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Excerpt

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Part I

Principles of performance measurement

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1 Measuring public sector performance

Introduction

Before considering how the performance of public services should be measured, it is important to step back a little and think about some of the issues underpinning this measurement. We first need to consider a very basic question: why do we measure anything? I started writing this chapter during a visit to New Zealand and, strange though it may seem, the garage walls of the house I rented for my stay hint at part of the answer. One wall has a series of pencil lines drawn at different heights, each accompanied by a date and a name. The names are those of the children who grew up in the house, whom I've never met. The lines record their heights as they grew from small children towards their teenage years. Their height is one element of the progress that the children made as they grew through childhood. The marks on the wall form a simple measurement system to show how the children developed.

Consider another mundane example: the weight of babies is routinely monitored during their first months of life. Mothers are often given a card on which the weights are recorded, and many families retain these cards as mementoes long after they are needed for their original purpose. The weighing and recording enables doctors, nurses and other advisors to see whether the baby is gaining weight as she should. Though knowing the actual weight of a baby at a point in time is important, there is another reason for keeping this record. This is that it enables parents and medical staff to see the trend in weight since the child's birth because, just as adults have different body shapes and weights, so do babies. If this trend gives cause for concern, the baby may need special care, or the parents may need advice and support in appropriate ways to feed the child. That is, the weight record forms the basis for assessing progress and for deciding whether intervention is needed.

On an equally mundane level, it is interesting to watch serious runners as they set off on a training run. Many, if not most, will note the time or press a timing button on their watches. This allows them to monitor their progress

during the run and also to record, at the end of it, their performance in terms of the time taken to complete the run. They may be doing this to gain bragging rights over their friends, or as part of a training diary in which they record their progress and the degree to which their performance is improving. Proper performance measurement enables them to do this.

Most of us routinely measure performance in our daily lives and often do so without thinking about it. We measure the time it takes to get to work, our weight, whether that piece of furniture will fit where we'd like it to be and we use thermometers to record room temperatures or body temperatures. All of this we regard as completely uncontroversial, perhaps not realising the effort that went into developing standardised measures for these parts of our daily lives. This reliance on numbers for measurement is a taken-for-granted feature of contemporary life that is, apparently, not part of life in some cultures. According to an MIT team, the language spoken by the Amazonian Pirahã tribe of hunter gatherers has no words for numbers, but only the concepts *some*, *few* and *many* (Frank *et al.*, 2008). It seems that these basic ideas are adequate for the normal lives of these people who, despite having no suitable words, are able to match sets containing large numbers of objects as long as they are visible. That is, despite having no suitable vocabulary, the Pirahã can recognise equality and can thus categorise groups of objects by size. Even without words, it seems that humans can roughly distinguish between quantities, which is the basis of measurement. However, we should also note that estimating quantities beyond small values is not something that comes naturally to us – see *Alex's Adventures in Numberland* (Bellos, 2010) for an entertaining and illuminating discussion of this. It seems that, without some form of measurement system, we are likely to estimate quantities very badly.

This book carries the title *Measuring the Performance of Public Services* and such measurement is obviously much more complicated and, often, more controversial than the personal measurements discussed above. However, the need for measurement is pretty much the same; we want to see how much progress is being made and we wish to know whether intervention is needed. Performance measurement and performance indicators have been used in public services for many years. Jowett and Rothwell (1988, p. 6) includes a fascinating table listing significant events in the introduction and use of performance measurement in healthcare, reaching back to the year 1732. The book *Reinventing government* (Osborne and Gaebler, 1992) played a major role in encouraging public bodies to enthusiastically attempt to measure their performance, especially in the USA. Its main argument is summarised in its own bullet point summary, which includes:

- If you don't measure results, you can't tell success from failure.
- If you can't see success, you can't reward it.
- If you can't reward success, you're probably rewarding failure.
- If you can't see success, you can't learn from it.
- If you can't recognise failure, you can't correct it.
- If you can demonstrate results, you can win public support.

That is, measurement helps a public body to plan its services better, to provide better services for users, to go on improving them and to increase its support from the public.

Bill Yake, a management analyst with Fairfax County, Virginia, in the USA, stresses the importance of a clear customer, or user, focus when planning any performance measurement (Yake, 2005). This means that those planning and using performance measures in service planning and improvement need to be clear about who the customers and users are, what key quality characteristics they value and what standards they expect. These characteristics and standards might include timeliness, accuracy, long term benefit, easy access and so on. Once they are established it is then important to consider if and how these can be measured, so that plans can be laid and progress monitored. Sometimes this measurement can only be done properly at high cost and it is important to consider whether the benefits outweigh the costs. However, a little creativity in data collection and analysis can often get round these problems.

In the rest of this first chapter, we explore some basic ideas underpinning performance measurement in public services. We briefly consider the importance of performance measurement within different views of public management. We then take a simple view of such measurement using the idea of input:output systems and extend this by introducing the ideas of soft systems methodology that are used in later chapters and provide a much broader view of such measurement. Finally, we consider desirable aspects of performance measurement and, indeed, of public service provision, usually summarised as the Es.

Different views of public management and administration

It is often assumed that performance measurement is a feature of particular approaches to public management and administration, but this is altogether too simple a view. When considering how and why performance measurement might be important in the provision of public services, it is helpful to

place these questions in the context of changing views of public management. In a short section of a chapter in a book of this type it is impossible to do justice to the full range of different views on public management and administration but it is helpful to consider some different views. For present purposes, we consider three:

1. the classical civil service;
2. the New Public Management;
3. the creation of public value.

Whether any of these exist in a pure form is debatable, but they serve as useful archetypes against which the role of performance measurement can be discussed. The first two are mainly concerned with the organisational structure and management processes of institutions that provide public services. The third, public value theory, is more concerned with the activities in which public managers engage when providing public services.

The classical civil service

This is, perhaps, the image of management and organisation in the public sector that springs most readily to the minds of outsiders when considering national ministries and agencies. It was gently satirised in the classic BBC TV series *Yes Minister*, first broadcast in the early 1980s. In this view, public bodies are regarded as large bureaucracies in which roles and responsibilities are tightly defined and great stress is placed on correct procedures and processes. Thus, for many years, the principles for the selection of UK civil servants were based on the recommendations of the Northcote-Trevelyan Report on *The Organisation of the Permanent Civil Service*, issued in 1853. The report assumed, broadly speaking, two types of civil servant that are sometimes parodied in the terms officer class and foot soldiers. All civil servants were to be appointed on the basis of merit, not through patronage, as had sometimes been the case in the past. In the case of the officer class this rigorous selection meant competitive examinations for entry and a career, with progression, that would extend through a working life. Merit for entry to the officer class was to be determined by public examinations, which favoured generalists who had a broad education rather than those with specialist skills and knowledge. In general, the foot soldiers would also have lifetime employment available, though with rather limited opportunities for progression and without competitive examination as the prime entry route.

The public institutions in which these public servants worked were large multipurpose bureaucracies. These were hierarchically organised and, for the

officer class at least, offered the possibility of career progression from being a new entrant through to the most senior jobs. Few people joined these institutions at the top level, allowing staff to be gradually socialised, by a long period of secure employment, into a public service view of their responsibilities and roles. Among these roles were the provision of policy advice to ministers and the responsibility for implementing policy and providing public services. As in all bureaucracies, the rule book was very important and processes and procedures were tightly defined. Control was exercised on inputs and resources, rather than on outputs and other results, though the civil servants themselves and their political masters were genuinely interested in providing high quality public services. As is well-known, bureaucracies tend to take on a life of their own and could become self-serving.

In this classical view, public servants and the public service in general were seen as non-partisan; that is, they were the obedient servants of whichever political group held power at the time. Since policy development was one of their roles, this could create clashes of interest. Their job was to offer appropriate, impartial advice and then to do the bidding of their political masters, though it is unlikely that this ideal was always achieved in practice. In this sense, the earlier military analogy is wholly appropriate. Military officers, through their experience of warfare, advise their political masters who can command them into action. The officers organise the armed forces appropriately to achieve whatever action is determined, and the foot soldiers do the dirty work. The civil service officer class, with its general education and extensive experience built up over long careers, were to be reliable administrators rather than advocates for particular causes.

In the decades following the Northcote-Trevelyan Report, there were periodic reviews of the UK Civil Service, of which the most significant was probably that chaired by Lord Fulton over a century later in 1968. This criticised the Civil Service for its cult of the well-educated generalist (the officer class) and argued that this generalist class lacked management skills. It argued that the Civil Service required people with scientific and technical skills, including economists, as well as generalists. This led to the creation of the Civil Service College and the removal from HM Treasury of responsibilities for personnel matters. Opinions vary about the success or otherwise of the Fulton Committee's work (see Dunnett, 1976 for example) but it reflected a mood that, over time, led to significant changes in the way that the UK Civil Service was organised. These changes were 'in the air' in other countries, too, as will become clear in the next section. The concept of lifetime careers in the Civil Service remained a reality, but the cult of the generalist was watered down, if only to a degree. At

the risk of gross oversimplification, the changes recommended in the Fulton Review led to a situation in which the specialists, such as economists, advised the generalists, who then advised the politicians on policy, though still operating apolitically. Gradual career progression still allowed the socialisation of career civil servants into a public service outlook that was rather different from that often found in the private sector of the time.

The New Public Management

The New Public Management (NPM) is a term used to describe an approach to public administration and management with several distinct characteristics. It is 'a more or less coherent theory of how governments may deliver services' (Lane, 2000, p. 8). It emerged during the 1980s as a reaction against the classical view of public service summarised above, particularly against what was seen by some as its cumbersome, self-sustaining bureaucracy. It marked a shift, in theory at least, from passive administration to active management. Like all such developments, it is an oversimplification to point to a definite date, time and place when this species appeared, rather, it emerged as a series of small evolutionary changes. The writers who first described this new species were Hood (1991), Boston (1991) and Boston *et al.* (1996), since then numerous papers and books have expanded on their original insights.

It is unclear who first coined the term 'New Public Management' but Hood (1991) seems to have been the first to classify a set of ideas, termed doctrines in the paper, that characterise NPM.

1. Hands-on professional management in the public sector. This includes the need for clear lines of accountability rather than the diffusion of power common in public bureaucracies with their inbuilt checks and balances. This is especially seen in the appointment of chief executives on a competitive basis, often from outside public service, whose names are publicised and who may be employed on performance-related contracts. This is a shift from the notion of a lifetime of public service that, for some, would end in very senior civil service posts.
2. Explicit standards and measures of performance. Since managers are given goals to achieve, this second doctrine provides the means to bring them to account. The emphasis is on very clear goals against which performance may be assessed, which is rather different from allowing people to imbibe a public service ethos through gradual socialisation and long careers.
3. Greater emphasis on output controls. As discussed earlier in the section introducing basic ideas of performance measurement, there are many

ways to measure performance. Since the classic civil service view valued the correct adherence to protocols and procedures, it stressed the importance of process measures. NPM, by contrast, having set output (and, possibly, outcome) goals stresses controls based on those outputs. Norman (2003, chapter 2), writing about the New Zealand experience, describes this doctrine, combined with explicit standards and measures of performance as ‘introducing business-like controls’.

4. Shift to disaggregation of units in the public sector. This is achieved by breaking up large, multifunction bureaucracies into autonomous or semi-autonomous units, each having, at its extreme, a single purpose. Interactions between these slimline agencies and the centre and other agencies are managed by performance contracts that may include service level agreements.
5. Shift to greater competition in the public sector. This is based on a belief that markets lead to innovation and drive down costs, thus making the public sector more efficient and effective. As well as contracts, this includes a requirement for public tendering processes in which price is a major determinant of success, with standards specified in service level agreements.
6. Stress on private sector styles of management practice. This implies the import of styles and concepts of management used in the private, for-profit sector. Essentially this assumes a cadre of professional managers who are given goals to achieve and the freedom to set about achieving them. It marks a shift from lifetime public service employment, and its attendant public service ethic, towards a more mobile and, possibly, self-interested workforce.
7. Stress on greater discipline and parsimony in resource use. Doing more for less by seeking efficiency and productivity improvements and driving down costs, including, as mentioned above, the use of contracts based on public tendering processes.

It is clear from this doctrinal statement that NPM is very different from that of the classical civil service.

Boston *et al.* (1996, chapter 1) discusses three economic theories that underpin these NPM doctrines as introduced in New Zealand, which led to Hood’s NPM doctrines summarised above.

1. Public choice theory. Like much economic theory, public choice theory is based on an assumption that people are self-interested and act rationally to maximise the benefits that they receive. Leading proponents of this view are Arrow (1963) and Buchanan (1968). Public choice theory is an extension of rational choice theory, which itself was roundly criticised by

Simon (1972, 1976) for regarding people, in the usual terms of economics, as utility maximisers. Public choice theory assumes all parties, whether recipients of public services, public servants or their political masters, seek to maximise their own utility. That is, the full range of parties involved seek to gain personal benefit from acting in particular ways. Hence recipients of services are regarded as consumers out to maximise the benefits they receive from a service and seeking to minimise the taxes they pay in return. Public servants are assumed to seek to maximise their own net gains and, without suitable incentives, are seen as self-serving and seeking to expand their empires. Politicians, in turn, will always seek their own interests. Given this assumed self-interest, it should be clear why regulation and control become major elements of NPM.

2. Agency theory. One view of a for-profit business organisation is that two of its main stakeholders are the principals (or owners) and the agents (the managers and others they employ). In more general terms, a principal enters into a contract with an agent in which the agent agrees to operate on behalf of the principal. Though originally applied to private, for-profit business firms, Boston *et al.* (1996, chapter 1) argue that agency theory is an important underpinning foundation of NPM. Underpinning agency theory is the same assumption found in public choice theory: people are rational and self-interested and so will try to maximise their own utility. This means that the interests of the principal and the agent will, at some stage, conflict. Hence, the principal needs to find ways to induce the agent to operate in ways that benefit the principal rather than the agent. This means that incentives are needed to ensure that the agent's and principal's interests are aligned. These incentives may be written into formal contracts or take different forms of agreement between the two. Not surprisingly, such 'contracts' are likely to specify the behaviour required of the agent and will require evidence about the agent's performance.
3. Transaction cost economics. Boston *et al.* (1996, chapter 1) argue that this, too, is based on a view that people are self-interested utility maximisers and that 'contracts' need to be carefully designed to minimise the risk to the principal that the agent might not operate to the principal's benefit. Transaction costs are those associated with ensuring contract compliance through planning, adapting and monitoring task completion. These transaction costs are distinct from the costs of producing the goods or service. Its exponents (e.g. Williamson, 1985) argue that rational agents will select arrangements to minimise their total transaction and production costs; for example, should something be done in-house or outsourced?