Abstract
This paper discusses recent research into performance measurement and management practices within a range of New Zealand’s public service agencies that has revealed six criteria by which organisational performance is defined and directed, namely: economy, efficiency, effectiveness, equity, organisational capital and public capital. However, the research also showed that the emphasis placed on each of these criteria varied significantly between the formal model of external accountability concerned with the management of the public service and the models in use within individual agencies. While the former places significant emphasis on ex ante specification and ex post measurement of performance the latter also employs a more substantive rationality and value-based criteria.

Introduction
It is a curious truth that, even in the professional world of accountancy, but particularly in the world of management, words are often used in a range of contexts without any clear or consistent definition of their meaning. The word ‘performance’ is used in phrases such as ‘performance management’, ‘performance improvement’ and ‘performance measurement’ without performance itself ever being defined or explained. Referral to a dictionary provides a definition of performance that involves the undertaking of some form of command or predefined action together with the notion of how that action or work is performed. Thus the Canadian Auditor-General’s office has suggested: “the concept of performance requires a comparison of what was expected with what was achieved” (Mayne, 2003, p.1). But how are those expectations defined and understood? Turning to the literature of Generally Accepted Accounting Practice, that understanding is principally concerned with external accountability and the measurement of changes in the financial position of reporting entities. But is that how external stakeholders and internal managers explain performance?

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How we conceive and define organisational performance will determine what we will pay attention to and what will be actively managed. However, it is arguable that, following the Better Public Services report (Treasury, 2012) and this year’s changes to the State Sector and Public Finance Acts, that New Zealand’s model of public sector management is in a state of flux as officials develop a practical expression of ministerial pronouncements and the changed legislative requirements. At the same time, while new ways of working and changed accountabilities are being sought, the common discourse on and formal model of managing organisational performance in the public sector remains largely unchanged. Despite a continuing series of reviews and modifications since the reforms of the 1980s the discourse on public management remains underpinned by theories drawn from new institutional economics and a utilitarian or instrumental view of organisations (Etzioni, 1961). In this view organisational performance can be clearly specified in advance and subsequently managed by the institutional structures and incentives that are put in place to control the actions of rational and largely self-interested actors. This is a singular perspective that takes the position of a principal (in the form of a minister and the central agencies) that seeks to manage public organisations against a consistent set of economically-based ideas and public policy objectives. However, as the following discussion demonstrates, the success of those ideas and objectives is, in practice, evaluated against a more complex set of criteria.

Economy, Efficiency and Effectiveness

Classically performance is evaluated in terms of the economy, efficiency and effectiveness with which objectives are achieved. Together these three criteria have been referred to by Pollitt (1986) as “that triumvirate of virtue” in that they are central to performance management practices in both the public and private sectors. The first two of these, in particular, were a major concern of the public sector reforms of the late 1980s and early 1990s and have remained a significant focus of the New Zealand model of public sector management. The criteria of economy, reflecting the how well funding is used to acquire inputs to an agency’s processes, and efficiency, representing the relationship between an agency’s use of inputs and its outputs, are of concern to public sector managers who
must apply limited resources to solve massive objectives (Bower, 1977) and to politicians concerned to avoid any suggestion of public sector profligacy. In times of fiscal constraint they also critically underpin the inevitable trade-offs that ministers and officials must make when choosing and implementing government interventions.

On the other hand, *effectiveness*, or the relationship between an agency’s outputs and the outcomes that they achieve, has received different levels of emphasis between different agencies and over time. In part this reflects the difficulty some agencies have in defining and measuring the linkages between their outputs and the outcomes or impacts that they produce. It also reflects the changing concerns of ministers. While much of the ongoing reforms of New Zealand’s public sector from 1999 to 2007 sought to place more emphasis on the effectiveness with which public sector managers managed for outcomes, in 2008, in the context of “the worst economic crisis the world has faced for 80 years” (Whitehead, 2009, p.1), the newly elected Government swung the emphasis back towards outputs and the cost-effectiveness of their delivery. Following decisions to place caps on government expenditure and the size of the public service (CAB (09) 111), the Secretary to the Treasury suggested: “at times we’ve hidden behind the focus on outcomes to be less rigorous on output performance than we should” (Whitehead, 2009, p.1).

More recently better public management has again been equated with managing for results but still in the context of an ‘investment’ or ‘value for money’ approach in which the longer term costs of an initiative is evaluated against its likely impact. Thus government departments are being urged to:

…move away from a culture where value-for-money is a secondary consideration, and towards an environment where leaders and workers are motivated to continuously innovate and improve. (Treasury, 2012, p. 6)

This tension between agency performance defined and managed in terms of the *economy* and *efficiency* with which specific outputs are delivered, and the broader and longer term concepts of the *effectiveness* of performance defined in terms of outcomes or impacts, remains an unresolved issue.
Equity

As a criterion of performance equity is concerned with the way in which services are provided either in terms of the equal availability of services (as in the case of Police services) or the targeted provision of services to those most in need (as is the case with social security benefits paid to invalids). The Australian Steering Committee for the Review of Government Performance has defined the former as horizontal equity or “the equal treatment of equals” and the latter as vertical equity or “the unequal but equitable treatment of unequals” (ASCRGP, 2005, p. 115).

The significance of this criterion for performance management is its recognition that equity may be achieved at the cost of efficiency in service delivery together with the fact that notions of equity constitute a distinctive characteristic of performance in a public sector context. Thus no one would, hopefully, argue with the proposition that services in respect of water and sewerage should be consistently available to all citizens. But we might argue that some services such as health or policing should be targeted more specifically at the differing requirements of different social groupings. Equity is also reflected in how services are provided and the extent to which government agencies are able to respond positively to questions such as:

- Are all those affected by a decision given the opportunity to have a say?
- Do consultative processes give due consideration to the views of those consulted (i.e. before decisions are made)?
- Does how and where services are delivered take account of citizens’ ability to access them?

However, it should be noted that equity, or ‘fairness’, does not sit comfortably with the instrumental rationality of institutional economics. Rather, it reflects a more substantive rationality that employs values-based judgements and factors that may be implicitly included in decision making processes rather than being explicitly measured and evaluated in monetary terms.

While New Zealand’s formal model of public sector management, and the State sector’s Performance Improvement Framework (PIF)
(SSC, 2012), place little explicit emphasis on equity\(^1\), within the agencies studied, particularly at the local level, managers and their staff did describe a concern to appropriately respond to the differing needs of local communities, ethnic groups and individuals.

**Organisational Capital**

In a similar manner to the criteria of effectiveness, over the last two decades New Zealand’s formal model of public service performance management has placed varying degrees of emphasis on the measurement and management of organisational capital. This has been described by Andrews and Boyne (2010) as including:

- capital management,
- financial management,
- human resources management,
- information technology, and
- leadership.

Ultimately, organisational capital represents an organisation’s capability and capacity to deliver goods and services in the future. Although performance information in respect of “organisational health and capability” is now required by the Public Finance Act 1989 (S.40 (d) (iii)), an initial review of agencies’ external accountability documents for the 2006/2007 and 2007/2008 financial years provided limited information in this respect. More recently, departmental annual reports are giving this issue broader coverage, albeit with little explanation of the trade-offs involved. The State sector’s Performance Improvement Framework (PIF) also:

> “… looks at the current state of an agency, then how well placed it is to deal with the issues that confront it in the medium-term future. It looks at the areas where the agency needs to do the most work to make it fit-for-purpose and fit-for-the-future.” (State Services Commission, 2012).

This largely self-assessment based model encompasses a range of issues under the headings of:

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\(^{1}\) Although a previous Labour Government did require a number of public service agencies to report annually on their efforts in ‘Closing the Gaps’ to target those elements of New Zealand society at the lower end of the economic scale.
• leadership direction and delivery,
• people development, and
• financial and resource management.

While the instrumental and market-based logic of New Zealand’s formal model of organisational performance management has tended to place an emphasis on the role of Ministers as *purchasers* of departmental goods and services it has done so at the expense of recognising that those ministers are also the *owners* of the assets and capability by which most of those goods and services are produced. The continuing drive for economy and efficiency, to deliver more for less, therefore carries with it the risk that the existing organisational capital will be eroded at the cost of the delivery of future goods and services.

Nonetheless, public service staff interviewed at the national, regional and local levels of a number of different agencies placed a significant importance on managing the culture, capability and capacity of the organisation. At the regional and local levels of one case study agency interviewees described a desire to build a “culture of inclusiveness” in which front line staff are able to take responsibility for the agency’s objectives and a common theme in all the agencies studied was the problem of balancing organisational resources and workloads.

**Public Capital**

As a criterion of performance, *Public Capital* represents the trust and confidence in an agency held by Ministers, major stakeholders and the general public – factors that contribute to the political salience of, and external influence on, that agency’s core functions. Although *Public Capital* is not explicitly recognised in the requirements for external accountability documents, it does form part of the formal model of public sector performance management. Its importance was recognised by the inclusion of “Trusted State Services” as one of the key “State Sector Development Goals” promulgated by the State Services Commission (2006a) and has subsequently been reflected in the “External Relationships” element of the State sector Performance Improvement Framework. Here agencies are asked to consider:
How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?

How well does the agency meet the public’s expectations of service delivery, quality and trust?

(State Services Commission, 2012, p.24 and 25)

The public’s trust and confidence has been the subject of a series of surveys (in 2007, 2009 and quarterly since June 2012 ¹) that seek “to find out what services really matter to the New Zealand public” (State Services Commission, 2013). Significantly, those surveys showed that perceptions of service quality in terms of equity and responsiveness (i.e. how services are delivered) are more important contributors to public capital than the results or outcomes of those services.

Therefore, while public capital is, in part, based on the rational analysis of evidence of agency performance provided in external accountability documents, it is also based on more subjectively framed information. It should also be noted that a significant element of the State Service Commissioner’s annual review of the performance of departmental Chief Executives is, in effect, based on an assessment of the trust and confidence that other agencies and external stakeholders have in their departments.

Within the agencies studied, interviewees at all levels of the organisations explained the importance of the public’s understanding of, and support for, their activities. It was suggested that gaining a more positive public image is about managing public expectations and that to this end, to a certain organisational level, the performance of individual staff members includes how well they handle the media. For some of the agencies studied it was also evident that the externally focused sensegiving ² of managers, together with the extent of their relationships with other agencies and community groups, had successfully developed that organisation’s public capital.

¹ Details are available from the State Services Commission’s website at: http://www.ssc.govt.nz/kiwis-count

² Sensegiving is defined by Gioia and Chittipeddi, (1991) as “the process of attempting to influence the sensemaking and meaning construction of others towards a preferred re-definition of organisational reality”.
How managers interact with the media, the public, other organisations, and Government Ministers will either enhance or erode understanding and hence the trust and confidence in their agency. Moore (1995) has suggested that the management of public capital (and more broadly ‘public value’) requires non-elected public servants to assume an active role in the external authorising environment to promote and maintain the trust in, and legitimacy of, their agency. As Coates and Passmore (2008) explain:

PUBLIC VALUE ASSUMES THAT PUBLIC MANAGERS WILL TRY TO BOTH SHAPE PUBLIC OPINION AND HAVE THEIR VIEWS SHAPED IN TURN. THIS IS MUCH MORE OF A CONTINUOUS CONVERSATION THAN AN EXERCISE IN MARKET RESEARCH AND SHOULD BE VIEWED AS A SERIOUS EFFORT TO RESTORE TRUST IN THE PUBLIC REALM. (P.8)

However, while Moore (1995) and Talbot (2008), among others, have explained the positive impacts of trust and legitimacy, Yang and Holzer (2006) have observed:

... DISTRUST CAN BE USED AS A POLITICAL DISCOURSE TO ATTACK GOVERNMENT PROGRAMMES, REDUCE GOVERNMENT FUNDING, AND ULTIMATELY IMPAIR GOVERNMENT PERFORMANCE. TO RESTORE PUBLIC TRUST, PUBLIC ADMINISTRATORS MUST IMPROVE THEIR PERFORMANCE AND COMMUNICATE IT TO CITIZENS. (P.116)

Conclusions

From the research it is therefore evident that organisational performance is evaluated against a number of different, and at times conflicting, criteria. Thus, for example, it is possible for performance to be managed efficiently (in terms of the relationship between inputs and outputs) but not effectively (in terms of the relationship between outputs and impacts or outcomes). Similarly, the economy of service provision in the current period may occur at the cost of organisational capital and the ability to provide services in the future.

However, to achieve better public services it will be necessary to manage each of these criteria be recognised and their, at times, conflicting requirements be taken into account.

1 Emphasis added.
References


CAB (09) 111. Capping the Size of Core Government Administration and Giving Priority to Front-line Service Delivery. New Zealand Cabinet Minute, 13 March 2009. Wellington: Department of the Prime Minister and Cabinet.


