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Measuring and Managing Performance in Local Government: A Literature Review

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Abstract: Over the past century, performance measurement and reporting have been an integral part of demonstrating accountability in local government. This paper reviews the current Canadian and American literature on this topic and examines both recommended and actual practices in performance measurement within the public sector and, more specifically, local government.

It discusses the rationale for performance measurement along with factors contributing to the complexity of local government performance measurement and performance management, key steps in designing and implementing performance measurement systems as well as the political and organizational factors that influence this process. Performance measurement is connected to performance management and performance management frameworks are introduced and discussed.

Existing research suggests that local government performance measurement and performance management systems are used, to some extent, in support of strategic planning, budgeting, and other governance and managerial functions. The literature also suggests that internal uses are the principal reason for reporting results. However, there is a gap between advocated uses of performance measurement and their actual utility as accountability and performance improvement mechanisms. Nevertheless, it is likely that performance measurement is here to stay, and that newer initiatives like engaging citizens in performance measurement and performance management will generate new ways that local governments approach the measuring and reporting of results.

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Executive Summary

“Public confidence in the integrity of the government is indispensable to faith in democracy; and when we lose faith in the system, we have lost faith in everything we fight and spend for.”

Adlai E. Stevenson Jr.

Public trust is a key value for all levels of government. The citizenry and interest groups expect transparency and accountability for both elected and appointed officials. Increasingly, public sector organizations are self-consciously working towards designing and implementing systems that are intended to identify goals and objectives that are focused on results, track whether and how well they are achieved, and provide information that can be used for both internal management and for external reporting. Ideally, the process of identifying appropriate objectives, strategies to achieve them, and the means to tell whether they have been achieved should engage elected officials, managers and the citizens/clients who are served by governments.

Local governments, because they are closest to citizens and because much of what they do is tangible, have a long-standing interest in demonstrating the value of programs and services. Although New Public Management became a visible movement in Western countries in the 1990s (Hood, 1991), its emphasis on managing for results is predated by the historical importance of transparency and accountability in local governments, dating to the turn of the 20th century (Williams, 2003).

This paper reviews the contemporary literature surrounding performance measurement, performance management and citizen engagement with a specific focus on local governments.

At issue is whether and how performance measurement and its related activities have been developed, deployed and used by local governments in Canada and the United States. There is a growing literature that critically assesses performance measurement in the public sector and points out the limitations of focusing on results for management and reporting. The extent to which local governments have also experienced successes and challenges with performance measurement will be a key issue in this paper. As the literature is reviewed, these questions will underpin the discussion – to what extent is performance measurement a practical and useful set of tools for local governments? Does it continue to be viewed as a key part of managing and reporting in local governments, or is there a growing sense that it has not lived up to its promises? If it has fallen short of expectations, what is needed to increase the likelihood of it being successfully implemented and used?

These questions are addressed within this paper from the following perspectives. To begin, some key features of performance measurement are introduced, offering a general description of performance measurement and a sense of why performance measurement is considered to be an essential part of modern public sector management and accountability. Second, the discussion draws attention to the unique context of local governments, identifying the features of local governments conditioning performance measurement, the historical context of performance measurement in the 20th century, and the contemporary and evolving features of local government that make performance measurement more complex and challenging. Third, the design and implementation of performance measurement systems and the factors influencing the process are considered. Fourth, the literature that connects performance measurement to performance management is discussed, and where possible, local government issues are summarized and discussed. Fifth, the paper considers the reported use and utility of performance measurement and performance management, supported by examples of the performance measurement and performance management practices of municipalities in Canada

and the United States. Sixth, the literature surrounding citizen engagement in performance measurement and management is reviewed. Finally, the paper concludes with a brief discussion identifying recent trends and future issues in performance measurement and performance management.

Key Features of Performance Measurement

This section of the paper provides an overview of performance measurement in the public sector, identifying the complexity of this exercise. Furthermore, the rationale for measuring and reporting performance is also considered.

Performance Measurement

In the absence of the private sector's bottom line, public sector performance is not as easily identified as well-understood goals like profit or market share. Whereas profit does not require extensive explanation, selecting, justifying, measuring and reporting public sector performance can be a complex process. Proper and Wilson (2003) identify two unique characteristics about the public sector; (1) administrators often have several masters: these may include the users of the service, payers for the service, politicians at different levels of government, professional organizations, and (2), as a consequence of the first, the multiplicity of goals that public sector organizations face. Brodrick (1990) uses a metaphor of a soccer game to convey the complexity of public sector performance:

“We are often told by people in the business world that if the public sector were only run like the private sector, it would be perfect. We have all heard this, but I think it fails to understand what public sector organizations are about. I like to illustrate the difference using the analogy of a soccer game. [The private sector] sees a coach, a team captain, players with assigned positions, and established rules for scoring goals. Everybody knows at any given time what the score is – and which team is winning. In the public sector, we also have a team, but there the resemblance ends. The team plays on a round field surrounded by numerous goals. There is no fixed number of players. Players leave and enter the game sporadically, and there are numerous balls of various sizes. The players kick these balls at any one or another of the different goals. Sometimes, balls are kicked in

from outside the field. While the game is going on, men in green overalls move the goal posts around. And nobody knows who is winning and losing. The game is organized anarchy (Brodtrick, as cited in McDavid and Marson, 1990).”

In the literature reviewed in this paper, there is an important distinction between what “should” happen and what actually does happen when public sector organizations, including local governments, commit to designing and implementing performance measurement systems. Among the technical aspects of performance measurement are the identification of goals, objectives and strategies for the organizations in which performance measurement will be implemented, the development of measures that are appropriate and accurate, and the design of systems that support performance measurement (gathering performance information, organizing it, analyzing it, and reporting it). In that vein, Lindbald (2006) suggests that “the use of goals, measures, and data to evaluate services is called performance measurement. Agencies measure performance in several ways: amount of inputs and outputs, degree of efficiency, and type of outcomes. Input measures describe the amount of human or financial resources used to perform a service. Output or workload indicators refer to the amount of work performed. Outcome or effectiveness indicators show the degree to which service goals and objectives are reached. The ratio of inputs or outputs to outcomes provides a measure of efficiency.” This definition offers a technical description of performance measurement but does not capture the organizational/cultural and political overlay. The literature addresses performance measurement from a variety of contexts and perspectives in its attempt to describe the complexities involved in adopting, implementing, and then sustaining a performance measurement system.

In most public sector organizations, even if all these technical aspects line up, there is no guarantee that performance measurement will be successfully implemented. In addition to the

technical face of performance measurement, there is the cultural/political face that must be successfully navigated in order to get a performance measurement system that is actually delivering what it was designed to deliver (McDavid and Hawthorn, 2006). Negotiating what the goals, objectives and strategies are is one example of the intersection of the technical and the cultural/political streams in designing and implementing performance measurement systems.

Others include organizational leadership, sufficient and sustained resources and commitment, clear two-way communications as the system is designed and implemented and revised, clarity in the expectations around how performance information will be used, engaging prospective users in the process of designing and implementing measures, engaging users in how performance information will be reported, and revisions to the system as experience with it accumulates (McDavid, and Hawthorn, 2006).

The Rationale for Performance Measurement

“Financial restraints in public expenditures in recent years have resulted in calls for increased accountability and, consequently, in continuous efforts to improve the efficiency and effectiveness of public services (Pollanen, 2005).” The aim of performance measurement is to address the issues of accountability and organizational performance.

Broadly speaking, there are two general ways that performance measurement is expected to be deployed. First, it is intended as a key part of rendering public organizations and governments accountable. As well, performance measurement is intended to have an impact on the efficiency and effectiveness of organizations and their programs and services. Performance measures can be captured for varying purposes and audiences, which requires consideration in developing a meaningful performance measurement system.

Accountability

Public, or external, accountability is the notion that governments must answer to their citizenry to justify the use of public resources; internal accountability refers to the notion that departments must report to their directors to justify the decisions made and the strategies followed (Bracegirdle, 2003). External accountability is the public face of performance measurement and is often associated with public reporting of performance results. Internally, performance measurement is reported to hold departments accountable for programs, operations, policies, processes and compliance with laws and regulations (Bracegirdle, 2003).

The complexity of performance reporting is illustrated by Kluvers (2003). He describes internal and external accountability within the context of three accountability relationships. He suggests that three complex accountability relationships emerge: the council-citizen relationship, the council-administration relationship, and the administration-citizen relationship (Kluvers, 2003). In each case, the relative power and interests of the players within the four accountability relationships, and between them, will influence the nature and understanding of accountability. Performance is an important element of each of these accountability relationships (Forum on Municipal Governance and Accountability, 2006; Kluvers, 2003). "However, the problematic nature of accountability for performance is reinforced if it is seen to be reduced to the provision of performance information, since the data suggests that power, management control of performance information, the conflicting accountability relationships and the possible distortions created by these relationships could affect the integrity of the performance information (Kluvers, 2003)."

Improving Performance

The literature suggests that performance measurement systems are indispensable for managing government agencies and are intended as a means to make more informed decisions

(Poister, 2004; de Lancer Julnes and Holzer, 2001). From a management perspective, there is considerable agreement that the principal reason for performance measurement should always be to improve performance (Behn, 2003).

Behn (2003) provides the following list of eight reasons why public sector managers should measure performance:

1. **Evaluate** How well is my public agency performing?
2. **Control** How can I ensure that my subordinates are doing the right thing?
3. **Budget** On what programs, people or projects should my agency spend the public's money?
4. **Motivate** How can I motivate line staff, middle managers, nonprofit and for-profit collaborators, stakeholders, and citizens to do the things necessary to improve performance?
5. **Promote** How can I convince political superiors, legislators, stakeholders, journalists, and citizens that my agency is doing a good job?
6. **Celebrate** What accomplishments are worthy of the important organizational ritual of celebrating success?
7. **Learn** Why is what working or not working?
8. **Improve** What exactly should who do to improve performance?

He suggests that the first seven reasons on the list support the goal of improving performance, which is the principal reason for managers to use performance measurement (Behn, 2003).

When used for the purpose of formative program evaluation, performance measurement is reported internally with the intent to improve program or service efficiency or effectiveness.

Behn's (2003) list may represent an ideal, as he does not address the issue that, once captured, performance data has the potential to be used in different ways. A manager relinquishes a

certain amount of control over the use of externally reported performance measures. When used as an accountability mechanism, external performance reporting can be used for the purposes of summative program evaluation. Consequently, the perception of the intended use of performance reporting is an important consideration and may affect the extent to which managers engage in performance measurement. Clearly, the broader political and cultural overlay is a key consideration in the design and implementation of a performance measurement system.

In summary, performance measurement in the public sector is a challenge because of the multiple, sometimes conflicting, goals. Performance measurement and reporting are intended to address public accountability and improve public sector efficiency and effectiveness. However, if the use of performance reporting includes the summative evaluation of programming, it may affect how managers engage in the process of performance measurement.

Performance Measurement in Local Governments

This section of the paper begins by describing how the unique characteristics of local government affect performance measurement. It also provides a review of local government's long-standing interest in performance measurement. Additionally, the discussion considers the contemporary context of performance measurement in local government.

The Political and Administrative Landscape of Local Governments

A number of factors contribute to the unique political and administrative landscape of local governments. Municipal politics is quite open and the citizenry has relatively easy access to its elected officials and administrators (Forum on Municipal Governance and Accountability, 2006). While there are a number of variations of urban government structures across Canada, municipalities are generally governed by a group of elected officials who delegate varying

degrees of management functions and responsibilities to professional administrators. Citizens entrust elected officials with the stewardship of public resources and they, in turn, empower professional administrators to manage those resources. However, the interests of the citizenry and interest groups often compete. Local politics, in essence, is a process of making decisions among competing values and interests. Limited financial resources will make prioritization of initiatives a necessity. In establishing priorities, councillors must strike a balance between their own values, the interests of their constituents, and the interests of their community (Forum on Municipal Governance and Accountability, 2006; Masson, 1994). Demands for services, a limited ability to generate revenues, and a reluctance to support increases in taxation that is the widespread legacy of the local government tax revolts of the 1970s in the United States, result in tensions among citizens, interest groups, elected officials, and administrators (O'Sullivan, Sexton, and Sheffrin, 1993). Decisions that are made are typically visible and often are subject to after-the-fact scrutiny by individuals and groups. Within this environment, elected officials are required to justify their balancing of competing values and priorities. Performance measurement and reporting can be an ally in demonstrating that decisions, programs and services have outcomes that enhance the efficiency and effectiveness of local government. However, local government officials do not want to be held accountable for outcomes that they have little or no control over (Bernstein, 2000). Committing to accountability creates the risk that failures will be visible and possibly politically damaging (Sanger, 2005). Whereas internal reporting is most often focused on the formative evaluation and improvement of programs, external reporting is usually more summative – that is, there is a “bottom line” aspect to external (public) reporting.

Depending on the local or regional political culture, there are varying degrees of risk associated with reporting information that includes evidence of whether initiatives, programs and services have achieved their intended results. Elected officials and administrations can be exposed to criticism within the local media, particularly on issues around which there is continuing division.

Although this kind of criticism is part of the territory of local governance, it can have a chilling effect on efforts to fairly report on the successes and challenges faced in trying to achieve objectives (McDavid and Hawthorn, 2006).

Performance Measurement in the 20th Century: From New York to New Public Management

Early public administration theorists began writing about the need for municipal administrators to measure and report performance directly to their citizenry late in the 19th century (Lee, 2006).

Williams (2003) suggests modern discussions surrounding performance measurement in local government can be traced back to early performance reporting efforts in New York City (Williams, 2003). The origin of the earliest sustained municipal performance measurement program in the United States can be traced back to 1906 and the New York Bureau of City Betterment, which was formalized a year later as the New York Bureau of Municipal Research (Holzer and Kloby, 2005; Williams, 2003). Democratic reform at the municipal government level was the driver behind the movement to report performance to the citizenry (Williams, 2003). Efforts were directed toward educating the electorate and informing decision making. Data was collected and reported to high-ranking administrators, political authorities, and the public (Williams, 2003). The reports were used for political and managerial purposes (Williams, 2003). Between 1908-1911, reformers in New York experimented with budget exhibits to describe budget options; in Spokane, a similar exercise was visited by nearly one-third of the voting population (Lee, 2006).

Williams (2003) points out that these early efforts to reform local government included the measurement of inputs, outputs, and outcomes. He provides compelling evidence to support his assertion that these early predecessors of contemporary performance measurement not only developed outcome measures but also exhibited “sophistication in methods and some

