?

The evidence points to four main conclusions:

1. Performance management can improve the effectiveness of public services. They also have a positive impact on outcomes for service users.
2. There is less hard evidence that performance management produces efficiency savings, so alternative means for promoting cost-cutting innovations may be required.
3. Performance measures imposed at the field level seem to be the most effective, so long as there are sufficient comparator organizations to allow competition and comparative learning between organizations.
4. Performance management seems particularly well-suited to delivering improvement in performance indicators which have a high degree of public acceptance, such as exam results and hospital waiting times. But its effectiveness is influenced by other factors including organizational culture and leadership.

These findings have four important implications for policy makers in Wales:

- Policy makers need to ensure that performance management systems enable Welsh councils' performance to be compared over time, between authorities, and with similar organizations elsewhere.
- Wales should make more use of approaches such as benchmark competition.
- Policy makers need to consider alternative means for promoting cost-cutting innovations. This does not imply that large-scale restructuring is the answer. Rather, it suggests that techniques focused specifically on capturing efficiencies, such as business process re-engineering, may be needed.
- Performance management does not operate in a vacuum. It is important that policy makers encourage stakeholder involvement, system maturity, leadership support,

management capacity, employee involvement, innovative cultures and goal clarity because these increase the effectiveness of performance management.

Introduction

The use of performance management and measurement techniques has been one of the enduring legacies of the public sector reforms of the past twenty years. Governments across the world have implemented an array of instruments intended to encourage public managers, and citizens, to drive public service performance upwards. From the use of target-setting, league tables and performance information across entire policy fields to the promotion of performance planning and management techniques, within public organizations, governments have increasingly placed their faith in the power of performance management.

In spite of its prevalence, many commentators argue that performance measurement in the public sector distorts the priorities of service delivery organizations and inhibits genuine innovation, often to the detriment of service users. Contrasted with this negative account, however, the small but growing number of empirical studies of the impact of performance management largely points towards its benefits for public service performance, especially at the policy field level. This literature also suggests that citizens can use performance information to hold politicians to account, particularly when public organizations are perceived to be performing poorly.

This note begins by describing the nature of performance management within the public sector and why it might matter for public service outcomes. Next, the findings from an international review of the quantitative empirical research on the impact of performance management on public service effectiveness and efficiency are outlined. Finally, the note concludes by highlighting lessons from the literature about how to develop an effective 'performance regime' which are relevant to local government in Wales.

What is performance management?

Performance management can be described as the policies, strategies and techniques intended to direct managers' and employees' attention towards the improvement of an organization's performance. Within the public sector, performance management may also be useful to politicians and a focus on "managing for results" has become an important



complement to the traditional emphasis on managing inputs (budgets and staff) and managing processes (rules and structures). As such, it has a clear affinity with the strategies for improving the performance of business organizations, some of which have previously been imported into the public sector (albeit with mixed success), such as Management By Objectives and corporate planning.

Key Components of Performance Management Systems

According to Boyne (2010), performance management in the public sector is generally composed of three interlinked elements:

- i) Performance measurement
- ii) Target-setting; and
- iii) Rewards and/or sanctions.

Similarly, Hood et al. (2001) identify three key components of all regulatory regimes:

- Information gathering (Hood et al. describe this as ‘detectors’)
- Setting standards (‘directors’), and
- Behaviour modification (‘effectors’).

Importantly, they point out that these three different activities may be undertaken by different actors. For example, organizations may develop their own indicators and set their own standards or these may be imposed on them from outside? Or there may be a combination of internally and externally determined performance measures and benchmarks. Rewards and sanctions are, though, usually imposed from outside – for example by membership organizations, regulators or government departments.

These three elements identified by Boyne and by Hood et al. reflect the main stages involved in developing effective performance management systems.

- First, policy-makers and/or managers need to select a relevant set of performance indicators which can be used in two ways to analyse an organization’s achievements - through time and/or in comparison with other relevant organizations.
- Next, they must define expected standards of attainment on those indicators in relation to benchmarks, such as minimum standards or initial baseline performance.

- Then they apply appropriate tools of managerial control to incentivise managers and employees to meet the expected standards.

Performance Management at Field and Organizational Levels

Performance management systems are typically implemented at two levels: across sets of public organizations within the same policy field (such as all unitary authorities in Wales) and at the micro level within public organizations (for example within a single council).

Field-level initiatives tend to be focused on the development of performance “contracts” based on the specification of targets, and often incorporate schemes whereby the performance of organizations is made public, such as league tables or star ratings. Organizational-level performance management is usually focused on attempts to improve the use of performance information by public organizations themselves, whether by instituting formal performance planning or encouraging the development of voluntary benchmarking practices through which shared learning can occur.

Taken in combination, field and organizational level performance management initiatives constitute the pervasive “performance regime” within which public managers and employees work (Talbot, 2010). In some policy fields, the connections between field and organizational-level performance management systems can be extremely tight, with a high degree of central control over both (e.g. English local government under New Labour). In other cases, those connections are much looser, permitting more local freedom to manage performance in line with organizational and professional priorities (for example the Welsh Government’s approach to monitoring and managing the performance of local authorities (Martin et al. 2013). However the constellation of initiatives are aligned though, the expectation remains the same: performance management leads to service improvement.

At the policy field level, the introduction of targets and performance contracts is thought to incentivise organizations to do better, primarily because such goal-setting reduces the ambiguity around what public managers should strive to achieve (Chun and Rainey, 2005). At the same time, league tables often supplement target-setting as a means for driving performance gains through “benchmark competition”. By publishing and disseminating information on the performance achievements of all the organizations within a policy field, competitive learning amongst organizations is stimulated, in part via the desire to avoid being “named and shamed” as a poor performer (Bevan and Hood, 2006).

At the organizational level, effective performance information systems can enable managers to formulate, implement and monitor organizational goals. Thompson (2002), for example,

suggests that for public services, measurement and control systems are especially important because they enable managers (and politicians) to continually review and analyse the resources spent and results achieved. Coupled with formal internal performance management systems, an emphasis on sharing performance information externally through benchmarking clubs or being committed to external peer review procedures is also thought to promote the kinds of collaborative learning that can improve organizational functioning.

Downsides of Performance Management

Set against these positive accounts of the use of performance management is a long-established critique of target-setting and planning. According to some, performance management restricts employees' innate sense of mission and may cause attention to be excessively focused upon the target that is being measured (Mintzberg, 1994), to the detriment of other important areas of organizational functioning (Bevan and Hood, 2006). For these critics, vague organizational goals have a greater prospect of success because they can be interpreted and pursued in a multitude of different but equally valid ways – an argument that builds on Lindblom's classic (1959) arguments about the merits of “muddling through” in public sector organizations.

Does Performance Management work?

Despite the massive amount of attention devoted to performance management in the public administration literature (see Van Dooren, Bouckaert and Halligan 2010), surprisingly few quantitative studies have systematically analysed the impact of performance management on performance itself (Boyne 2010). Of those that do, most have focused on some aspect of organizational effectiveness, rather than efficiency, and generally this research has drawn upon a cross-sectional research design, rather than using longitudinal methods through which causal effects attributable to performance management can be more accurately identified.

Impact on Organizational Effectiveness

At the policy field level, several studies have evaluated the impact of target-setting and performance contracts on public service outcomes. The introduction of targets in the Flemish



Employment Service is found by Verhoest (2005) to have prompted improved performance. Boyne and Chen's (2007) study of LPSAs and the school examination results of Local Education Authorities in England furnishes further support for the argument that the presence of targets is associated with service improvement. Likewise, Kelman and Friedman (2009) attribute shorter waiting times experienced by English NHS patients to the introduction of targets, whilst Andrews et al (2013) find that local governments with contracts for improving social outcomes have more cohesive communities than those that do not. Similarly, Binderkrantz et al. (2011) find that the use of performance contracts by Danish government agencies enhanced goal attainment.

However, a small number of empirical studies point towards some of the potential dysfunctions of target-setting and performance contracts on organizational effectiveness. Boyne and Gould-Williams (2003) study of Welsh local government indicates that performance may be negatively related to the sheer number of targets set. And, several researchers find that the incentives that accompany performance contracts can lead to inequitable social outcomes as organizations and professionals are drawn into 'cream-skimming' (Koning and Heinrich, 2013) or over-production of non-core outputs (Soss et al., 2011).

Unfortunately, very little research has been carried out that seeks to understand how the dysfunctions of performance management can be overcome. Hood (2006) suggests that some of these consequences can be partially averted where policy-makers develop an "anti-gaming" strategy. At a minimum this should incorporate rigorous checks of performance data returns, tightening up of indicator definitions, audit investigations, triangulation with external sources of data (e.g. satisfaction surveys), restrictive information systems and the institution of permanent threshold standards once targets are routinely met. More positively, "blaming" and "bullying" tactics in the event of failure should be discouraged and managers encouraged (and trained) to view performance management as an important and rewarding activity.

In addition to the research on target-based performance management schemes, a growing number of studies furnish evidence of the effects of benchmark competition on public service outcomes. Much of this research has focused on the impact of competition within the NHS, finding in general that it has resulted in improved hospital performance (see Propper 2012, for a review). Other studies in the UK have investigated the impact of league tables and performance rating systems by comparing the performance of local public services in Wales with those in England (e.g. Burgess, Wilson and Worth, 2011; Lockwood and Porcelli, 2013). This work suggests that the application of a tougher performance management regimes in

the English education and local government systems have resulted, on average, in better outcomes than in Wales.

Whether the removal of competitive pressure in the English local government system and its renewed application in the Welsh education system will result in a 'regression towards the mean' across both countries remains to be seen. However, there is now a strong evidence base suggesting that during the 2000s, competitive learning through the publication of performance information proved successful in driving performance upwards.

In terms of micro-level performance management initiatives, there is research that identifies positive gains for organizational effectiveness. Several studies indicate that strong performance management systems are associated with higher levels of effectiveness in English local authorities (e.g. Andrews et al., 2006; Andrews and Van de Walle, 2013; Walker and Boyne, 2006), with Walker et al (2011) also finding that such systems can play a vital role in translating the benefits of innovation. However, to date, few studies have analysed the relationship between performance management systems and organizational effectiveness in other settings. Hvid and Andersen's (2013) longitudinal analysis finds that the implementation of performance management practices within the Danish education system only improves student performance in privately owned schools. More and better research on this topic is required to underpin firmer conclusion about the merits of performance management within public organizations.

Impact on Efficiency

A growing number of studies have addressed the relationship between performance management systems and the efficiency of public services. Like the research on organizational effectiveness, most of this work has been carried out at the level of the policy field, and is cross-sectional in design.

Andrews' (2010) review of eleven studies of the relationship between competition (market or benchmarked) and productive efficiency in public services suggests that cost-savings are likely to be realised through the application of this form of market pressure to the public sector. However, each of the studies included within this review drew upon a cross-sectional research design. Longitudinal research published since Andrews' review indicates that efficiency gains may not be so easily realised through benchmark competition. Gaynor, Moreno-Serra and Propper's (2010) difference-in-difference analysis of the effects of competition in the English NHS, and Lockwood and Porcelli's (2013) analysis of its effects in

English versus Welsh local government suggest that the introduction of competition improved output performance but did not generate cost-savings. The efficiency case for competition therefore remains unproven, though it would appear likely that gains in effectiveness with no loss in efficiency are achievable, indicating that 'value for money' improves.

At the micro-level of organizations, Macinati (2008) uncovers no efficiency gains resulting from the use of new management information systems by Italian health care providers, while Schubert (2009) finds that performance evaluation systems are largely unrelated to the efficiency of German university research units. Likewise, Walker and Boyne (2006) fail to identify a link between performance management and managers' perceptions of efficiency in English local governments. Andrews and Van de Walle (2013), by contrast, uncover such a connection with citizens' perceptions of local government efficiency. Although these studies do not point towards uniform efficiency gains from performance management, neither do they identify the efficiency losses some critics argue are associated with the sheer costs of implementing and maintaining performance management systems (see Boyne, 2010). This again points towards positive gains in value for money.

The Importance of Context

Performance management does not operate in a vacuum. There is very little research which has looked at how performance management improves performance (Sanger, 2013). But a recent review of the international literature suggests that stakeholder involvement, system maturity, leadership support, management capacity, employee involvement, an innovative culture and goal clarity all increase the use of performance data (Kroll, forthcoming).

This shows the importance of getting the conditions right for effective performance management. For example, research suggests that for benchmarking to be effective there needs to be a sufficient number of comparator organizations to prompt the kind of competitive learning that can drive sector-wide improvement (Ward and John, 2013). Likewise, the literature on residential mobility suggests that a local 'market' for public services is essential for exerting the kind of citizen-customer pressures that can make providers more responsive (Dowding, John and Biggs, 1994).

There is also evidence that making performance management work within organizations depends on having managers who are able to adapt to regulatory intervention to make them consistent with their professional values (Doring et al., 2013). This gives grounds for

optimism that well-designed performance management systems can be implemented successfully but highlights the need for policy-makers at the national, local and organizational levels to consider how to strengthen the levers that prompt the use of performance information by public managers.

Finally, despite the growing number of studies that confirm the efficacy of performance management reforms, there is no evidence that there is an electoral pay-off for the politicians responsible for their implementation, even when they are successful (Hood and Dixon, 2010). By contrast, poor performance can result in an electoral penalty (James and John, 2007). The implication is that risks associated with public service failure are borne largely by politicians whilst performance gains are captured only by the service users. Policy makers need, therefore, to be aware of the politics of performance as well as the technical side of performance management systems.

Conclusions

The research evidence on performance management in the public sector highlights four findings that are particularly relevant to the work of the Commission on Public Service Governance and Delivery:

1. Performance management techniques such as the use of targets and benchmark competition improve the effectiveness of public services and have a positive impact on outcomes.
2. Performance management at the field level is particularly effective, so long as there are sufficient comparator organizations to allow performance competition and comparative learning between organizations.
3. Performance management is particularly well-suited to delivering improvement in performance indicators which have a high degree of public acceptance, such as exam results and hospital waiting times.
4. There is less hard evidence that performance management produces efficiency savings, so alternative means for promoting cost-cutting innovations may be required.

These findings have important implications for policy makers in Wales:

- Policy makers at national and local level need to ensure that there are performance management systems that enable the performance of Welsh councils to be compared over time, between authorities, and with similar organizations elsewhere.
- Public services in Wales should make more use of approaches involving benchmark competition and international comparisons.
- Policy makers need to consider alternative means for promoting cost-cutting innovations. This does not imply that large-scale restructuring is the answer to improved efficiency. Rather, it suggests that techniques focused specifically on capturing efficiencies, such as business process re-engineering, might be needed.
- Performance management does not operate in a vacuum. It is important that policy makers at national and local levels encourage leadership capacity and organizational culture which lead to openness to, and effective use of, performance management.

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