



Breaking Open the Iron Cage – What is to be done about the Performance Management of State Sector Organisations?

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Aims of the session

- Context
 - introduce *Managing for Organisational Performance (M4P)* project
 - some key findings from the research
- Summarise the premises and conclusions on the formal system – and what impedes change
- Present some options for bringing the *formal system* and the *in use* system closer together – *directions for system change*

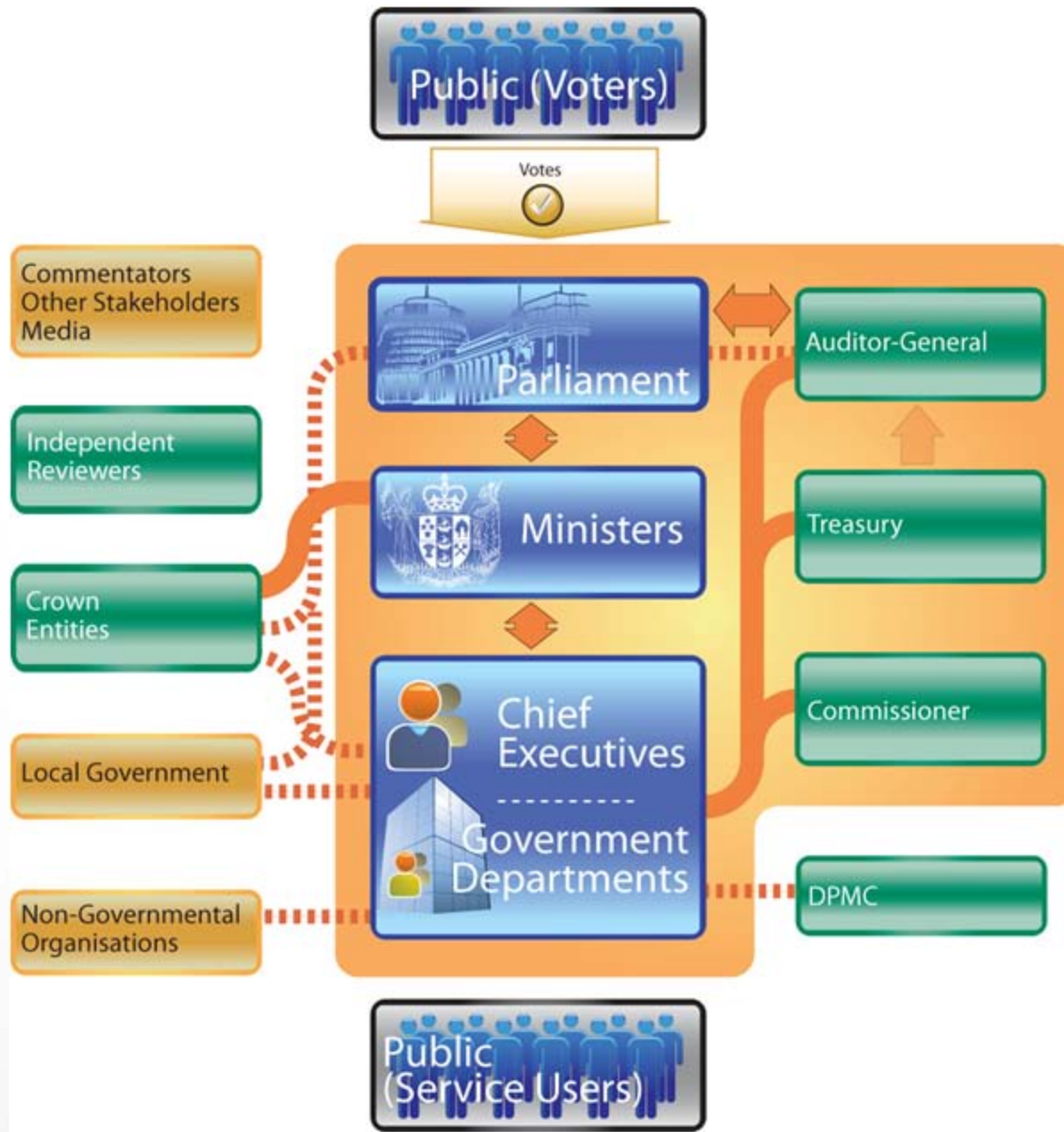
Context for “Managing for Organisational Performance”

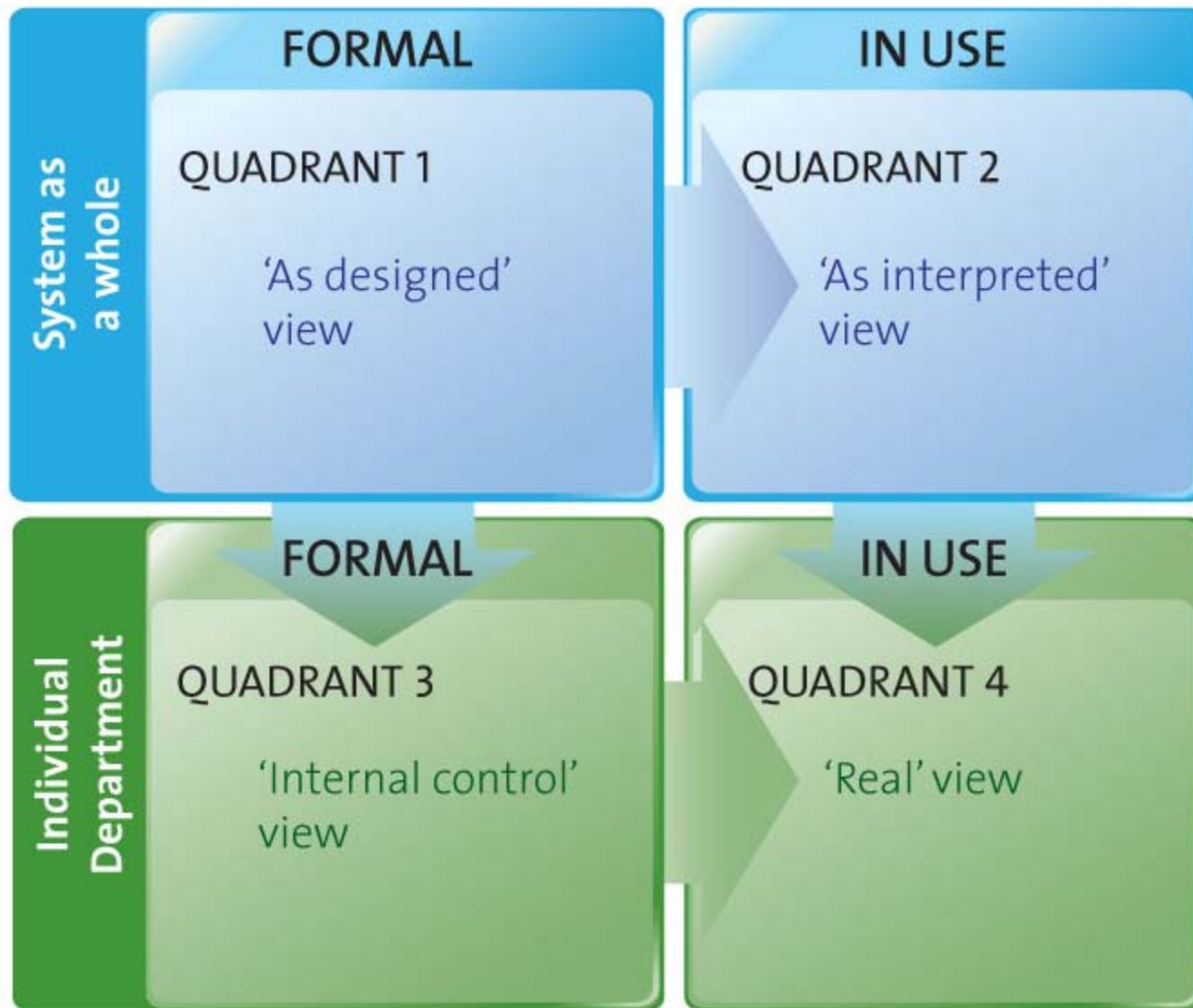
- Why
 - Non–financial performance measures are still “crap” <C&AG 2008> after nearly 20 years
 - Central agency vacuum of intellectual leadership
- How –
 - EIP Team – conducted a significant survey; completed seven case studies (2 networks, 5 agencies); and documented the formal system

see http://ips.ac.nz/events/Ongoing_research/M4P/index.html

Context for “Managing for Organisational Performance”

- What –
 - *Research Goal – identify the information decision-makers actually use to decide what to do; and what, if any, use is made of the current performance information*
 - *Policy Goal – make recommendations for the direction of system change*
- What scope – shaded area in diagram next slide
 - Parliament
 - Ministers
 - Agencies at the centre
 - Departments





Key findings from M4P



- Q1 – external accountability focus; not learning
- Q1 – focus on departmental accountability; not Ministerial responsibility for outcomes
- Q1 – freedom to manage within system

- Q2 – ‘one size fits all’ despite system flexibility
- Q2 – limited use of performance information by the centre

Key findings from M4P



- Q3 – creation of an ‘iron cage’ of (internal) control within NZ public organisations
- Q4 – extensive use of formal quantitative performance information *as well as* qualitative narratives
- Q4 – varying degrees of loose coupling



For formal system change we need to distinguish

Constraints inherent in:

- *Politics* – specifically Westminster democracies
- *People* – bounded rationality
- *Comparability and measurability* of (some) public services

Parameters -Limitations:

- Inherent in the *design* of the formal system
- Design *incompleteness* in NZ
- That reflects poor *implementation* (and not design flaws)

The *formal* and *in use* systems



Premises

- *System as a whole* (Q1) as reflected in:
 - Legislation – OIA, PFA, SSA, CEA etc
 - Cabinet Manual (including conventions)
 - Central agency guidance (in many forms)
- *Individual departments* (Q3) as reflected in:
 - Accountability documents – external and internal; organisational and personal
 - Policies and procedures

Reality

... and what happens in practice (Q2&4)

Formal system – Parliament

Premise 1 – Parliament will use departmental performance information to scrutinise the performance of the Executive

In practice (inherent in politics)

- *Little systematic use of performance information due to Ladley's iron rule of political contest*

“Parliament uses performance information not to improve the Executive's performance but in order to attack the Executive” (Prebble 2010)



Formal system – Ministers

Premise 4 – Ministers determine outcomes and select interventions....

Premise 5 – Ministers will use performance information toscrutinise the performance of chief executives and their departments

In practice (inherent in Cabinet and people)

- *Ministers use of performance information was variable as their political leadership role requires a selective focus on a few issues*

Formal System – Chief Executives

Premise 6 – PI will be used as part of chief executive accountability processes

Premise 7 – Chief executives can be relied upon to lead and manage inputs and outputs

In practice (key design feature)

- *Formal PI attracts little weighting in CE performance reviews as delivery of outputs is a necessary but not sufficient condition*
- *Performance by CEs and Depts. is a multidimensional concept. Also includes managing the authorising environment*

Formal System – Theory of Organisations

Premise 8 – from control perspective activities can meaningfully be expressed as outputs

Premise 9 – there is an objective and consistent ‘hierarchy’ of PI from internal management to higher level external accountability information

Two Views (inherent in design or execution)

- 1 Conceptually possible to measure all performance but not always practical to do so*
- 2 Performance and PI is not objective – it is socially constructed and relative to the rules used to measure, monitor and manage*

What impedes change ? – Constraints

- *Inherent limits to PI / measurement generally* – ‘politics’; gaming; cheating; synecdoche; complexity
- *Limited demand for performance information by:*
 - Parliamentarians
 - Ministers
 - Central Agencies

What impedes change ? – Parameters

- *Lack of effective capability* – either “don’t have the data; have the data, lack the ability to interpret; or have the data and capability, never tried”
- *Lags* – takes time, sustained investment, commitment
- *Lack of leadership* – post-MfO
- *Resources* – measuring outcomes / effectiveness can be hard and expensive (as can some aspects of output performance, especially quality)

Strategy 1: Focus on *Outputs* (1)

- Primary characteristics:
 - retain *outputs* as the predominant focus – budget control (Parliament to Ministers); external (non-financial) departmental reporting; major element in chief executive accountability
 - retain *outcomes* for context – uncouple *outcomes* from service performance reporting / accountability
- Rationale:
 - formal system needs to reflect constitutional requirements
 - nobody has identified anything better (with caveats – see *Common Strands*, later)



Strategy 1: Focus on *Outputs* (2)

- Limitations and Constraints
 - working within the authorising environment / political contest
- Making it happen:
 - emphasise the importance of *outcomes* for policy / evaluation (not accountability);
 - leadership to increase expectations of high quality output information (including appropriations)
 - no specific legislative change required

Strategy 2: Shift focus to *Outcomes* (1)

- Primary characteristics:
 - *outcomes* as the centre-piece – arrangement options:
 - formalise CEs' role in outcome leadership
 - requirement on government to set strategic priorities
 - Ministers explicitly responsible for outcome leadership – through formal *Outcome Responsibility Statements*
 - reduced role of *outputs* – less as a Budget control device; departments to use for internal management
 - shift in balance between *accountability* and focus on *performance improvement* (organisational learning)



Strategy 2: Shift focus to *Outcomes* (2)

- Rationale:
 - limited / uneven Ministerial involvement in outcomes to date – accept that reality (variant 1) or require it (variants 2/3)
 - absence of shared strategy / priorities (context) for shaping departmental operations
- Limitations and Constraints:
 - accepts authorising environment / political contest

Strategy 2: Shift focus to *Outcomes* (3)

- Making it happen:
 - broaden outcome focus from agency-specific – require joint / cross-departmental working
 - CEs to be responsible for explicit shared objectives
- OR
- Ministers explicitly responsible for outcome leadership – setting and measuring / reporting
- CEs to have greater role in selecting interventions
- develop different / new Budget mechanisms – including nature / purpose of appropriations
- re-consider *accountability* – how it is used OR how it is defined (**Note:** full or reasonable control)
- resolve constitutional issues – Ministerial responsibility

Strategy 3: Setting Outcomes Free (1)

- Primary characteristics:
 - independent reporting on outcome state information (high-level) – different options:
 - by selected departments – building on current social, environment, transport reporting
 - existing organisation – Stats NZ; OAG; other
 - new organisation – Productivity Commission, other ?
 - independent role to cover – options:
 - reporting only
 - measurement and reporting
 - target setting, measurement and reporting

Strategy 3: Setting Outcomes Free (2)

- Rationale:
 - traction not possible within authorising environment – managerial solutions cannot resolve political factors
- Limitations and Constraints:
 - reduce political contest in relation to *outcomes*
- Making it happen:
 - de-politicise responsibility for outcome performance – cross-party [fiscal responsibility]
 - develop broader arrangements for policy-making



Strategy 0: Common Strands (1)

- Primary characteristic:
 - address the *one size fits all* issue – in design and implementation (agencies at the centre and departments – much of the ‘iron cage’ is in our own hands)
- Focus of change:
 - variable reporting – materiality; role
 - enabling external analysis of performance information – to enable better / increase use (crowd sourcing)
 - improving service performance reporting standards

Strategy 0: Common Strands (2)

- Making it happen – examples:
 - closer leadership / monitoring by central agencies – greater *sophistication*
 - greater use of performance information in chief executive performance review
 - improve clarity of appropriation structure and scopes – whatever their focus
 - increase evaluative lens, especially in policy analysis
- statutory changes:
 - *definitions* – output expense appropriations; outputs; classes of outputs
 - *requirements* – SSP not a financial statement; variable departmental (financial and non-financial)

Want to know more?

See

http://ips.ac.nz/events/Ongoing_research/M4P/index.html

Book Launch – *The Iron Cage Recreated* – late November

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