

Response to the JCPAA Inquiry into development of Commonwealth Performance Framework

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Australia and International Models

While considerable resources have been devoted to the development of public sector performance frameworks nationally and internationally, the existing approaches have failed to deliver the promised outcomes. Authors such as Hood (2011), who was seen an advocate of the existing approaches to public sector performance measurement, have criticised current practice as reflecting an excessive emphasis on feedback and formal evaluation rather than driving performance and describe them as being dominated by blame shifting. In addition existing approaches to the Commonwealth Performance Framework are inadequately integrated with issues of risk and uncertainty and have become too compliance or audit focused (Power, 2007). These issues need to be redressed if the Commonwealth Performance Framework is to drive rather than simply report performance.

Enhancing the effectiveness of key performance information

Practices of performance measurement and notions such as efficiency, effectiveness, inputs, outputs and outcomes all reflect a systems or cybernetic model. Within this perspective it is recognised that two things are required in order to enhance the effectiveness of key performance information.

- (1) Clarity and agreement over the goals and objectives is required in order to have performance measurement to assess the impact of government programs (feedback).
- (2) Clarity over the cause-effect process is required in order to have performance measures that foreshadow the impact of programs (feedforward)

Hood's (2011) criticism is of the excessive focus on feedback performance measurement. For a battle ship facing an enemy a feedback indicator would be the burned out wreck of the battle ship sinking below the waterline while a feedforward indicator would be a radar alert that the enemy were on their way to attack. While feedback (the burning ship) is more objective, reliable and quantifiable it has little value if the ultimate objective is public value, learning and performance. Less objective, reliable and quantifiable feedforward measures are more useful if performance rather than blame is the objective.

From this perspective the proposed emphasis on comparable, auditable, cross entity comparison annual reports, budget statements and corporate plans represents an excessive emphasis on feedback performance measurement and compliance logic. What is required is a shift towards feedforward measurement, between compliance focused financial accounting and operational focused management accounting and from reporting for the poorly defined (and not empirically supported) needs external stakeholders and towards the needs of internal stakeholders.

The standard solution to public sector performance challenges is to adopt private sector performance and governance models. However, despite this being widely advocated by many consultants it is flawed because of the nature of performance measurement. For a private sector entity profit provides a proxy for efficiency and effectiveness measures. Given the objective of a corporation is to make a profit – an effective corporation is a profitable one. In addition profit provides a proxy for efficiency as revenue is an output while expenses are an input. The profitable firm is the efficient one. However, for a public sector entities financial performance is not a proxy for organisational performance and both efficiency and effectiveness are much harder to define and measure. Therefore simplistic measurements (however objective) are unhelpful.

By contrast public sector objectives are rarely clear and need to be negotiated, discussed, debated, consulted and contested in an attempt to build consensus and legitimacy. It could be argued that this process is a central and critical element of all of our political systems. However, progressive and widespread challenges to the legitimacy of our political systems would suggest that this no longer works particularly effectively (Bentley, 2005).

Even if this notion of contested objectives is questioned, entities within the Commonwealth often face a number of competing and sometimes conflicting objectives. If one argued that the objectives of the Australian Defence Force could be reduced to (1) defending Australia (2) attacking the enemies of Australia and (3) responding to major disasters within Australia; how are these different objectives to be balanced and do all stakeholders agree on how that balance is to be struck? Without clarity of mission and adequate stakeholder involvement in mission design then any performance framework, however, excellently designed and managed, is fundamentally pointless.

Recommendation

- *A performance framework is a control system which is part of a broader risk management framework and a performance measurement is a means to an end (risk management) rather than an end in itself. Therefore all performance measurements should lead to a change in behaviour (not primarily the attribution of blame) and the issue of both risk and impact needs to be fully considered.*
- *The nature and degree of uncertainty associated with each area needs to be clearly recognised, particularly the distinction between mission (goal) uncertainty and process (cause-effect) uncertainty. The degrees of uncertainty and strategies to address them need to be documented within a risk management system.*
- *Existing approaches to performance measurement overemphasise quantifiable feedback to external stakeholders and has got captured within a blame culture. This should be reorientated towards a greater emphasis on more timely and internally focused feedforward measurement based on the analysis of probable risk and impact.*

The central challenge to feedforward is the degree of clarity over the cause and effect model. Governance, audit and risk management mechanisms are orientated at developing this clarity through identifying, resolving and learning from process uncertainty. Each of these approaches involve making informed and reflective judgements on the expected performance and then conducting an analysis of the variances between actual and expected performance, recognising that the variance could represent both measurement issues and performance issues. Therefore, over time a better understanding is developed of the critical business practices and the link between activity and success.

Recommendations

- *Each project needs a clear articulation of the expected risks (and their potential impact). Issues of performance measurement (particularly feedback) need to reflect the early indicators of these expected risks. However, these measures indicate issues to investigate and learn from rather than just report failures.*
- *As such all performance deviations need to be promptly investigated. But there also needs to be ongoing work to enhance and develop the risk model underpinning the operational practices (enhance the cause-effect understanding)*

Enhancing the effectiveness of documentation and framework

You do not fatten a pig by weighing it. The fundamental problem is that the Commonwealth Performance management framework has become dominated by compliance and a financial

reporting mentality where reporting high level quantitative measures to external stakeholders is more important than reducing risk and improving performance within the public entities. From a risk management perspective the performance framework represents a response to perceived and identified risks without adequate consideration of the nature and scale of the potential impact. Things that do not matter are over controlled and the things that really do matter receive inadequate attention.

A major issue in performance frameworks are that what is measured is what is easy to measure. At worst this has led to a focus on inputs but it has also led to a tendency to overemphasise the measurement of outputs and outcomes.

From a systems perspective the distinction between output and outcome is meaningless. The central difference is whether the perspective scale is an individual program or department (output) or whether the perspective adopted is across multiple departments or government as a whole. Cuganesan et al. (2014) suggests that a cross-departmental approach towards performance measurement is seriously underdeveloped in practice and indicates that individual departmental performance reporting is questionable when taken at a broader level.

Recommendation

- *Shift towards more internally focused performance measurement based on risk management perspectives*
- *Develop a greater emphasis on Commonwealth Performance measurement at a macro or cross departmental level.*
- *Expect clear evidence of how a departmental Performance Measurement framework drives performance and innovation within the department.*
- *Treat the Commonwealth Performance Framework as a means and not an end*

References

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