

Results-oriented budgeting

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Most management improvement initiatives in government over the last half century have been rooted in some variant of results (or performance) measurement.ⁱ

The emphasis on quantifiable results comes from several sources. One is the legacy of F.W. Taylor's scientific management,ⁱⁱ which held that efficiency was best approached through disaggregating work into repetitive components, time-and-motion studies, bonuses for meeting targets, and the like. These ideas have enormous force when applied to repetitive industrial activities. Some government operations, such as sorting mail, producing passports or delivering pension cheques, partially fit this mould. Procurement, done properly – with firm prices, detailed contracts, and an appropriate assignment of risk as between purchaser and seller – is also a special case. The difficulty arises when attempts are made to apply performance measurement as a guide to budgets to unique, creative, complex or highly discretionary activities, or to activities that are causally distant from the desired outcomes. As an example, the quality of a policy decision may be entirely unrelated to the resources required to arrive at it. It may, like much scientific work, depend on the brilliance of a single mind.

Many government activities are more like policy work than they are like industrial processes. The application of performance measurement techniques in those cases is at best wasteful and too often downright perverse. Governments must make decisions in the face of multiple and conflicting objectives,ⁱⁱⁱ some of which will not be acknowledged in polite company, and in the face of irreducible as well as ordinary ignorance. The excessive focus on performance measurement can distort the understanding among managers of the purpose of good management, which in the public sector might be summarized as the effective stewardship of public resources to achieve the declared objectives of the elected government.

Paul Thomas recently reviewed the state of performance measurement and performance management in the Canadian public sector. Although he concludes that

“performance measurement is here to stay,” he provides a wonderfully complete compilation of the challenges in implementing it sensibly. Thomas reminds us that performance measurement is “a subjective value-laden activity, taking place in a political context.” He points out that in the public sector the slogan “you can’t manage what you can’t measure” is highly misleading. He recalls the rhetorical flourish associated with introducing performance measurement systems (such as “Measuring Up” in Alberta, “Oregon Benchmarks,” the “Minnesota Milestones” and “Best Value” in the United Kingdom) but notes that many have been reduced in scope or dropped entirely.^{iv}

The Canadian province of Alberta illustrates one pitfall. Earnest reformers debated at length the results measures that should be developed to guide expenditures in social services. After debate it was agreed that the rate of unwed teenage pregnancies was a good measure of something society did not want. After two years of programming it was concluded that the cause of teenage pregnancies was not anything officials did, but was due mostly to teenage boys. The indicator was dropped.

Another classic problem with results-oriented budgeting is that the results may be so far away in time, and the chain of events between spending and the observation of outcomes so complex, that only an optimist or an ideologue could posit a connection.

More generally, the incentives involved in generating information in the classic principal-agent relationship are usually perverse. The principal (federal government) wants the agent (subject of the federation) to maximize the results, as defined by Moscow, for Moscow’s budget expenditures. Even if the agent had an identical view of the program objectives as the principal, and would do exactly the same things with the program budget as the principal would have done if the principal were managing the program, the observation above would still hold. This is because the principal has more than one program to fund and the agent, or program manager, has every interest in increasing his program’s (or region’s) share of the pie. So even if the agent used exactly the same management information as the principal in managing the program to the same goals, the agent has an incentive to provide reporting (or accountability) information in a way that makes the best case for his program. Presentations to review bodies will inevitably be made in ways that try to put the organization’s activities and plans in the most favourable light.

Table 1. *Challenges in performance measurement and performance management*^x

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- *Performance measurement systems are best suited to repetitive industrial activities with simple production functions and direct, unambiguous outcomes.*
 - *Most departmental activities serve multiple objectives, and many of the most politically important objectives – such as contributing hope, enhancing sovereignty or instilling national pride – are impossible to measure.*
 - *The causal link between activity and outcome is usually weak. Outcomes and results that are really of public interest almost always depend on factors beyond the direct control of government.*
 - *There are long delays between activities and intended outcomes.*
 - *Most performance measures are subjective and value-laden and therefore performance measurement systems cannot be strictly objective and neutral in their effects.*
 - *Not all the obvious measurable targets or indicators connect to the causal structure of the intended set of results because we do not have means-end techniques to reach all intelligibly stated goals.*
 - *Working to targets can cause perverse effects, such as encouraging tunnel vision, a focus on quantitative rather than qualitative results, and diminished cooperation with other organizations that work on the same issues.*
 - *Linking achievement of targets to resources and rewards may encourage gaming or outright cheating.*
 - *Serious performance management schemes are very costly to design and administer.*
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Credible performance measurement schemes require on-going, balanced negotiation among the parties about the objectives to be measured, the outcomes desired, and the indicators used to measure performance. The challenges to be addressed in implementing performance measurement and management systems with integrity are summarized in Table 1. For most governments these challenges are so daunting that performance measurement and management systems simply cannot be a sufficient guide to program budgeting and should not be implemented to the extent implied by central agency pronouncements.

ⁱ Until the recent shift of the management pendulum toward greatly increased control from the centre.

ⁱⁱ Frederick W. Taylor, *Scientific Management* (1911, reprinted 1964 by Harper & Row, New York) is the canonical reference, summarizing more than three decades of work in time and motion studies, standardization and performance-based compensation.

ⁱⁱⁱ R.L. Keeney and H. Raiffa, *Decisions with multiple objectives: preferences and value tradeoffs*, Wiley, New York, 1976 is the classic text.

^{iv} Thomas, note v, pp. 2, 11 and 12. These themes are further developed in a paper by Thomas prepared for future publication by the Conference Board in Canada entitled *The Future of Performance Measurement and Performance Management in the Public Sector*.

^v List draws on Paul G. Thomas, "Performance Measurement, Reporting and Accountability," Saskatchewan Institute of Public Policy, Public Policy Paper 23, ISBN# 0-7731-0471-2 (Regina: University of Regina, February, 2004) pp. 46-7 and on Christopher Pollitt, Xavier Girre, Jeremy Lonsdale, Robert Mul, Hilikka Summa and Mary Waerness, *Performance or Compliance? Performance Audit and Public Management in Five Countries* (London: Oxford University Press, 1999).