

Promoting Results-Based Management in the Public Sectors of Developing Countries

A results-based management (RBM) system is, as the title suggests, an approach to public sector management with a focus on performance results. As compared to private sector for-profit organizations, this focus on performance results in public sector organizations continues to be a challenge. Private sector firms have clear and central profit making objectives, and relatively straightforward ancillary objectives, including those related to employees and society. The public sector organization, on the other hand, has to cope with deep complexity in objectives, widely differing stakeholder perspectives, and much less control over policy, strategy, and incentive structures. The market and clients they service are also different. One is competitive, the other not inherently so. Public sector organizations have much less autonomy, particularly on financing and human resource management, and internal structures that are usually more hierarchical and rule bound.

Proponents of RBM view a results-based focus, measurement, evaluation, and accountability as tools for achieving more efficient and effective resource utilization by the public sector. They see RBM as a mechanism for forcing politicians, bureaucrats and voting citizens to be clearer about the objectives of government programs and services.

Key Elements of Results-Based Management Systems

Clarifies Customers and Mandate of Organization

Public sector organizations sometimes lose sight of their purpose. They sometimes even forget they exist to 'serve' the public. RBM ensures that the client fo-

cus remains the key guiding force of operations. The clarification of customers and their relative hierarchy of priority is critical to public sector organizations, and particularly for those which do not have an evident service function. Central agencies such as ministries of finance and planning provide core control and support functions to the rest of government. They therefore serve a wide variety of clients – the executive, parliament, service departments and agencies, the public. Clarification of mandates allows the agency to establish priorities and relationships among its clientele.

Instituting a results-based management system begins with an analysis and specification of the mandate of the organization, its customers, and the benefits and impacts it is expected to deliver for them. To assist this process the public sector organization undertakes some rather basic questioning. Key questions asked are:

- Why does this organization exist?
- What would be lost if it did not exist?
- Who does it serve?
- What is it supposed to deliver for them?

In management terms, this questioning generally results in a succinct 'mission statement' for the organization, and the identification of 'key result areas' (KRAs). These are the operating spheres within which the organization will deliver concrete outputs and outcomes. (Refer Box 1)

Specifies Results and Performance Expectations of Clients

RBM requires that once KRAs are established, these must be translated into result indicators.

Output-Outcome Indicators

Outputs are defined as the goods and services produced by departments. Outcomes are the consequences for the public resulting from the outputs and activities of government. The purpose of government is of course to produce desired outcomes.

While outputs are important to plan for and monitor, they cannot, by definition, be used as the sole criteria for judging organizational effectiveness. An organization's performance must be judged based on "why" it was established. It must be evaluated for the outcomes or impacts (client-benefit and satisfaction) it achieves. A health agency must be judged not simply by the number of clinics built, but by improvements in key health indicators such as morbidity and mortality rates.

A much debated issue is the extent of influence an organization can claim on outcomes – the issue of causation and attribution. After all, the health status of people is contingent on factors that go beyond the control and influence of a health service agency. Should then the agency be accountable for a performance indicator over which it does not have full control? In some developed countries, governments have taken the position that achievement of impacts are beyond the accountability of public sector delivery agencies; these remain accountable only for the delivery of outputs. The concerned minister, however, as a representative of the government in power, takes accountability (vis-à-vis the public) for the delivery of impacts/outcomes. It is however arguable, whether the service agency should not also take some degree of accountability for impacts. While it is true that the health service agency does

not have complete control over all of the external variables influencing public health, it is accountable however, for noting these other factors, attempting to influence them, and taking account of them in the delivery of its service.

Efficiency – Effectiveness Indicators

In the USA, besides the use of descriptive, financial and input-output-outcome indicators, the Governmental Accounting Standards Board issued, in 1992, guidelines for the measurement and reporting of service efforts and accomplishments which cover measures of efficiency and effectiveness as well.

- *Efficiency indicators* reflect the level of outputs (the actual products/services delivered) of the organization in the context of available resources. They therefore represent the *ratio of inputs to outputs*; for example, the extent of budget or staff resources required for every unit of electricity generated or every unit of health care service offered.
- *Effectiveness indicators* represent the expected impact of the organization on customers through its products and services. Thus, they are indicators which represent the *ratio of inputs to outcomes* such as the level of client coverage and client satisfaction. They can also represent the *ratio of outputs to outcomes/impacts* achieved; for example, the extent to which improved or increased health services have improved the health of the target population.

In addition to efficiency and effectiveness indicators of performance, the issue of equity and sustainability are also pertinent, and especially so in the context of developing countries where resources are usually severely constrained.

- *Equity indicators* are important for public sector organizations, since they reflect the *distribution profile* of outputs (public access to products and services) and related equity of impact; for example, the extent of rural versus urban areas which have access to electricity or to health services.
- *Sustainability indicators* reflect the ability of the organization to ensure *self-sustaining and consistent performance* and, thus, the continuity of institutional effectiveness and efficiency; for example, the level of revenues and surplus generated by the power utility and therefore the financial capacity of the utility to sustain and expand service; or the ability of health care agencies to recover revenue from clients based on improvements in service, and thus depend less on government subsidy for continued operation.

The use of such performance measures indicates an increasing sophistication in the approach of government to making public agencies more accountable. However, their use assumes a high level of organization capacity with regard to management skills and the existence of suitable accountability mechanisms and incentives to support performance. Unless the latter are in place, such indicators of performance will remain difficult to use on a day to day basis, and will have little impact on performance. This has been demonstrated by Knapman and Saldanha (1999) in their study of the public sector reforms being implemented among Pacific countries with the assistance of the ADB and the World Bank.

Links Budget Allocation to Output Delivery

New public management promotes a direct link between results-based public sector management and the budgetary process. Agency budgets are assessed and allocated based on the cost of delivering outputs, a process known as “output-based budgeting”. The process would usually include ‘performance agreements’ between a central coordinating department

Box 1: Sample of Expected Results of a Power Utility (Outcomes / Outputs)

- KRA 1 – Ability To Meet Demand (Effectiveness and Equity)
 - % of rural households covered
 - % of urban households covered
 - % of industrial requirements met
 - capacity utilization
- KRA 2 – Technical Performance (Efficiency)
 - installed capacity
 - capacity to maintain (breakdowns)
 - reliability (service interruptions)
 - response time to requests for new connections
- KRA 3 – Financial Performance (Efficiency and Sustainability)
 - revenues
 - MWh sales per employee
 - rate of return on fixed assets

and the recipient department. These agreements record expected performance (outputs) for the budget allocated. This budgeting system quite rightly assumes that budgets cannot be realistically based on the delivery of outcomes. These are often medium-term objectives; they are influenced by a number of variables, some not within the control of the agency concerned; and their monitoring is a very complex task.

Output-based budgeting is a logical consequence of the application of results based management. However, it has been a failure in its application in some developing countries for some very good reasons. Output-based budgeting assumes an operational and financial management infrastructure of a fair degree of sophistication and this is often not feasible in a developing country context. It requires accrual accounting systems often unrealistic when governments still struggle with maintaining line budgeting systems. The degree of skills required for establishing outputs, costing them, verifying the realism/accuracy of the costing, monitoring and reporting implementation, assessing the need to adjust budgets based on past performance, etc., are simply often not available to the public sector in developing countries.

It is not recommended to intrinsically link results-based management with output-based budgeting. An adequately effective results-based management system with a performance-related budget can be put in place using the conventional line budgeting system. Budgets can still be linked to the delivery of a program of outputs, and should be justified on this basis. Selective input-output ratios are feasible for certain services and can appropriately become the basis for controlling inputs.

Requires Performance Reporting

Effective and results-focused public sector organizations typically adopt a performance reporting system as part

Box 2: Client Satisfaction Surveys

An increasingly popular approach to making public sector organizations more accountable for performance in developing countries is the introduction of the “report card” on public services. This has been attempted, for instance, in India and the Philippines. In the cities of Bangalore and Madras in India, periodic surveys on customer satisfaction with public services began in the mid 1990s through the initiative of the Public Affairs Centers in these cities. This initiative has been expanded to cover five cities all over India. The assessment of public service performance covered essential services such as telephones, electricity, water, health services, postal services, bus transport, public sector banks and the police. Public satisfaction with these services was assessed using sample surveys. The dimensions of performance assessed included: staff helpfulness, quality and timeliness of service, and time taken to resolve problems. The report cards were not designed to provide an in depth assessment of what was wrong with public service agencies. They were intended, however, to put these agencies on call in terms of their accountability for better performance and service to the public.

of larger public accountability responsibilities. In countries which have adopted the output-based budgeting system, reporting on achievements of outputs becomes an essential basis for appropriating the next year’s budget. The *performance report* essentially provides period information on organizational performance against a set of performance indicators which represent outputs delivered by the organization and the outcomes/impacts these have achieved. Outputs can and should be reported annually. Outcomes/impacts sometimes can only be assessed in a longer time frame, perhaps of up to three years. Notwithstanding this, it is essential that outcomes are monitored and reported.

Organizational performance measured in terms of outputs and outcomes is normally assessed using three *parameters*:

- (1) targets that have been set by management or stakeholders,
- (2) past performance, using a trend analysis to review whether performance is on an upward trend or otherwise, and
- (3) comparators or industry benchmarks (in the public sector, comparators could be similar institutions in comparable countries).

Often, targets set by management for a specific performance period already take account of past performance and comparator performance levels. This *comparative performance analysis* is essential to assess the quality of organizational performance and identify related *variances*, either positive or negative, from expected or required levels of performance. These provide the basis and a trigger for initiating performance diagnostic analysis.

A thorough performance report and its analysis is of course contingent on *performance information*. Many public sector institutions are known to be particularly deficient in having information readily available on performance, more specifically on outputs and impacts. This is a reflection of public sector institutions being typically budget and supply driven rather than output and impact focused. The introduction of RBM must be accompanied with the parallel establishment of a management information system to provide timely feedback on output performance. (Refer Box 2)

Assumes Meritocracy in Managing HR

RBM can only work if staff selection, compensation and career management are professionally managed and based on merit. Like budgets, human resources are a key resource to the delivery of results. A department head cannot be held accountable for results if she/he is not given discretion on the quality of staff provided to the department. Accountability for results demands that such resources be of the highest possible quality and with a repertoire of competences responsive to the results expected. Thus, selection must be professionally managed, open and competitive, eschewing political pressures and influence. Promotions and career management must be guided by HR best practice, and staff must feel that principles of fair competition are transparently applied.

Compensation in the public sector is often not able to be competitive with the private sector. However, it is not necessary that it be competitive to attract the talent and skills needed by RBM. Often professionals join the public service for reasons other than financial reward. It remains essential though, that a fair wage is provided based on comparative salary studies of the local market. Performance pay and bonuses are far more difficult to apply and manage than in the private sector and are usually avoided even in developed countries, except in situations where the organization, though within the public sector, retains financial independence in terms of revenue, costs and surpluses. Issues such as complexity of results to be delivered, and difficulties in quantification, monitorability, and attribution usually make performance pay impractical in the public sector.

Professional HR management has been one of the major constraints to a results-oriented public sector in developing countries. It is not uncommon to encounter a public sector with personnel appointments substantially influenced by political forces, or departments with bloated and underpaid staff complements because regulations or absence of political will do not allow for related rationalization. However, there is no easy way out. Professionally managed human resources is a sine qua non for effective RBM.

Triggers for RBM

Ideally, RBM can most effectively be introduced when it is part of a larger public sector reform program, initiated by the government for a number of possible reasons. In such a situation, RBM is usually one of many reform initiatives in a reform program that usually addresses the role of government and the public sector in a multi-faceted fashion. Thus, the package may include economic policy reforms, the privatization or contracting out of certain services, reforms in the management of the budget and human resources, and RBM for a variety of public sector agencies or perhaps across the whole public sector. In this scenario, the introduction of RBM is made easier given the support of the highest levels within the government (it becomes a mandatory exercise with no option given to the concerned public sector agencies), and the reinforcement provided by parallel reforms.

However, the above is not a typical or common situation. Usually, government or donors are called upon to persuade rather than coerce the concerned public sector agency to adopt RBM. Selling the concept of RBM to public sector agencies in developing countries is not an easy task unless the concerned

agency is led by a reformist management. RBM calls for greater accountability on the part of the agencies for concrete results. It makes their budgets subject to performance evaluation. It often requires hard human resource decisions to ensure required levels of productivity. Three possible entry-points for RBM are described below.

Capacity Building

Donors are often approached by public sector agencies of developing countries for capacity building assistance. Every year millions of dollars are invested by donors in this type of assistance. Unfortunately, much of this investment goes to waste, spent on interventions that have limited sustained impact. Interventions are usually not anchored in any disciplined institutional diagnostic analysis. The typical capacity building intervention is training. Skills are imparted but often without parallel strengthening of the institutional environment within which they can be put to productive use. It is therefore necessary for donors to move to a more holistic approach to capacity building to ensure sustained results. One such approach is RBM.

RBM focuses on results, which must also be the focus and guiding parameter for any capacity building exercise. Thus, when requested for capacity building assistance, it is wise for donors, as a first step, to require the requesting agency to begin with a specification of current performance shortfalls, described in terms of outputs and outcomes. The identified performance variance is then used to work diagnostically to the identification of institutional causes which can then be addressed through capacity building. The success of the capacity building investment will be tangible and monitored in terms of improvement in the identified performance shortfall.

The above process becomes a starting point to focus the public sector agency on tangible and monitorable results. When aid dollars are used to demonstrate tangible improvement in public sector performance, it becomes a powerful motivator for both donor and recipient to program future aid for capacity building along similar processes, thus gradually promoting the move to results-based management. Donors should therefore use the opportunity of requests for capacity building to gradually move the agency to adopting a full-fledged RBM system.

RBM Supports the Sector-Wide Approach

The sector-wide approach (SWAp) is another potential entry point for the application of RBM in developing countries. The SWAp approach to the delivery of public services assumes that the central service agency, be it the ministry of health, education or transport, assumes lead responsibilities for the delivery of specified outcomes for the sector over a medium-term period (5 to 10 years). The focus is very much on outcomes. A SWAp discourages the project-based approach

of some donors under the principle that all project investment should contribute to key sectoral outcomes. Therefore, it is logical to begin with medium-term outcomes and then work back to developing a program of outputs, reforms, investments and recurrent activity which will ensure outcome achievement. In this connection, performance analyses such as described above, are undertaken to identify what policy, institutional and financial constraints hinder the achievement of eventual outcomes. The sector program of investment and reform is built around addressing these constraints. Hence the term 'programmatic approach'. The sector program is led by the lead sectoral agency, and supported by colleague agencies and donors. The lead agency takes accountability for achievement of stated outcomes.

SWAp assume that a results-based management system is in place for the concerned sector agency. In fact a SWAp is not feasible unless: (i) clear and strategic outcomes and outputs have been identified by the sectoral agency; (ii) there is in place an information system which monitors and reports on the achievements of these; and (iii) there is continuing analysis of the variables affecting the achievements of related targets.

Decentralization

Many developing countries are in the process of decentralization. Strong political motivations are usually behind this trend and often governments have little choice but to move in this direction. The decentralization process provides an excellent opportunity for developing country governments and donors to promote and institutionalize RBM as part of this process. The objective of decentralization is to delegate and empower local agencies and governments with authorities and accountabilities for a variety of purposes – more responsiveness to local needs, relieving central fiscal pressures, giving a greater voice to local authorities in managing government.

Decentralization provides an ideal opportunity to institutionalize RBM. Local government is usually required to substantially revamp itself in terms of mandate, focus, structure, systems, resources, and staffing in this process. Such a dramatic reconstitution of any organization is a perfect opportunity to ask all the basic questions that RBM requires such as – what is the fundamental purpose of this organization? Who are its clients? What are the results it should deliver to them? How can it be best structured and managed to do so?

RBM is in fact the only reasonable and practical way to approach organization restructuring as part of a decentralization process. It ensures that the expectations and objectives of the decentralization process have indeed some probability of being achieved. It also ensures that all the relevant issues related to ensuring effective decentralization are put on the table and examined by decision makers in a responsible and comprehensive manner.

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