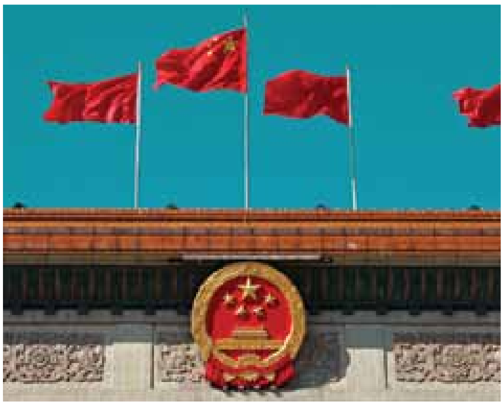
CIMA

Chartered Institute of Management Accountants



Public sector performance
A global perspective

The public sectors of different countries are shaped by many factors, but they share common challenges. Those challenges make public sector performance management more complex than it is in the private sector. The generally simpler environment of the private sector and its efficient evolution of best practice allow companies to benefit from tools and insights that are the envy of managers in the public sector. This report will be of interest to readers from all sectors due to the role of the public sector with respect to economic growth and the increasing interdependencies of public and private sectors. It also includes a specific solution to one of the biggest public sector challenges – the alignment of policy to outcomes.

Measuring government performance has long been recognised as necessary for improving the effectiveness and efficiency of the public sector.

Government at a Glance 2011, OECD

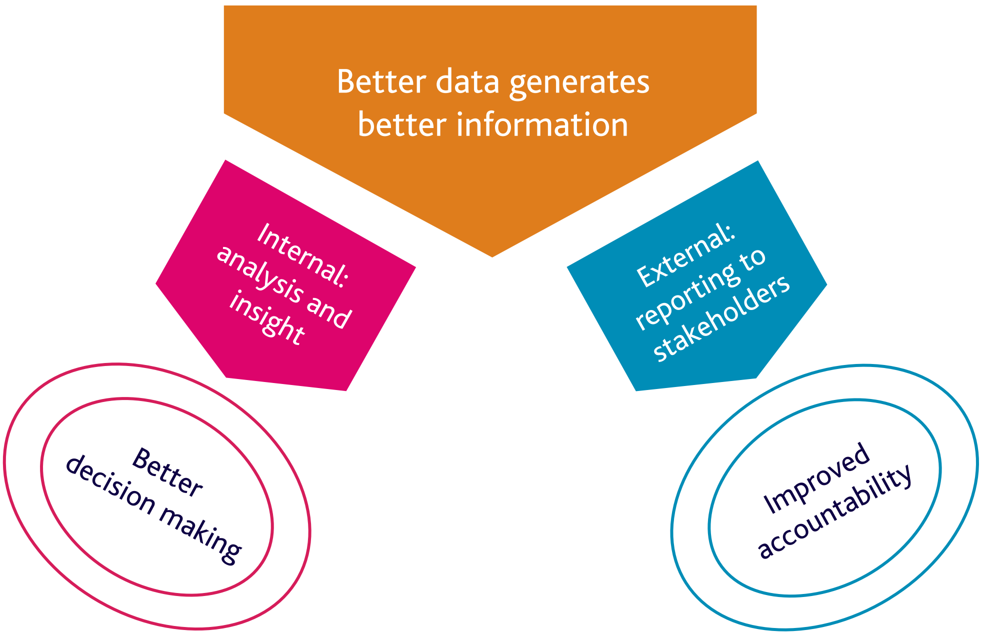
Governments, like companies, need timely and accurate financial information to monitor and manage their performance.

IFAC recommendations to G20 in response to the global financial crisis, 2009[1]

I do believe that there is a systematic, pervasive, though possibly not deliberate, ignorance of the critical value and importance of good accounting to governments.

Ian Ball, IFAC CEO, Dec 2010

Figure 1: Better performance management information serves both managers and stakeholders



1 IFAC recommendations to G20 in response to the global financial crisis, 2009

Key messages

1. The economies of many countries are struggling. Other countries face challenges arising from the rate or stability of growth. A country's public sector is shaped by its current economic circumstances and by its history, its politics, its resources and the demands placed on it by its public. Any government however shares some common challenges with the governments of other countries. The need for sustainable and stable public finances. The need to gain the public's confidence that tax revenues are being used effectively. Most of all, the need to achieve objectives cost-effectively. It is irresponsible to current and future generations for any government to spend resources unsustainably or ineffectually.

2. Demographic changes also impose demands. Some governments have ageing populations; others have to deal with the underemployed, undereducated or unrepresented young. The rate of population growth in Sub Saharan Africa is more than six times the world average and although these new populations will consume less resource than, for instance US citizens (who represent 4% of the world population yet consume 25% of its resources) they put pressure on a continent which lacks water, infrastructure and arable land. Migration (due to local economic conditions, conflict or natural disaster) spreads problems across national boundaries.

3. Public expectations and priorities are changing. In the UK and other countries the public increasingly expect a more customer led (personalised) model of public services, due to experiencing better service or customisation in the private sector. These expectations will conflict with public sector cost-cutting strategies based on the commoditisation or standardisation of services. Resolving this conflict may result in two tier provision, with the State providing a fit for purpose and basic service and options for users to pay for enhanced or personalised elements.

4. Although demand for public sector services is increasing, current financial constraints mean that many public bodies must achieve these with fewer resources. More than ever, there is a need for good performance management and cost control. Performance management is inherently more difficult in the public sector, but effective performance management is crucial to achieve sustainable and stable public finances and to gain public confidence that tax revenues are being used effectively. Several global performance frameworks are listed in this report.

5. Performance management is a key element of public sector reform. Either explicitly with the introduction of new performance management frameworks, or because of an increased emphasis on measureable results and instilling cost consciousness. New Zealand's example shows how the implementation of best practice financial reporting (accrual accounting) also improved performance management. Performance management crosses the boundaries of both management and financial accounting, since performance management information is used both by management for decision-making; and in external reports to stakeholders for accountability.

6. The public sector suffers from poorer quality management information than the private sector. Decision makers are provided with significant volumes of data, which can be unreliable and late. Often there are too many KPIs or targets, focused on inputs rather than outcomes or impact. Decision support is consequently poor, making it difficult to sustain (or sometimes create) a culture of evidence-based decision making.

7. It may need pressure from outside the public sector to convince it of the value of good management information and evidence based decision making. Many governments suffer from a shortage of high quality finance professionals; and/or finance functions that lack strategic influence. Historically, many finance teams have focussed on transaction reporting and obtaining financial resources rather than on identifying and costing of policy options; or driving financial effectiveness and performance improvement. Finance staff can be the catalyst for more commercial decision-making, if they are aware of the tools available and the nature of information demanded by management in other sectors. Managers or board members who come from outside the public sector can also stimulate demand for better decision support.

8. There is no 'one size fits all' performance management system. There are however some key principles – performance management is about allowing the user to understand where effort is being invested and whether the organisation is achieving its objectives. Fundamental to the achievement of effective performance management is the intelligent application (and adaptation) of performance management tools to the specific circumstances of the organisation together with top-level leadership and commitment.

9. Successfully achieving change in public sector bodies, as in any other entities, requires the organisational culture to adapt. There are significant cultural challenges – some public sector policy makers may be reluctant to introduce transparent, evidence-based decision making. Other challenges include staff cuts which risk the loss of key skills; utilising the experience and different perspectives of staff coming from the private sector; having greater acceptance of risk and its management; and managing those resistant to change. The public sector needs innovators and entrepreneurs and those skills need to be sought, grown, or encouraged.

10. Finance professionals are key players in performance management initiatives in the public sector, because of their role in gathering and analysing data. The management accountant's professional qualification is particularly relevant to performance management – as can be seen by the weight that performance management is given in for example, the CIMA qualification. Finance staff may need to convince decision-makers that they can do more than just account for expenditure after the event and ensure it is charged correctly to the appropriate activity. Finance professionals in the public sector can and should:

- provide support for strategic decision making
- identify and manage commercial and financial risks
- analyse strategic challenges and opportunities
- provide appraisal and costing of strategic options.

They must promote evidence based decision-making as the key plank of good governance.

About CIMA

The Chartered Institute of Management Accountants, founded in 1919, is the world's leading and largest professional body of management accountants, with 183,000 members and students operating in 168 countries, working at the heart of business. CIMA members and students work in industry, commerce and not for profit organisations. CIMA works closely with employers and sponsors leading-edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure it remains the employers' choice when recruiting financially trained business leaders.

CIMA is committed to upholding the highest ethical and professional standards of members and students and to maintaining public confidence in management accountancy. CIMA's goal is to contribute to the overall health of the global corporate sector and believes that organisations should be focused on their long-term sustainability.

For more information about CIMA, please visit **www.cimaglobal.com**
Follow us on Twitter at **www.twitter.com/CIMA_News**

About the authors

Louise Ross is Head of Corporate Performance Management within the Knowledge Unit in CIMA's Profile and Communications Department.

The author would like to thank CIMA's Technical Committee and CIMA colleagues **Victor Smart**, **Noel Tagoe** and **Gillian Lees** for their helpful suggestions and comments.

Contents

Foreword

Throughout my career I have had the conviction that the public sector and especially central government, does not make full use of accounting and accountants. Why do governments not adopt the best available accounting and financial management practices? How can governments plan their finances when they do not have good information on their assets, liabilities and contingent liabilities? Why do so few governments budget and report on an accruals basis?

I was privileged to be part of New Zealand's public sector reforms some twenty years ago; and the record shows how budgeting, appropriating and reporting on an accruals basis improves transparency and accountability; and financial management.

New Zealand is unfortunately a rare example. Most governments still operate on a cash basis. This ignores so much critical information as to constitute at least mismanagement if not negligence. The result is impaired efficiency and effectiveness, leading to poorer outcomes in areas such as infant mortality, literacy, or employment amongst others.

Today's sovereign debt crisis highlights some of the consequences of poor financial management and weak financial reporting in the public sector. I'm hopeful that the crisis might stimulate demand for better financial management and reporting. But if the response is simply to vote out one government and vote in another, without changing the constraints and incentives facing the new government, we should not expect much to change.

In general, governments demand higher standards of financial reporting from the private sector, than they themselves even aspire to. They require high-quality financial reporting from corporates and respond rapidly to reporting failures with increased regulation. Yet they apparently lack the will to improve their own financial management and reporting practices.

A useful theme in this report is that the public sector does not benefit sufficiently in terms of management information and decision support from its finance professionals. This is not the fault of the professionals. It is the fault of a system in which there is insufficient demand for high-quality information and advice, because under present arrangements most governments are not rewarded politically for good financial management. The sovereign debt crisis demonstrates very starkly the price we all pay for poorly designed fiscal institutions.

Ian Ball
Chief Executive Officer
IFAC

Introduction

The purpose of this report is to promote the need for better performance management in the public sector and to stimulate decision makers and policy makers in the public sector to demand the level of information and support enjoyed by their peers in the private sector.

The report starts with an overview of public sectors across the world, considering the different models that exist and the common challenges that countries share across the globe. By public sector, this report means the entire public sector in any country, including federal, state and local government structures.

Features of the public sector complicate performance management

The overview identifies features of the public sector that contribute to the variety of different models. Many of those features also serve to make effective performance management harder in the public sector and include:

- **The lack of a predominant profit motive** to simplify resource allocation. Private sector organisations can relatively easily determine where to invest effort and resource to maximise overall results. Although many public sector organisations have revenue generating or even profit making elements, their predominant objective is to deliver services to achieve certain outcomes. Those services must be delivered to users who may not wish to receive them, or who may not value them.

- **Politics**, which affect almost everything from the very nature of the public sector to governance arrangements and the frequency and philosophy behind reform efforts.

- **Complicated delivery chains and multiple stakeholders** which make it more difficult to manage activities. Public sector bodies often use other bodies or stakeholders to help them deliver services. For example, funding for a service might be decided at national level and then devolved to local bodies, which might use third sector organisations to deliver services.

- **Unclear cause and effect relationships** – public sector objectives such as increasing literacy, or reducing street crime, are affected by many different issues cutting across different programmes and organisations. The effect of changing any single factor cannot be easily isolated.

- **Delayed impacts** – achievement or progress towards many public sector objectives, particularly those which are preventative, may not be observable for many years or even decades.

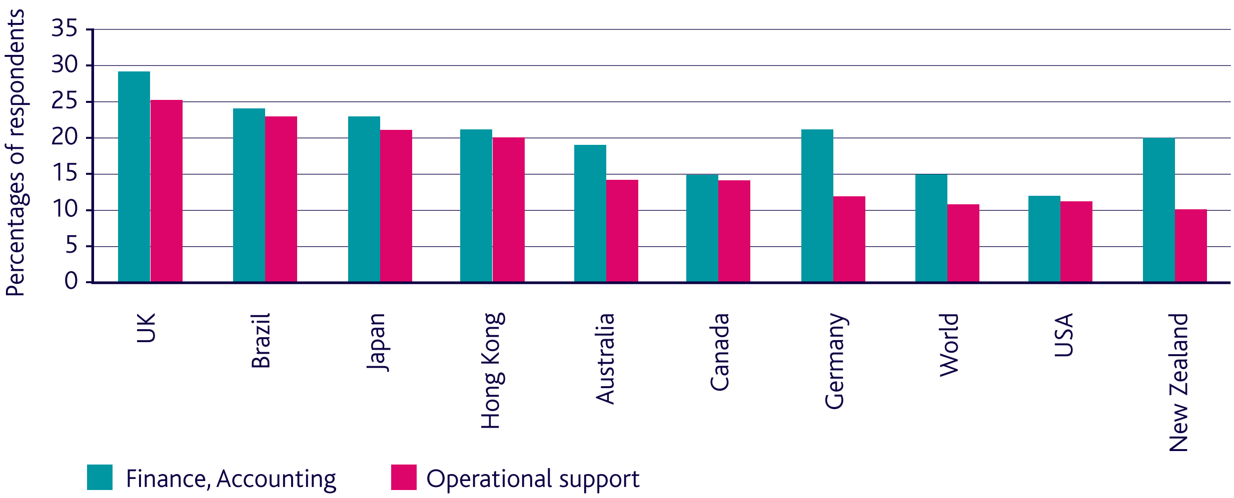
- **Attitudes towards accountability and transparency.** Many countries struggle with corruption, nepotism, poor governance or a lack of openness. Even policy makers in countries without these problems may resist scrutiny of popular or politically motivated, rather than evidence-based decisions.

However, the public sector can benefit from features which either simplify operations (public sector organisations tend to operate only in their home country) or contribute positively to performance (arguably, a more inherently motivated workforce – for example, teachers, social workers, police or health workers who can be considered to have a vocation).

Specific challenge: talent shortage

An issue which affects both the public and private sectors is the shortage of finance professionals, as shown by the results of the Robert Half Global Finance Employment Monitor 2010-2011 which surveyed employers about the finance roles they found difficult to fill[2].

Figure 2: Finance vacancies in F&A and operational support roles



It is important to the economies of developing countries on the African continent to increase the number of skilled professionals in business. As infrastructures are set up for smaller countries to compete in the global market, qualified professionals are of paramount importance to both business and government.

Samantha Louis, Regional Director for CIMA Southern Africa, 2009.

There is no recent global overview of the shortage of finance professionals, but surveys or research in the recent past suggest that China has less than half the 300,000 accountants it needs[3]; and India has a shortfall of some 500,000[4]. Commentators in South Africa estimated that 22,000 additional accountants were required[5] and that the shortage of finance professionals in the public sector was reflected in the prevalence of qualified audit reports at many government departments[6].

Increased accountability and scrutiny can create a different talent problem, a reluctance of potential candidates to make themselves available for senior public sector and chief executive roles. There is certainly evidence of this in the UK. Candidates are deterred by the difficulties of leading troubled organisations or those facing significant challenges, because stakeholders have unrealistic expectations that turnarounds can be achieved within short time scales. They may also be deterred by the increased exposure caused by media coverage including web-based citizen journalism.

We find it very difficult to recruit people who want to be chief executives – the average time they spend in post is just 700 days.

David Nicholson
NHS Chief Executive, 2007[7]

2 Robert Half Global Finance Employment Monitor 2010-2011
3 *Shortage of accountants hinders China,* Wild D, Accountancy Age, June 23 2005
4 *Indian industry fights skills shortage,* The Accountant, Sept 2008
5 *Accountants like gold dust in South Africa,* Casell & Co, 26 June 2009
6 *More black CAs are needed,* Finweek, 22 April 2010
7 NHS Chief Executives: Bold and Old, Sergeant A, HoggettBowers, 2009

Organisation culture and possible lack of influence of finance function

The report also considers some of the cultural challenges involved in improving performance management and the specific role of the finance function.

Previous work CIMA has undertaken in a large UK central government department suggests that the traditional preference for generalists, rather than specialists; and the historic emphasis for finance on stewardship, compliance and reporting has led to the development of finance functions which perform a more limited role and have less influence than they would in the private sector. This is confirmed by recent findings by the UK's state auditor, the National Audit Office, which surveyed senior civil servants and found that 80% concluded that the UK government lacked financial management skills.[8]

This relative lack of influence may pertain in the public sectors of other countries, especially those with organisations which share the bias towards stewardship and reporting apparent in UK central government. Importing finance professionals from the private sector to demonstrate the full range of support which is available is not the sole solution, as without a corresponding culture change from the organisation to expect such support, incoming finance staff will become disillusioned and return to the private sector.

Learning from other public sectors

Despite the variety in public sectors, it is possible to disseminate good practices between different countries. Reforms initiated in various countries in the last two decades suggest their intention to learn from, for example, the New Zealand reforms. However public sector reforms, like performance management systems, like specific performance management tools, need to be tailored to local circumstances.

In other words, whether at the macro, organisational or task level, there needs to be a thorough understanding of the context diagnosis of the issues, assessment of different options and creation or adaptation of an appropriate performance management solution. This is a more creative, innovative and challenging process than merely importing a solution which has proved effective elsewhere; and this process should be entrusted to those (such as chartered management accountants) who combine analytical skills, problem diagnosis and creativity in designing solutions.

The public-private relationship

Another aspect illustrated in the report is the interrelationship between public and private sectors – including the impact on an economy of a public finance crisis (Greece); how better public sector accounting standards increase the confidence of stakeholders such as aid agencies and the bond market; and how infrastructure improvements in developing countries will impact the global economy.

8 *Whitehall held back by lack of financial management skills*, Johnstone, R, Public Finance 13 July 2011

A specific performance management solution

The report concludes with a specific approach to a difficult public sector challenge, how to effectively performance manage activities throughout the entire chain from policy formulation to delivery of services. It includes a case study which provides an excellent example of the practical adaptation of two well-known existing tools – the balanced scorecard (strategic performance tool) and activity based costing (a costing methodology). The adaptations cater for several of the specific challenges of the public sector:

- the high proportion of costs accounted for by labour
- managing performance by aligning activities to policy objectives
- the balancing of non-financial and financial perspectives.

No excuses

It is crucial for public sector finance professionals that they adopt and adapt tools which can improve financial management and performance management in their organisation. It is the role of the finance professional – and especially the management accountant – to provide information to support decision making. And in comparison with the private sector, decision-makers in the public sector seem to suffer from having poorer information (although they often have plenty of data). CIMA noted that in the UK, decision makers in central government didn't benefit from the support that private sector finance functions provide. This was due to the limited role expected of the finance function in central government and relative lack of influence resulting from an emphasis on stewardship and financial reporting rather than adding value to the organisation.

Some cite the increased complexity of the public sector as a reason why public sector decision-makers will continue to be disadvantaged in this way. Perhaps 20 years ago this argument might have held sway. But information capture, analysis and presentation improve continually as IT develops. Tools and systems have been developed which can cope with very complex issues in the private sector – such as performance managing knowledge work; or sharing risks, rewards and information within complex collaborative supply chains – similar to and as difficult as public sector challenges.

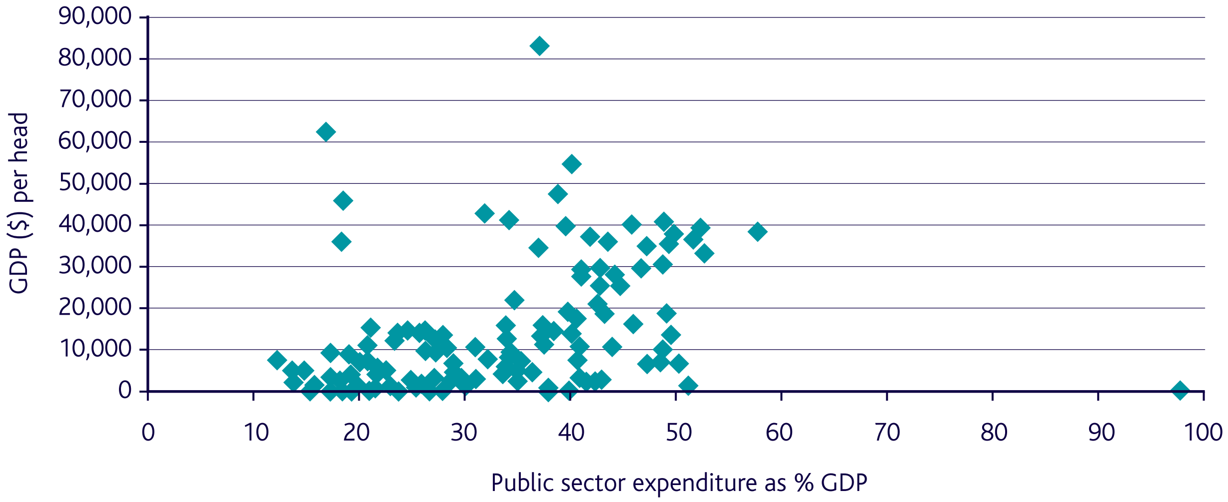
It is irresponsible to current and future generations for those in the public sector not to use all the tools at their disposal to make affordable and equitable decisions to improve the lives of those to whom they have a duty of care.

Global overview of the public sector

It is impossible to discuss the 'global' public sector, as there are so many variations in the scope and shape of public sectors in the 196 countries of the world. Taking health services as an example, only about forty countries provide universal health care to their citizens, but many others provide partial health services. Some countries fund health services directly from taxation alone (e.g. UK, the Nordic countries); others by a mix of public funding and fees for certain services (levied on individuals or employers, for which individuals may or must take out insurance). As for services themselves, e.g. hospital services, these might variously be provided directly, via public corporations, by using the private sector, or by a combination of these alternatives.

The public sector in any country is shaped by a combination of various factors, including its economic performance, political philosophy, extent of involvement of external agencies (e.g. aid agencies) and demand from its population for services and infrastructure. The following chart suggests one way of classifying different public sectors, according to wealth, the distribution of that wealth and the proportion of this which is spent on public services. Each data point is a country and the statistics are those most recently available and used in the 2011 *Index of Economic Freedom*[9].

Figure 3: The variety of public sectors



The distribution of countries indicates considerable diversity in the size of public sectors, whether constrained by a lack of finances, or intentional due to a prevailing philosophy of minimal state intervention. The concentration of low income countries (less than $10,000 GDP per head) are spread horizontally, indicating that there is a great diversity among them about how much of this limited wealth they are willing to spend on public services (between 12-98%).

Figure 4: Countries clustered by GDP and relative size of public sector

		Public sector expenditure as % GDP		
		LOW (< 75% global average)	**MEDIUM** (75-125% global average)	**HIGH** (> 125% global average)
GDP per head	**HIGH**	Singapore, Hong Kong	USA, Canada, Malaysia, Australia, Russia.	Japan, Greece, Germany, UK, New Zealand, Ireland
	MEDIUM		South Africa	Brazil
	LOW	China, Sri Lanka	India, Vietnam	Ukraine, Yemen, Zimbabwe

9 2011 Index of Economic Freedom, Heritage Foundation & Wall St Journal,

Figure 4 groups various countries' public sectors by income and the share of the economy accounted for by their public sectors, using the same data as for Figure 3. A closer look at the current situation in each country illustrates the different challenges of each which shape their public sector provision. Those challenges will be different combinations of factors, including:

- current and future demographics such as an ageing population or population growth
- political environment – which will affect governance and often delivery
- the demands of managing change caused by reforms, restructures or policy changes
- shortages of financial resources, land, water or carbon based fuels.

All governments share the inherent challenges of public sector provision - the lack of a profit motive, which makes it more difficult to allocate resources; and the requirement to appear 'fair' (equal access to services and relative stability of entitlement to benefits). One consequence of this requirement is that the public sector is less able to 'test market' different solutions amongst users and choose the most effective.

All public sectors are required to make best use of resources to improve the quality, efficiency and effectiveness of services; and must performance manage complex and multi-partner delivery chains extending across several organisational boundaries from policy determination to front line delivery.

The need to make the best use of resources can be illustrated by the experience of the UK during the period 1997-2010. The UK initiated one of the largest increases in public spending of any industrialised country, but although official statistics did recognise an improvement in the quality and quantity of public services, it was not in proportion to this increased spending[10]. Specifically, during this period annual health expenditure rose from £50bn to just under £120bn (an increase of 140%)[11]. A NAO report[12] cites figures from the UK's Office for National Statistics which advised that in the period 2000-2010 productivity in the UK's health service actually decreased.

These examples illustrate the issue that although governments may find resources to invest in areas of concern, these must be justified by better results. Governments may publicise their performance with respect to 'inputs' into the public sector, but this is an inadequate measure which might conceal poor value for money.

In a sense, public sector resources are always scarce, even when they are apparently available, because there are always alternatives to any spending, including minimising the tax burden or minimising public debt. Those alternatives may be preferred by current or future tax payers and future users of the services.

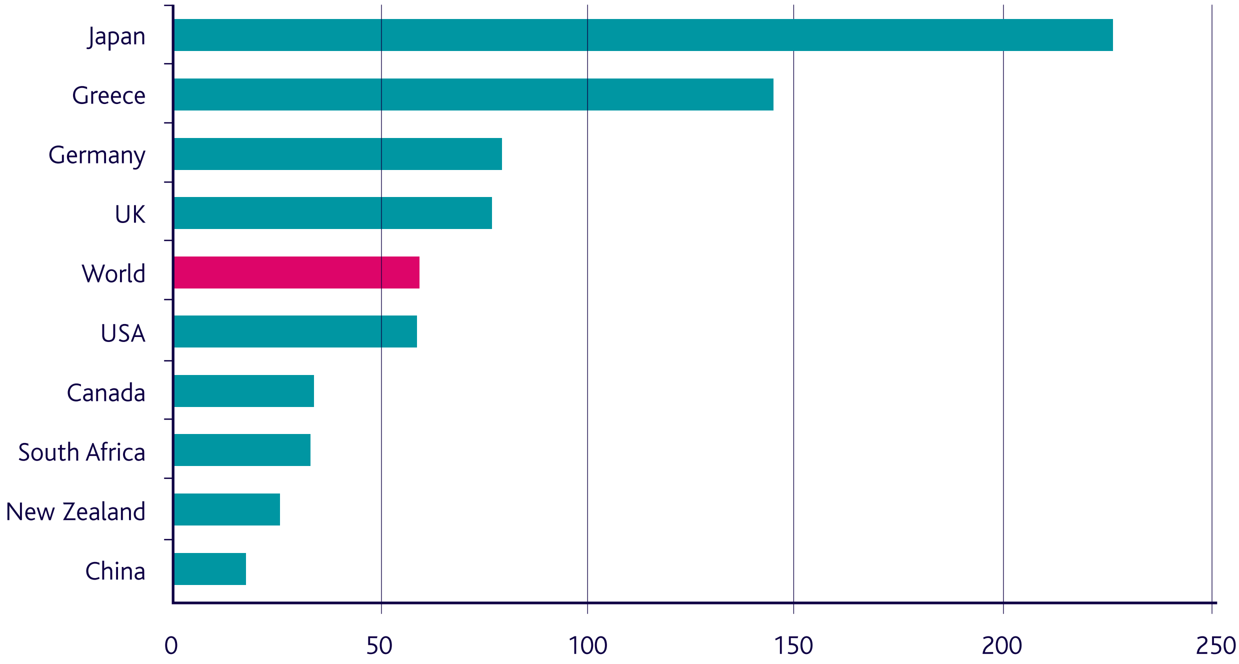
The cumulative effect of economic circumstances and fiscal policy is made apparent in the level of public debt of each country, shown overleaf.

One surprise when the situation is illustrated by a graph like this is by how much Japan has the worst debt problem. Until recently, financial markets seemed relatively comfortable with this situation judging by the comparative credit ratings for Japan and Greece; and the fact that Japan's rating had been stable for years. The ratings reflected both the market's greater trust in Japan's management of its debt; and the composition of that debt (almost all of it held by local, small and risk adverse investors).

However in early 2011, Standard & Poor (S&P) and Moody's Investor Services both downgraded Japan's credit rating due to concerns that the government lacked a strategy to effectively tackle its debt. Indeed S&P anticipated the debt to continue rising for the next 15 years. The devastating March 2011 earthquake and tsunami prompted both agencies to recognise the impact of those natural disasters and the huge rebuilding costs by changing their outlooks for Japan to 'negative'.

10 *Public Spending Under Labour*, Institute for Fiscal Studies, 2010
11 Expenditure on healthcare in the UK, ONS, May 2011
12 Management of NHS hospital productivity, NAO Dec 2010

Figure 5: Public sector debt as % GDP (2010 estimates)



A Greek lesson

The recent experience of the Greek economy illustrates two issues – that sound fiscal policy requires high quality fiscal statistics; and that a public sector financial management failure can trigger an economic failure.

The public sector is a significant element of the Greek economy, accounting for about 40% of GDP (just in the top quartile of countries, the global average being about 33%).

The Greek economy went into recession in 2009 as a result of the world financial crisis. But whereas for many countries it was worsening economic performance that caused their public sector budget deficits; one cause of the Greek recession was its deteriorating public finances.

A perfect storm of falling tax revenues, increasing public expenditure (due to a failure to achieve expected savings from reforms) and a lack of trust in the official deficit and debt figures published by the Greek government, led credit agencies to downgrade Greece's international debt ratings in late 2009, stimulating economic failure.

The lack of trust in the Greek parliament's estimates can be gauged by comparing its deficit estimates (and how they changed over time) to those from the EU statistical office Eurostat.

Greek parliament estimate:	April 2009	3.7%	Eurostat estimate:	April 2009	13.6%
Greek parliament estimate:	Oct 2009	12.5%	Eurostat estimate:	Nov 2009	15.4%

Greece and Japan's situations illustrate the importance of two elements of public sector performance – an effective fiscal strategy and good financial information – for retaining the confidence of the capital markets, thus preventing higher interest rates or a decline in the value of a country's currency.

Good financial information

The quotes which opened this report refer to the role played by good financial information in both performance management and reporting. Better financial information in the public sector is being encouraged by the global drive to encourage the adoption of international public sector financial reporting standards.

These standards are developed and issued by IFAC's International Public Sector Accounting Standards Board (IPSASB). IPSASB encourage the ultimate adoption of accrual accounting, although it acknowledges that only a minority of countries currently use accrual accounting by also issuing a cash reporting standard. At present, accruals accounting is undertaken only by a small group of countries (including New Zealand, USA, Australia, UK and Canada). Developed countries that notably use cash accounting include Germany, Italy and Japan. Accrual accounting is preferred by IFAC because of its greater focus on debt reduction and because cash accounting does not account for longer term issues such as pension liabilities and major infrastructure investments.

This drive to improve external reporting will also improve the quality of internal management information, as it should be the same information used for setting budgets, monitoring and forecasting throughout the year that will be used for the statutory financial reporting.

Measuring the performance of the public sector

A common, flawed measure of performance often cited by governments is the amount of money they spend on public services. As discussed above, such an 'input' measure is no measure of performance. OECD figures show that the USA spent $7,960 on health per head in 2009, two-and-a-half times more than the OECD average of $3,223. Yet a comparison in 2007 with Australia, Canada, Germany, New Zealand and the UK showed that the U.S. health care system ranked last or next-to-last on quality, access, efficiency, equity and healthy lives[13].

It is preferable to measure performance in terms of outputs, outcomes, or the impact of the policy objectives. Thus performance can be measured by various indicators including corruption, red tape or wastage; the size of any shadow economy (i.e. untaxed income); the strength of the rule of law; the health and life expectancy of its population; the educational achievement of its population and the quality of its communications and transport infrastructure. Such 'macro' indicators can help chart the effectiveness of public sector reforms in different countries.

In addition there are several global frameworks which specifically assess countries' public sectors on various measures such as service delivery, strength of financial systems, accountability and quality of regulatory environment. Some of these are listed in Appendix A.

Inter-relationship between public and private sectors

The performance of the public sector is an important driver for economic growth in that country, as it is the public sector which provides a fit and well-educated workforce; a regulatory and investment environment conducive to business and the infrastructure (physical and virtual) to enable the movement of goods and information.

Again, different countries face different challenges. Many countries adopting market led public sector reform are shrinking their public sectors, or blurring the boundaries between public and private sectors by outsourcing services to the private sector; or inviting private sector or third sector providers to provide services.

13 *Mirror, Mirror on the Wall: An International Update on the Comparative Performance of American Health Care*, Davis K et al, The Commonwealth Fund, May 2007

There are several mechanisms to increase private sector participation in the delivery of public goods. Taking the UK as an example, various initiatives by governments of both the leading parties, have encouraged or required outsourcing of finance and other processes, payroll and recruitment, procurement and some elements of medical and social care (see Figure 6). Recent figures show that public to private outsourcing constitutes 40% of the outsourcing industry in the UK, an industry which contributes about as much to UK GDP as financial services [14].

With reference to offshored outsourcing, the UK benefits from the potential to exploit wage differentials between itself and other English speaking countries such as India, the Philippines and (less obviously) Eastern Europe. Other countries have less potential.

Public-private partnerships (PPP – collaborations between local or central government and private companies) have been a more successful global trend. In the decade since the mid 1990s developing countries experienced a seven-fold increase in PPP activity, similar to that experienced in Europe. The trend was even more marked in the US, which experienced a tenfold increase. Most of these PPP projects related to transport and highways. The advantages to the public authority were the transfer of risk to the private partner and reallocating capital expenditures into operating expenditure.

Brazil – the commercial impact of poor infrastructure

Brazil is the world's second largest soybean grower and soybean is the country's largest crop (occupying 14.5 million hectares). Recently, Brazil has been experiencing record harvests, with much of the crop destined for biofuels or export as animal feed for China and Europe.

Because the road network is limited and poorly maintained in Brazil, getting this crop to ports for export often costs growers as much as the price they receive per tonne. The ports themselves are insufficient to cope adequately with the volumes of exports. In February this year, the Agriculture Ministry estimated that 3m tonnes of soybeans were lost because of a lack of capacity at the main port in Maranhao state[15]. Some estimate that 30% of the harvest overall is lost.

Soybean cultivation provides an incentive for investment in road, rail and shipping infrastructure and improvements have already been made. However, those improvements have also made new areas vulnerable to deforestation by loggers and cattle farmers.

It would be unfair to ask Brazil to forgo growing something at which it has a competitive advantage due to its favourable climate; but soybean cultivation is a very costly practice for Brazil and (because of the increased deforestation) the world at large. It seems more than ordinarily wasteful if a large proportion of that crop cannot then reach the market.

Developing or emerging countries may find their relatively poor infrastructure inhibits their growth. This has implications for global growth, as it is developing countries which are forecast to be the engines of global growth in the future. The importance of adequate infrastructure to competitiveness is illustrated in a recent global survey of CEOs[16], which revealed that they considered infrastructure second only to providing a skilled workforce as an issue on the shared private-public agenda. Further, one-quarter of respondents felt that private industry should significantly increase its commitment to improving infrastructure, especially those in sectors such as engineering, construction, utilities and the financial sector.

Another example of a developing supportiveness between the private and public sectors is the desire to publicise the extent to which companies are 'good citizens', contributors to the states in which they operate.

14 *Outsourcing of services is a vital part of the UK economy*, Business Services Association, April 2011.
15 *Roads, ports shape up as key Brazil vote battle*, Grudgings S, Reuters, Mar 18, 2010
16 *14th Global CEO survey,* PWC

One such initiative is 'Publish what you pay' [17] which encourages companies in the extractive industries to report what they pay the governments of the countries from which they extract resources; and those governments to publish what they receive from such companies. This transparency should help prevent embezzlement, corruption and revenue misappropriation.

Thought starter: China's global influence

China absorbs an increasing proportion of the world's resources. It is now the world's top consumer of aluminium, copper, steel, lead, nickel, tin, zinc, iron ore, coal, wheat, rice, palm oil, cotton and rubber. Its consumption of metals has increased 17 % per year in the period 1990-2007.[18]

China is investing significantly in Africa, helping to speed up infrastructure improvements. Its investments have increased yearly by an average of 46 percent over the last decade, especially related to water, transport, electricity and information and communications technology. [19] For example, China is the principal investor in Sudan's oil industry and associated infrastructure. China offers both money and technical expertise without the conditions about governance which often accompany investment from Western sources. Is it or is it not in the best interests of Africa to separate those conditions from investment?

Bilateral trade between Africa and China has increased significantly, from $10.6 bn in 2000 to $91 bn in 2009, making China Africa's biggest trade partner[20]. This has caused concerns for domestic manufacturers in the continent. Is the combined effect of China's investment and exports changing the economic and strategic status of Africa to its benefit or detriment?

China has massive foreign reserve holdings, both US $ and Euros. China's willingness to buy European debt may reduce the possibility of a Euro crisis, but if there is a crisis, does this provide the means to spread it globally, to China and to economies heavily reliant on China such as Australia and South Korea?

Public sector reform

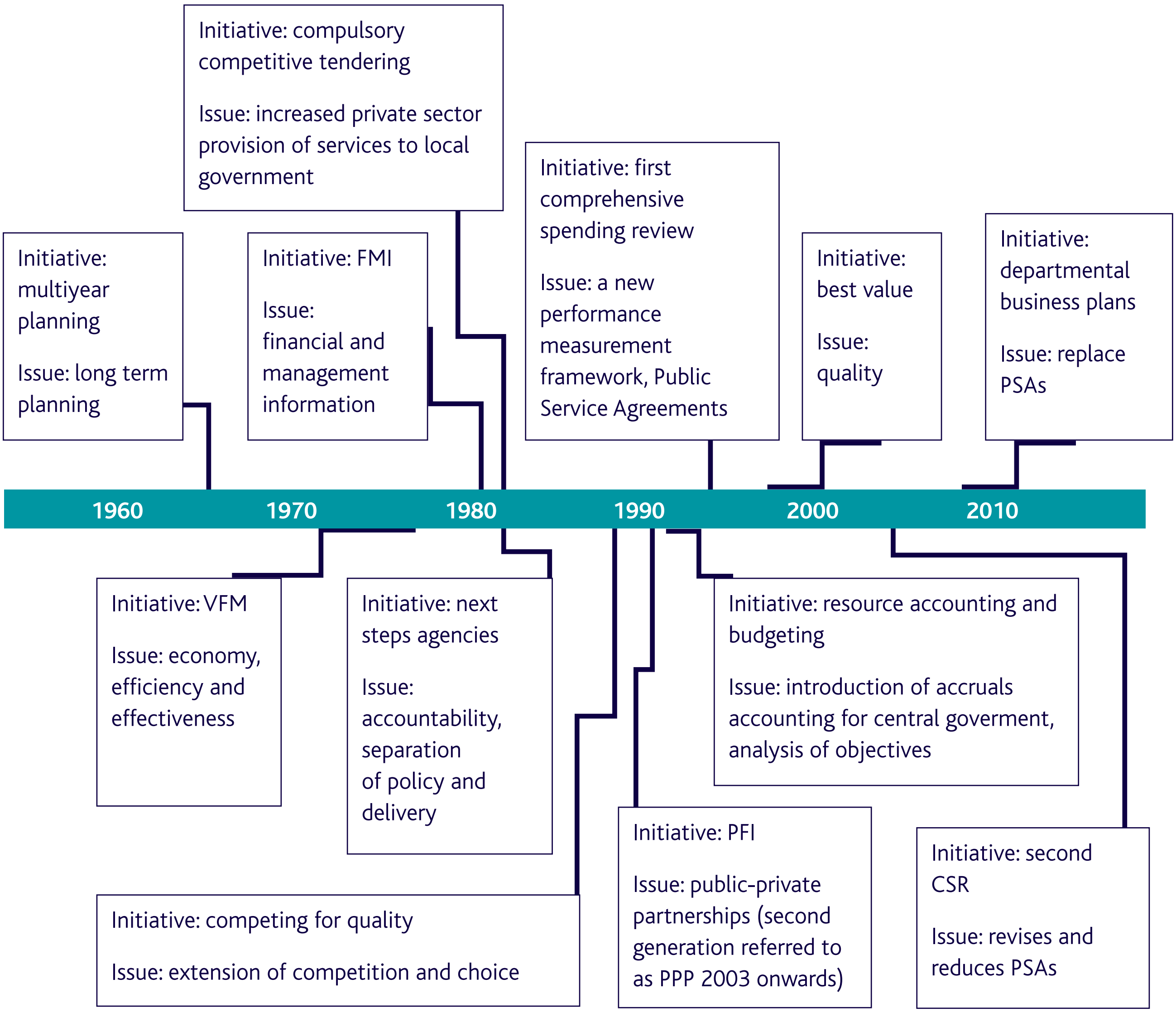
It would be an unusual public sector which hadn't changed over the past decade, as a result of a combination of the following drivers of change:

- budgetary constraints
- changing views about the role of the state
- a drive for deregulation
- decentralisation
- the impact of new technologies or new management methods
- new tools and techniques for performance management
- devolution of powers from the centre to service providers
- greater service user (or 'client') orientation
- shared services or other collaboration
- privatisation.

A review of the UK's experience shows a typical pattern of clusters of successive reforms, addressing elements of the public sector linked by high level goals.

17 www.publishwhatyoupay.org
18 *The Competition for World Resources: China's Demand for Commodities,* Griswold D, Cato Institute Feb 2007
19 *Chinese Trade and Investment Activities in Africa*, The African Development Bank Group, Policy Brief July 2010
20 *Decade-old China-Africa co-op forum yields rich results*, Xinhua News Agency, Nov 2010

Figure 6: Timeline of UK public sector reforms



Of the drivers for change, one of the most influential is the last. Privatisation or 'market friendly' policies have featured in several of the more significant public sector reforms of the past thirty years. Examples include:

- New Public Management (1980s to date): an attempt to bring a more commercial, managerial approach to the provision of public services, including privatization, competition and output budgeting.
- The Washington Consensus (1980s – 2010): a 'prescription' suggested to developing countries in crisis by funders such as the World Bank, the IMF and the US Treasury. The thrust of the consensus was to reduce the size of the public sector and open it up to competition and encourage trade and investment by deregulation. Replaced by the Seoul consensus.
- The Seoul Development Consensus for Shared Growth (2010 onwards): a set of principles and guidelines established to help G20 nations work collaboratively with developing countries to encourage economic growth and the achievement of the UN's Millennium Development Goals. The Seoul Consensus allows individual nations to vary their approach to economic development and public sector reform, including a larger role for state intervention, if that is their strategy.

The Seoul consensus recognises that reform needs to be more flexible than the standardised approach assumed in the Washington consensus. It is a reminder that the practices – even the successes – of other countries whilst being informative, cannot be transferred thoughtlessly to other contexts. One country whose reforms are often cited as an exemplar for public sector reform is New Zealand. In the early 1980s, New Zealand was experiencing stagnant growth and a budget deficit of almost 10% of GDP. In the following twenty years after it initiated its reforms, the government's net worth climbed to just under 60% of GDP just before the most recent global financial crisis.

However, a closer look at its context suggests caution. New Zealand's unique characteristics suggest other countries should not attempt to apply 'the New Zealand model' wholesale. Malcolm Bale and Tony Dale (International Bank for Reconstruction and Development) suggest that New Zealand's experiences do however give good general principles and can suggest specific elements relevant to countries looking to improve the quality, efficiency and cost effectiveness of their public service sectors[21].

The New Zealand reforms succeeded for two reasons. First, precisely because they were drastic, which gave confidence that no solution was unthinkable; and secondly because they tackled a fundamental flaw in the design of the public sector, which was the reliance on cash based budgeting and reporting. New Zealand was the first country in the world to adopt accruals based accounting and the additional accruals based information improved planning, budgeting and performance management.

New Zealand – world leader in public sector reform?

New Zealand's reforms started in the late 1980s, under the three pillars of commercialisation (selling off state assets), deregulation and privatisation.

New Zealand is unusual in that it adopts a strict top-down approach to systematic and comprehensive changes in performance management. It is more common for countries to adopt an ad hoc or scattered approach as different elements of the public sector experience different appetites for reform. New Zealand is also unusual in the exhaustive scope and ambitious scale of its reforms. Some argue that more modest measures would have generated even better results.

Key stages of the reforms were legislation in 1988 and 1989 which developed the concept of performance and introduced annual performance agreements. The reforms also introduced new terminologies and concepts which have subsequently made their way into other public sectors – 'outsourcing', 'corporatisation', 'user pays', 'competition', 'performance agreements', 'service providers' and 'managing for outcomes'.

Although well supported at the time, the recession in the early 1990s and a change of government in 1998 led to a partial retreat from this market focussed approach. There remains a focus on fiscal discipline, but further privatisation is off the agenda.

New Zealand's reforms enabled it to recover from its public sector deficit by 1993 and remain in surplus for the period 1993-2008. However, its current public sector deficit is 4.5% and its other indicators are not as favourable as its reputation for reform might suggest.

New Zealand currently spends just over 41% of its GDP on public services. The most recent OECD ranking of country's education systems ranked New Zealand as sixth in the world for literacy; eleventh for mathematics and seventh for science. Life expectancy is 80.6 years (19th best in world). GDP is $27 700 (51st in the world). Economic growth is forecast to be 2.5% in the year to March 2012.

Many developing and transitional countries in the mid 1990s started significant decentralisation efforts, motivated by bottom up democratic pressures, disillusionment with centrally planned approaches and the need to improve the value for money of public sector expenditure.

21 *Public Sector Reform in New Zealand and Its Relevance to Developing Countries*, Malcolm Bale M & Dale, The World Bank Research Observer, 1998

Less obvious candidates whose experiences might be worth considering are Vietnam and Singapore, who both have small and efficient public sectors. The latter is apparently the model for China's public sector reforms, attracted by their shared Asian values and state-directed capitalism. And recently the UN Economic Commission for Africa suggested that the emerging economies of South East Asia would be a good model for African countries, citing their 'strong and efficient public service(s) with a developmental orientation which had contributed to sustained socioeconomic growth and development'.[22]

Vietnam's decentralisation, simplification and experimentation

Since the end of the war in 1975, Vietnam has transformed its economy from an impoverished centrally planned economy into a mixed and fast growing economy. Politically it remains a one party communist state.

GDP has grown in real terms by between 5-8% in recent years[23] making Vietnam one of the fastest growing economies in the world. The 3G index, which rates countries on a weighted average of six generally accepted growth drivers (domestic saving/ investment; demographic prospects; health; education; the quality of institutions and policies; and trade openness) forecasts average growth for Vietnam of 6.4% between 2010-2050.

A current major administrative simplification initiative 'Project 30', a drive to modernise and reduce administrative procedures by 30%, has reached what the OECD describes as a 'defining moment'. OECD recommends other countries, especially developing and transition countries, who are seeking to improve and simplify their regulatory frameworks, to study Vietnam's experiences.

Another perhaps unexpected facet of Vietnam's reforms is its willingness to *experiment* with policy development. It pilots policies on a small scale, for example its budgetary management reforms and if they prove successful, applies them on a larger scale.

Major influences on public sector reforms throughout the whole of Asia, have been international institutions like the World Bank and the International Monetary Fund, through their projects and reporting requirements in the region. Thus there developed in the region what has been described as a new 'breed' of administrators, often receiving financial support from international agencies, believing in market solutions and increasingly likely to implement business tools such as total quality management and quality control circles.

The public sector in Singapore initially reflected its legacy as a former British colony. Subsequently, its reforms followed the experiences of Western countries – that is, a more market-driven agenda, a new emphasis on management, the public sector as commissioner or catalyst and the redefinition of service users as customers or stakeholders

There is a significant cultural dimension related to Singapore, encapsulated by its Prime Minister's belief that the West's mistake has been to set up 'all you can eat' welfare states, which encourage individual overconsumption. Singapore's approach is to contribute to an individual's account in a central fund, which enables people to pay for their own housing, pensions, healthcare and even their children's tertiary education; thereby rationing and balancing their own needs.

22 *High-performing public service required for Africa's development*, ECA Press Release No. 21/2011
23 Vietnam Business Forecast Report 2011 1st Quarter, Business Monitor International Ltd.

Singapore – 'Good, cheap government'[24]

Currently Singapore spends about 19% of its GDP on public services, well below the world average (see Figure 3 for comparative data). Of course it benefits from a small population and compact territory.

Despite this level of expenditure, Singapore sweeps the board on many measures which indicate the quality of its public services. It scores very highly on measures of educational attainment (fifth in the world for literacy; second for mathematics and fourth for science). Life expectancy is 82 years (6th best in world). GDP is more than $62 000 (6th highest in the world); and is expected to grow by more than 5% annually for the next three years. Unemployment is currently 2.8%.

Singapore's USP is 'good, cheap government'. It is attractive to investors, boasting an excellent infrastructure, a well-educated workforce and the world's second most open economy (Heritage Foundation's Index of Economic Freedom). It is ranked second in the world for its innovation and development strategies (World Economic Forum's Global IT report 2010–11), levies one of the lowest corporation taxes in Asia and is ranked the third least corrupt country in the world (Transparency International Corruption Index).

Current public sector reform initiatives & key players

As mentioned above, key players in public sector reform include aid agencies; global institutions such as the UN or the World Bank; and standard setting bodies such as IPSASB.

Part of the UN and the World Bank's influence comes from their role as funders to developing countries. As such, they can impose conditions such as requiring the recipient country to demonstrate good governance and accountability, or to demonstrate progress in reforming its public sector. They also provide support to donor countries. For example, the World Bank has developed a global financial management strategy which encourages donors and partner organisations to contribute to a coordinated and eventually harmonised approach to financial management policies.

Another global performance management framework for both developed and developing countries is that published by the PEFA program. PEFA (the Public Expenditure and Financial Accountability Program) is a multi-donor partnership between the World Bank, the IMF and various individual countries' development departments. PEFA's framework is a diagnostic tool which assesses the condition of country public expenditure and accountability; and suggests an action plan to build capacity.

See Appendix A for more details on global performance management frameworks.

24 Go East, young bureaucrat: Emerging Asia can teach the West a lot about government, Economist Mar 17th 2011

Performance management in the public sector

Public sector organisations at any time, not just at a time when resources are constrained, need to know how their costs behave (what influences them); and which activities contribute to achieving their outcomes and which do not. Although changes in policy for example, will cause plans to be rewritten, public sector bodies should nevertheless consider the sustainability of their decisions and what financial resources are available in short medium and long terms.

Drivers for improved performance management in the public sector include:

- changes in mandate or scope
- a decline in user satisfaction with services
- recommendations from internal audit, external audit or other inspection/assurance activities
- significant reorganisation
- demands for increased accountability or transparency
- collaboration or outsourcing with new delivery partners.

Performance management tools available to the private sector, are also appropriate for public sector use. For example, benchmarking is arguably easier in the public sector, since organisations are not constrained by commercial considerations from sharing performance data. The lack of competition may mean organisations have to be a bit more creative in finding benchmarking partners – there may be only one body e.g. awarding grants for start up businesses in any region; but there are likely to be other bodies which assess grant claims and make payments.

There are advantages to having a relatively underdeveloped performance management system in that any redesign can both learn from more established systems and leap-frog to use the newest methods and technologies – a combination some term 'piggyfrogging'. As has been mentioned previously, the important consideration is to design the solution which suits the context in which it will be applied. A key design consideration is the appropriate scale for any intervention – the World Bank reported in 2006 that only 6% of the financial management information systems which it funded in developing countries were sustainable, the problem with most of the remainder being that they were overspecified.

In developing an organisation's strategic and corporate plans, top management need to consider the value for money achieved by allocating resources to different activities. It also needs to have a thorough understanding of the financial implications of current and potential policies, programmes and activities. This should be based on an analysis of their cost profiles and cost drivers and of how those costs will behave in different circumstances. It also needs to understand the whole-life costs associated with capital investment.

World Class Financial Management, Audit Commission 2005

Uganda – 'an effective and cheap intervention'[25]

What needs to be done to combat fraud and corruption is often obvious – introduce appropriate controls, improve oversight and accountability; and instil a culture of stewardship of public resources. But the specifics of how to do this have to be suited to the local context. For example, if public servants such as teachers, police or public officials are very low paid, or frequently not paid, they have a greater incentive to commit fraud or corruption.

What other options are there to enforce and enhance accountability in the public sector, if mechanisms such as monitoring or audit are weak and the legal and financial institutions themselves are under-resourced or corrupt? One approach is to engage the users of the service (via the media) providing them with information so that they can identify and challenge abuses by the officials with whom they come in contact.

In 1996, Uganda conducted the world's first Public Expenditure Tracking Survey, which showed that on average, only 13% of annual capital grants from the central government reached schools in the previous five year period. In the words of the U4 Anti-corruption Resource Centre, the rest was 'captured by local officials for purposes unrelated to education.'

Uganda's solution, alongside the conventional response to increase monitoring, was to launch an information campaign to inform local communities of their entitlements. This reduced the diversion of funds to 20%. A subsequent initiative desposited grant funds directly to each school, which was then required to publish what it had received. By 1999, almost 100% of the intended expenditure was reaching its destination.

The role of the finance professional

Performance management is essential to all public sector reforms, whether those reforms are aimed at improving efficiency, value for money, transparency, accountability or evidence-based decision-making.

Performance management is more than the sum of its technical elements – how organisations set targets, measure performance and create the means or culture to encourage the desired behaviour. Performance management in the public sector is the key to using scarce resources and co-ordinating the efforts of different parties to make the most beneficial difference to those who need it.

Performance management is therefore a core element of every public servant's role. But it is finance professionals who have the skills to create, install and maintain those 'technical elements' referred to above. Who build on existing good practice. Who continuously review performance management processes to ensure they are effective and understandable. Who ensure that the best use is made of the information these systems generate.

An important but often unrecognised issue is the different roles played by the different types of finance professional; and that an effective finance function requires a mix of different finance specialisms. An accountant is not just an accountant.

Many organisations would struggle to distinguish between different accounting specialisms, but the difference between management and financial accountants is pronounced with respect to performance management. Performance management is a major element of the syllabus of leading management accountancy professional bodies such as CIMA or CMA Canada; and much less so for many financial accounting qualifications.

25 Public Expenditure Surveys in Education, Reinikka R & Smith N, Unesco , 2004

Management accountants are best placed to design performance management systems to meet the public sector challenge of translating strategy into action and ensuring that resources are directed towards desired outcomes. Management accountants are also more used than financial accountants to dealing with the non-financial, or qualitative data needed for performance management.

Public sector organisations are failing to use a precious resource – the skills of their finance professionals – if they limit the role of the finance professional (especially if that finance professional is a management accountant) to a stewardship and financial reporting role. Finance should be adding value to the organisation and acting as a partner to decision-makers from operational to strategic level. This is the role the finance function contributes in the private sector.

> The UK's National Audit Office published a special report on the Ministry of Defence in June 2010 which revealed that although the department has a professionally qualified finance director on its board (in line with the UK government's drive to professionalise its finance functions), that FD's role is limited to advice on the financial practicability of strategy. It is a director general for strategy who takes the lead on strategic aspects of financial planning. The NAO comment, 'We take the view that this is undesirable as it reduces the authority of the finance director.'[26]

26 MoD told to 'step up' use of skilled finance staff, Accountancy Age, 21 Jul 2010

Implementation guidance for SPM in the public sector

Strategic performance management (SPM) is about an organisation measuring and reporting how it is meeting its strategies so that it can make effective decisions and take appropriate action to achieve better outcomes.

SPM is therefore key to helping an organisation turn its high level vision – in public sector terms, policy – into reality. SPM enables an organisation to achieve an effective 'line of sight' from policy formulation to front line delivery of services, understanding how and to what extent individual activities throughout that chain contribute to high level goals; and easily identifying those areas that are not contributing, or that are performing poorly so that appropriate action can be taken. SPM is both high level (strategic) and integrated, linking various aspects of the business with the management of individuals and teams.

Over the past few years, many public sector organisations have developed frameworks for linking strategic outcomes of the agency to operational plans and budgets. The evidence suggests that these approaches do indeed influence performance.

Performance Management Matters: Sustaining Superior results in a Global Economy, PWC June 2009

In the private sector, such an organisation wide and integrated approach might be known by other terms such as Business Performance Management (BPM), Corporate Performance Management (CPM) or Enterprise Performance Management (EPM). Strategic Performance Management is our preferred term as it suits both profit-oriented and other organisations and is explicit about the importance of integrating performance management with strategy.

Public sector factors which influence the design of SPM systems

Common challenges facing public sectors were discussed earlier. The impact of the most important of these on SPM is likely to be as follows:

- Constraints on public expenditure or the need to reduce public expenditure. This results in smaller budgets and the requirement to find efficiency gains.
- The complexity of delivery chains and involvement of many partners. This means the performance management system requires flexible internal mechanisms of accountability and control and the ability to connect performance issues across organisational boundaries (note how the Botanic Gardens strategy map in the next section links into its funding body, the Scottish Government).
- Balancing the needs of various stakeholders. The KPIs in the performance management system must consider what outcomes various stakeholders require from the organisation.
- Culture and behaviour. Previous practices (and sometimes reforms) may leave managers, administrators and service delivery staff with the legacy of an unhealthy fixation on targets and indicators rather than on the achievement of underlying objectives. Many public sector bodies have hundreds if not thousands of targets. Budget holders may also be used to spending the full budget even when not necessary in one year, to protect the allocation of resources in the following year. There are many challenges to creating a culture of performance management which is about the ends, rather than the means.
- Managing knowledge workers. Many public sector workers are knowledge workers; or undertake 'case work'. The capability of each individual has more of an impact than workers in a more standardised environment; and knowledge work is less observable than for example, the labour involved in manufacturing. It is more difficult to measure the productivity or effectiveness of an individual creating databases, or providing tailored support to a client. Compensating for this however, is the likelihood that knowledge workers are inherently more motivated than 'physical' workers, as those who do such work are those who are naturally drawn to this varied problem solving work. Targets should not be set therefore that specify strict volumes or which try to standardise approaches to a degree that removes the individual characteristics which make someone effective in such a role.

Another significant complicating factor is that it is common in the public sector for organisational structures not to reflect organisational strategy. This is significant because management accounting has traditionally tended to orient itself around the administrative structure of the organisation, which for example defines cost or profit centres for which budgets and performance are managed. If a service is delivered by many different participants dispersed throughout an organisation, it is difficult to identify them collectively as a cost object.

Strategic performance management at the UK environment agency

The UK Environment Agency introduced the Balanced Scorecard in 2004. Performance was reported to the board via quarterly reports on about fifty KPIs, categorised as red, amber and green (the colours used in the UK on traffic lights). More detailed 'Insight' reports are produced for the indicators which are red (underperforming) or amber (not performing well) so that management's attention is focussed where needed.

The Agency has continuously reviewed its strategic performance management system and in 2009 better linked its strategy to its High Level Delivery Plans, then to KPIs and individual objectives, achieving the 'line of sight' which often eludes public sector bodies. It now reports performance by themes, rather than organisational silos (see also Royal Botanic Gardens case below, which takes this one step further to strategic costing by theme). The Agency's Board report now contains forty KPIs, which are increasingly oriented to outcomes rather than activity measures.[27]

Creating the SPM system

Performance management is a process, not an event. It operates as a continuous cycle, needing continuous development of people, processes and services. It needs to influence behaviour by way of mechanisms such as performance budgeting, performance-related pay, benchmarking and results oriented management in general, to achieve real performance improvement.

The goal of the SPM is to create a relevant and appropriate number of measures and targets, cascading throughout the organisation, which measure and monitor how well the organisation is delivering its strategic objectives. It is crucial that these metrics are relevant and meaningful – the common performance management trap of measuring what is easy or likely to be positive applies just as much to SPM as to other areas of performance management. Ultimately, the goal is to translate strategy into actions which achieve better outcomes for users.

Those responsible for the performance management process should perpetually and repeatedly consider 'What key information should we report on, to help the achievement of strategic goals?' It's likely that successive iterations of a developing system will involve new and novel indicators which may require new methods of capturing this data.

The stages an organisation should undergo when creating a SPM system are:

1. defining its purpose (as the entire organisation and as every level within it)
2. defining strategic and operational objectives
3. identifying key functions
4. measuring performance in key functions
5. setting performance targets
6. providing a link between performance and funding using a mechanism such as results based budgeting
7. creating reporting mechanisms
8. introducing feedback loops to ensure that information supports decision-making and is translated into action.

27 *Strategic performance measurement – the case of the Environment Agency*, Cranfield School of Management, YouTube, Aug 2010

Like other performance management systems, one potential problem area is the inadvertent creation of dysfunctional responses to targets. For example, case work (common in the public sector) is inherently unpredictable. When a department has a target to process one hundred cases in a month, the impact of a few problematic cases is diluted. When an individual has a target to process ten cases a week, if one of their cases proves excessively complex, this may encourage dysfunctional behaviour. The individual may 'cherry pick' their case load to avoid complex cases, they may spend less time on these complex cases than they merit; or they may divert time from other cases.

It may not be possible when the system is designed, to predict what this dysfunctional behaviour might be. It may be necessary to 'play through' the first couple of cycles of the performance regime to identify such behaviour. The SPM system therefore should be responsive enough to identify and monitor possible dysfunctional behaviour once it's operational; and adaptable enough to include appropriate safeguards once this behaviour has been identified.

Dysfunctional effects of public sector targets – two examples from the UK health service

In 2000, the UK Department of Health described the UK's National Health Service (NHS) as 'a 1940s system operating in a 21st century world'. It identified underlying problems as the absence of clear incentives and levers to improve performance and a lack of national standards.

Consultation with the public demonstrated that waiting time in accident & emergency (A&E) departments was a priority; and a target was specified in the 2000 NHS Plan that 'by 2004 no-one should be waiting more than four hours in A&E from arrival to admission, transfer or discharge.' Also in the plan was the target 'by 2001 the ambulance service should achieve a first response to 75% of Category A calls within 8 minutes, an improvement in ambulance response times which the Department estimated would save up to 1,800 lives a year.

One result of these targets was that patients would be held back in ambulances until the hospital was ready to admit them, meaning that crew and ambulance were not available to respond to the next incident, compromising the achievement of the ambulance response targets. In 2007, it was estimated that over 43,000 patients waited longer than one hour outside accident and emergency departments, because hospitals would not admit them until they could be treated within the four hour target. [28]

Another result of this target was that hospital trusts began to send more than one ambulance to the same serious incident to increase the likelihood that they could meet the response time. The NAO found that more than one vehicle was dispatched in 49% of call outs in England in 2009-10 and in London, more than one vehicle was sent to 61% of call outs. The NAO said, 'The time taken to respond to calls has until recently been the be all and end all of measuring the performance of ambulance services. However, this led to an increase in the number of multiple responses to incidents equating to millions of unnecessary ambulance journeys.'[29]

The interaction of these two targets shows how important it is to understand the relationship between different parts of a service and to set performance measures which generate desired outcomes. Targets for response times for non-critical incidents and the four hour A&E target were abolished in December 2010.

28 A&E patients left in ambulances for up to FIVE hours 'so trusts can meet government targets' Martin D, Daily Mail, 18 February 2008.
29 Money 'wasted' sending more than one London ambulance, BBC News London, 10 June 2011

A culture of performance

A successful SPM system such as that used by the UK Environment Agency or the RBGE depends on the organisation having a culture receptive to performance management. Embedding or changing this culture is not an easy task, but must include the following:

- Shared understanding – through education and practices and routines that ensure that individuals are encouraged to behave in a way that allows and fosters better working relationships.
- Shared commitment – by involving people in the development and the use of performance management and maintaining this interest through reward systems (including non-financial incentives).
- Effective leadership and commitment from the top – an absence of this is one of the most significant obstacles to implementing effective performance management systems.
- Integration of the performance management changes with an overall cultural change – employing results based management and fostering a belief that performance management and cost consciousness are the responsibility of all employees.
- A professionalised and effective finance function that works in partnership with the rest of the organisation. In particular, the finance function should take the lead in helping to improve the financial literacy of policy and strategy teams at the highest levels, either by direct support, secondment or training. The entire organisation should expect the finance function to add value to strategy development, assessment of strategic options and decision support; rather than perceiving finance's role as purely the stewardship of resources and the recording of their consumption.

Impact of the SPM

The purpose of the SPM is to encourage the behaviour that contributes to the organisation achieving its strategic objectives. The data the SPM generates needs to be analysed and insights drawn out which will inform future action. Performance information will be reported in a variety of outputs including internal reports, budget reports, corporate plans, annual reports, board reports and performance contracts.

The SPM will have multiple audiences, because its scope stretches from strategy right to the achievement of that strategy (front line activities). One of its core audiences is the board of the organisation.

SPM has a specific role to play with respect to good governance. Governance of course is not just about the roles and responsibilities of the board, but how its decision making is supported by information. A board needs to understand its organisation's current strategy, the potential of various strategic options and how the organisation is currently performing to determine whether it's on track to meet stakeholders' expectations.

Boards need performance information which is more than just financial (as those tend to be lagging indicators). They need forward-looking information to enable them to adjust plans to meet goals and performance indicators which are aligned with the organisation's mission and values and which support the organisation's long term interests. Board information which concentrates on short term indicators risks encouraging short termism.

As is shown in the RBGE case below, the improved information from its SPM helps the board and RBGE management to better able discharge their governance responsibilities by improving oversight and control.

SPM tools

Good performance results from clear articulation of strategy so that the context of the organisation is well understood; and business plans and budgets which align the strategy to operations. Specific planning tools such as strategy maps and SWOT analysis can be useful to understand or portray the connection between strategy and operations.

Also available are performance management software solutions, many of which include elements suggesting their financial origins (budgeting and forecasting modules) as well as planning modules and graphical scorecards and dashboards to display KPIs for managers and operational staff. Some SPM systems incorporate popular management frameworks such as Six Sigma, the Performance Prism or the Balanced Scorecard (BSC), thus these methodologies can be regarded as SPM tools.

The BSC is not itself a strategy formulation tool, rather it describes and interprets strategy based on the perceived causal links between activities and their impact. Two of the BSC's most important attributes are its adaptability and its accessibility. It can (and should be) adapted to meet the different circumstances applicable to the organisations who use it; and it is a visually appealing and effective single page representation of important and competing issues which can be easily understood by most users.

Recent CIMA funded research[30] attributes the BSC's popularity to continual updating both by its originators (who retain their role as authorities on the tool) and by the user community. BSC also benefits from its ability to be integrated with, based on or related to a variety of different management practices. It is not surprising that the BSC is one of the most widely adopted management tools (and likely to remain so in the near future, according to CIMA's 2009 survey of management accounting tool use).

An important element of the BSC not included in its original iteration, is the process of articulating and presenting graphically the links between actions ('drivers' or 'lead' indicators) and desired outcomes ('lag' indicators) highlighting these causal relationships. Kaplan & Norton refer to this process as strategy mapping. Strategy maps are an essential element for employing the BSC as a strategic performance management tool, as they analyse the various cause and effect relationships between strategies and activities; and identify any unsuitable measures.

The importance of adapting tools

As mentioned above, there are both specific SPM tools and entire SPM systems available as software. The selection of tools or systems needs some care to ensure that solutions are not over specified and that overreliance on an IT solution has not come at the expense of a native understanding of the underlying approach or the data generated.

The adaptation of tools is also very important so that the information generated suits the needs of the organisation. This is one of the special characteristics of the management accountant, the selection and application of tools to suit the situation at hand, rather than the application of a standardised approach, which is what is properly required of financial accountants in response to their reporting issues.

In the next section, we illustrate how the Royal Botanic Gardens in Edinburgh have adapted tools – the BSC and a type of activity based costing – to create a performance management solution to help both governance and management of the organisation.

30 Creating and popularising a global management accounting idea: the case of the Balanced Scorecard, 2010 research executive summary series, volume 6, issue 13.

Translating strategy into action – 'line of sight' at the RBGE

This case describes an innovative approach adopted by the Royal Botanic Garden Edinburgh (RBGE). The RBGE is a not-for-profit charity, principally funded by the Scottish Government. It is one of the world's leading botanic institutions, providing one of the widest educational programmes of any botanic garden and is a significant Scottish tourist attraction. The 800,000 visits a year to the RGBE's four gardens are regarded as an important element in engaging the public with biodiversity and sustainability issues.

The RBGE's innovation was twofold – an extensive adaptation of the BSC to enable it to be used for strategy formulation in a non-standard public sector organisation; and the creation of a new type of costing (objective costing) system to support the RBGE's strategic performance management system.

The adaptation of the BSC was to create four dimensions more suited to a non-profit oriented entity – impacts, resources, activities and governance – rather than the standard BSC dimensions of customer, learning & growth, financial and internal business processes.

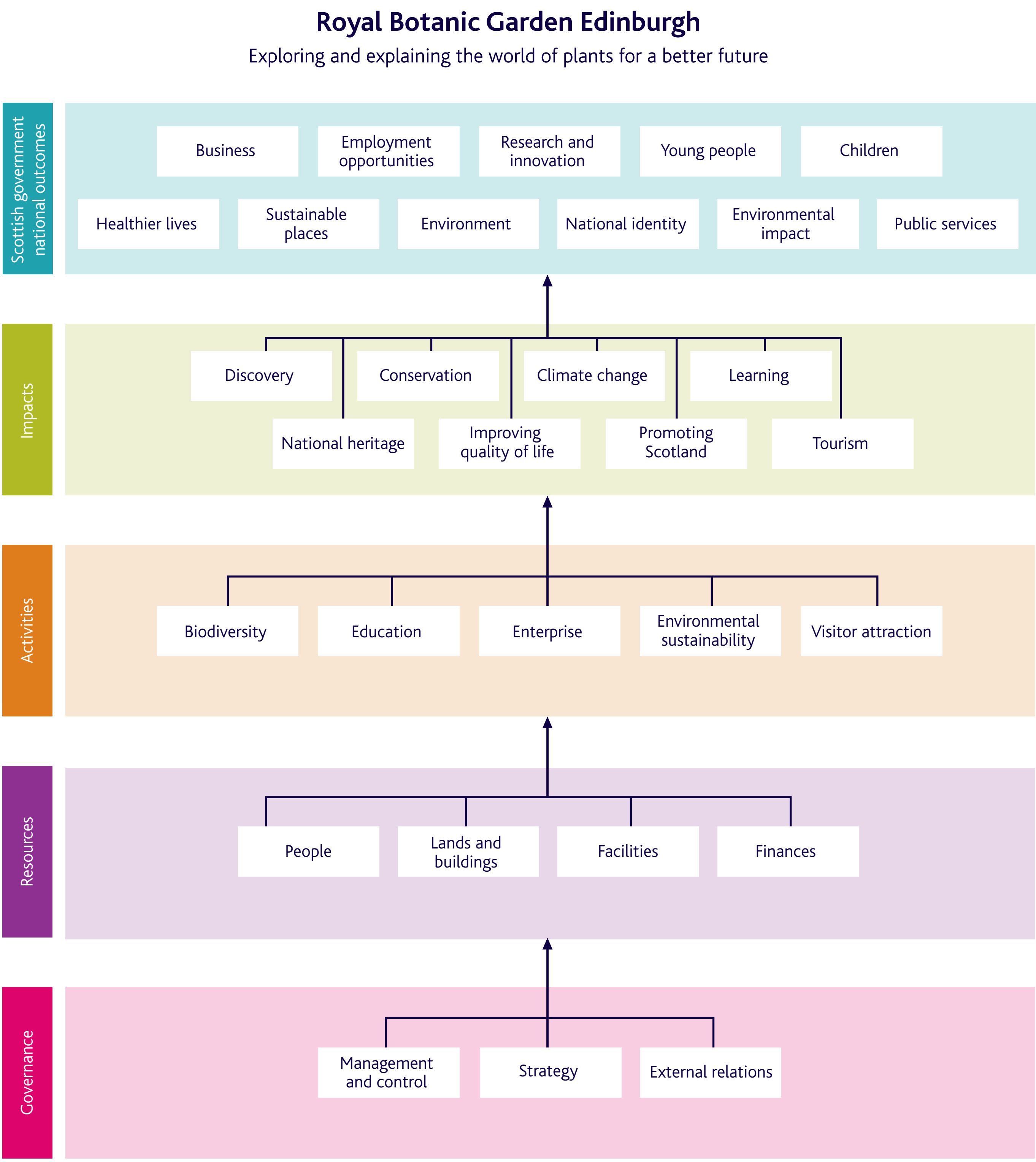
Objective costing was created as an alternative to activity based costing (ABC), devised to create greater visibility about the costs of the various activities of the organisation. As these activities were mapped to the achievement of strategic goals, objective costing enabled the organisation for the first time to establish the costs incurred in meeting these goals and allowed management to make better resource allocation decisions.

RBGE like many public sector organisations is essentially a knowledge-based organisation and as such staff time constitutes the majority of costs. Therefore it was essential to cost activities. ABC was considered but felt to be unworkable for the RBGE, given the high degree of cross-functional work and the prevalence of staff contribution to multiple strategies.

The result of the new initiative was that it generated for the first time an accurate picture of the cost of each strategy, a 'line of sight' extending from strategy to delivery. The costs of some activities were shown to be double those previously identified.

The consequence of this improved insight is that RBGE management are better able to control performance and discharge their governance responsibilities. A solution which so effectively compensates for the misalignment of organisational structure and strategy will help prevent future (time-consuming and unproductive) re-structures of teams or units to reflect changes in strategy.

Figure 7: RBGE strategy map incorporating main external stakeholders



The RBGE balanced scorecard approach is discussed in more detail in the research report, *Garden designs to improve the line of sight*, details of which are given at the end of this report.

Conclusion

Performance management in the public sector sometimes suffers from a bad reputation. This might be because of oppressive target regimes (micromanaging individuals, or requiring the monitoring of hundreds of 'key' performance indicators) or performance management systems which don't reflect the public sector's complex, collaborative and outcome oriented perspective.

Effective performance management demonstrates that timely and accurate information significantly improves decision making and that the right measures encourage the desired behaviour. Out of date or irrelevant information leads to poor decision making and measuring the wrong things may lead to unplanned consequences.

It's vital to monitor the 'right things' – in the case of SPM, activities that contribute to the achievement of strategic objectives; and outcomes that demonstrate that those objectives are being met. It's important to monitor a reasonable number of things – the more measures users are required to focus on, the less attention they give to each and the poorer their understanding of the overall picture.

Focussing on a limited number of key measures puts more weight on the individual's performance. Employees in the public sector are often motivated by different values than those in the private sector. Performance management systems can be designed to rely on the higher levels of inherent motivation that exist in many public sector workers. Non-financial rewards for good performance can include higher degrees of discretion because staff are supported by clear objectives and better focus on what is expected; confidence that one's activities are contributing to strategic goals and comfort that one's organisation is making the best use of resources to achieve its objectives.

APPENDIX A: Some global frameworks to assess public sector performance

Key global players assess the adequacy of different elements of the public sector such as accountability; progress towards adoption of accrual accounting; and adequacy of audit and governance arrangements. These include:

- The Global Integrity Report – reports on national governance and anti-corruption mechanisms, combining qualitative reporting from a network of in-country contributors and a quantitative Integrity Indicators scorecard. A similar index is Transparency International's Corruption Perceptions Index which ranks countries by their perceived levels of corruption, as assessed by experts and surveys of businesspeople and analysts.

- World Bank's Worldwide Governance Indicators - reports individually and in aggregate, indicators of governance based on dimensions including accountability, political stability and quality of regulatory environment.

- OECD's Government at a Glance 2011 – a dashboard of almost 60 indicators, including revenue received, government expenditure as a whole and by services such as education and health; and some output and outcome data. Also includes information on service delivery, HR management and integrity and governance. Thus the survey provides some insights into policy approaches.

- International Organisation of Supreme Audit Institutions (INTOSAI) – a global organisation for the community of external auditors of governments (known as SAIs) whose goals include assessment of SAIs and capacity building.

- Public Financial Management (PFM) Performance Measurement Framework – also known as the Public Expenditure and Financial Accountability (PEFA) framework, this tool was launched in 2005 to assess the state of public expenditure, procurement and financial accountability in countries of all sizes and stages of economic development; and to develop action plans.

- Country Financial Accountability Assessment (CFAA) – a World Bank diagnostic tool to assess a country's overall financial systems (in both public and private sectors) and specify a plan to address weaknesses in accountability in the public sector.

- Public Sector Integrity assessment framework – Developed in 2005 by the OECD, this framework allows countries to measure their effectiveness at promoting integrity and preventing corruption including how they demonstrate evidence-based policy making.

- Fiscal responsibility index – an international comparison of the sustainability of public finances based on a government's current level of debt, the sustainability of government debt levels over time and the level of transparency and accountability for fiscal decisions. The index was created by the Comeback America Initiative and Stanford University graduate students.

Relevant CIMA publications

New public sector performance management: making fiscal consolidation smarter, 2010

Management Accounting Tools for Today and Tomorrow, 2009

CIMA-funded research

Garden designs to improve the line of sight, 2010 research executive summary series, vol 6, issue 7

Creating and popularising a global management accounting idea: the case of the Balanced Scorecard, 2010 research executive summary series, volume 6, issue 13.

CIMA publications are available from **www.cimaglobal.com/Thought-leadership/**

Syllabi for CIMA qualifications can be viewed at **www.cimaglobal.com/Study-with-us/Entry-routes/**

To comment on this report, email **cimaknowledgeunit@cimaglobal.com**

ISBN 978-1-85971-711-0 (PDF)

Chartered Institute of
Management Accountants
26 Chapter Street
London SW1P 4NP
United Kingdom
T. +44 (0)20 7663 5441
E. cimaknowledgeunit@cimaglobal.com
www.cimaglobal.com

 PR024V0911