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THESIS

**“Adopting a Performance Management System:
Best Practices in Change Management”**

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*The present thesis is dedicated to my loving family,
my husband Thomas and my three children
Stella, Elisabeth and Antonis,
for their constant support and unconditional love!*

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EXECUTIVE SUMMARY

During the last three decades, public sector performance has become a topic of great interest to scholars and practitioners. The present thesis attempts to record the international experience of implementing performance management practices in public organizations, through selected case studies paradigms and the qualitative research approach, in four developed countries Finland, the Netherlands, Ireland and Australia.

The main purpose is on the one hand to identify the specific factors, challenges and problems faced by the investigated organizations and their efforts to overcome them and on the other hand, to gain experience and adopt best practices on how to design and apply the performance management practices in Greek public services.

The **First chapter** examines the relevant literature review. It begins with presenting the new model of governance that is the New Public Management, which emerges the last thirty years and promotes more active welfare state policies, and its successor the New Public Governance, that promotes the "Intelligent public organization" model. Their philosophy and their limitations are analyzed further.

There is also an extensive reference in Change Management main principles, since it has been recognized that high performance organizations are distinguished, due to their adaptability and amenability in implementing change. In addition, there is a presentation of the related concepts of performance management and performance measurement, in order to lead better performance in government organizations (focuses on the targets or focuses on the metrics).

The **Second chapter** focuses on the case studies research in the four countries (Finland, the Netherlands, Ireland and Australia). In order to better approach the whole multiple case research, there is a short analysis of the performance management practices in relation to productivity issues in the public sector.

In Finland, the study has been carried out as an action research and multiple case study. Specifically, three public organizations are presented; a Finnish

university, a state agency under the ministry of Trade and Industry and the maintenance functions of the Finnish defense force. In each case, there is an analysis of the problems detected and of the common problems. It seems that the main dysfunctions relate among others, to the existence of several stakeholders with conflicting interest and to the vagueness of the main objective activity.

In Ireland, the study focuses on the organizational and stakeholder attributes of a "Hybrid" nonprofit organization in public sector, the Regional Service Organization (RSO). It is presented that the basic problems derive from the fact that the boundaries between nonprofit governance organizations and public governance, are increasingly fluid and overlapping.

In the Netherlands, the present thesis studies the results of a large scale empirical study (one of a few) that investigated the impact of the performance management practices in the public sector organizations, by testing economic and behavioral theories. Among the main findings is recognized that clear and measurable goals are positively associated with quantity performance as well as quality performance. Also, the study suggests that public sector organizations face a trade-off between achieving quantitative goals (i.e. short term performance goals such as efficiency and quantity produced) and quality goals (i.e. long term or strategic performance goals such as quality, accuracy, innovation and employee morale and ethos).

Concerning **Australia**, it is important to report that the country has been a leader in performance management, for the last decades. This study focuses on the ulterior factors of success (identified as important in the academic and practitioner literature), in the implementation of performance management arrangements in the Australian public sector. The six factors that appear to be related with the success are external, structural, managerial, technical, cultural and behavioral factors. The analysis is based on previous research, performance audits and government policy statements and concentrates on the last decade. Among others, it is worth highlighting, the importance of external political factors in establishing and retaining the performance management regime in Australia. Successive governments from both major political sides, showed willingness to retain the system and determination to make changes when it was required. Two

national bodies, the Finance and the ANAO, played a crucial role in strengthening the framework, through ongoing refinement and maintaining a focus on accountability.

The **Third chapter**, is an attempt to deploy the international experience gained through the case studies analysis, in the Greek public organizations, following the best practices method (or benchmarking), with emphasis on the strategy. Initially there is a short presentation of the structure of Greek public sector and of the recent legislation on performance management practices.

Then, the present thesis proposes the STAIR model, as the main tool for the Greek public sector performance management. Its principal steps for changing organizational performance include Strategy, Targets, Assignment, Implementation and Results. For its implementation to succeed and to minimize the negative impact of change, some best practices are suggested. These practices, primarily involve active leadership and changing of workplace culture.

For the STAIR model to be successful and keeping alive, some best practices are selected in relation to designing strategies and performance measures, on government and organization level. The most significant of all seems to be the compliance of all political parties with the priority agenda of performance management arrangements, even though there is a government change. At the same time the establishment of a national body, according to the Australian model (Australian National Audit Office) as the major observer and severe auditor of the quality of performance management system in public sector will definitely set the tracks of the whole system. Summarizing, the present thesis refers to policy implications and research limitations of the present study.

CHAPTER A: LITERATURE REVIEW

A1. NEW PUBLIC MANAGEMENT (NPM) towards NEW PUBLIC GOVERNANCE (NPG)

In the past 30 years, there has been a growing **emphasis on public management** and **administrative reform**. Some of the favorite subjects of the literature on management had to do with improvement of management, structural reform, efficiency, control, coordination, performance management and managerial leadership (Jun, 2009).

New models of governance were introduced to enable the implementation of more active welfare state policies. This has been the answer to a substantial matter no one dispute, that efficient management is an important prerequisite for promoting effective government. Without efficient management and administration, citizens are unlikely to receive satisfactory services. (Ehrler, 2012).

Since then, the field of public administration overwhelmed by managerial and economic solutions to complex problems. Among the most outstanding concepts of governance, are New Public Management (NPM) and its successor, post-New Public Management (post-NPM) or New Public Governance (NPG). But there are some questions seeking for answers. How is post-NPM different from NPM? What are some of the major limitations of the post-NPM? What changed since the 1980s and especially during the 1990s, when the ideas of the NPM were so popular in the U.S.A and Europe? (Koppenjan and Koliba, 2013)

A1.1. NEW PUBLIC MANAGEMENT (NPM)

NPM may be understood as a "*summary description of a way of reorganizing public sector bodies to bring their management, reporting, and accounting approaches closer to (a particular perception of) business methods*" (Dunleavy and Hood, 1994 cited in Ehrler, 2012)

Specifically, there is focus on the shift from input or output (e.g. number of places for clients) to outcome control and its implementation within the Public Employment Services (PES).

In accordance to this definition, three dimensions of NPM can be identified (Ehrler, 2012). The first dimension concerns the introduction of a performance measurement system in the governance of activation policies, also called "management by objectives" or "management by results" (Ritz and Sager, 2010 cited in Ehrler, 2012). The second and third elements emphasize the implementation of outcome control by looking closer at the division of the strategic and the operational level.

The three dimensions cannot be treated equally, since the introduction of a performance management system is fundamental for the other two dimensions.

Comparative studies on public management reforms show that most European countries adopted NPM principles, but that the chosen approaches are far from being reliable (Pollitt et al., 2007).

However, the three dimensions will be presented in detail, together with the results of a recent research conducted in nine European countries representing several geographical regions and traditions. The nine countries involved are the Czech Republic, Finland, France, Germany, Italy, The Netherlands, Sweden, Switzerland, and the UK. (Virtanen and Stenvall, 2014)(van Berkel et al. 2011)

The analysis was focused on the Public Employment Services (PES), since in all countries under investigation, there are significant agencies in the provision of activation services for unemployment benefit recipients. In addition, the PES has an important role in the activation of social assistance clients.

A1.1.1. Performance measurement system

To set strategic planning it is necessary to **introduce a performance measurement system**, to stress results and performance instead of procedures and resources.

The first step includes continuously monitoring of performance targets, focusing in real time information and make corrective actions in case of bad performance. The second step concerns thorough assessment in superior management level

at the end of the defined period (Mosley, 2004). The last step contains the integral part of the performance measurement system, which is the setting of incentives for succeeding in the performance objectives and accountability (formal and informal payments and rewards).

The majority of the countries that participated in the above analysis (Finland, France, Germany, The Netherlands, Sweden, Switzerland and the UK) have introduced performance measurement systems in the governance of activation policies. All these countries fulfil the above mentioned three steps of the Performance Measurement System and apart from Sweden, Germany and Finland, they link the performance assessment with financial incentives to assure compliance. (Virtanen and Stenvall, 2014)

A1.1.2. Steering by contracts

A basic characteristic of NPM is the **severe division of strategic and operational procedures**. The institutional method to implement this division is that the ministries make assignments to administrative agencies on expected outcomes and available resources and they keep steering the whole project. This way they skip hierarchical rules and bureaucratic procedures.

Regarding the results of contracts steering in EU countries (according to the above analysis), it seems that there is a substantial differentiation in the dividing line between strategic and operational line. Agency style contracts are common in five countries. Sweden and Germany have a limited application of this type of administration. In Finland and Switzerland the contracts are implemented in a decentralized manner. The UK and France implement contracts between the ministry and the PES, while the Netherlands a high-level contract is concluded between the ministry and the national PES. (Virtanen and Stenvall, 2014)

A1.1.3. Discretion at the operational level

The third dimension concerning the operational level, reveals **the freedom to manage** given by the central administration. Discretion at operational level is quite important, for introducing processes and choosing instruments/resources to achieve targeted outcomes.

Empirical data dictate that discretion at operational level about budget allocation is high in Swiss PES and Dutch municipalities, as they both dispose of one-line

budgets. There is also, high degree of freedom in the allocation of budgets and the chosen instruments in Germany and Sweden, in order to reduce the bureaucracy. Relevant freedom has been found in Finland. To the contrary, France and the UK are still promoting hierarchical forms of control. In the end, the Czech Republic and Italy are identified as the two countries which follow the traditional pattern of public administration and they have only developed the dimension of performance management systems.

Summarizing, the **NPM philosophy** known as the first generation of government reform, is subject to the following principles (Jun, 2009):

1. Structural devolution and decentralization
2. Vertical coordination and autonomy within single agency
3. Development of management techniques
4. Intra-organizational management (Osborne, 2006)
5. Privatization and entrepreneurship
6. Market-driven techniques, competition and citizens as customers
7. Deregulation and market transactions
8. Performance management and output control

A1.2. CRITICISM and LIMITATIONS of NPM

Financial crisis of 2008 imposed some constraints on the global and national economies across Europe, while fueled fiscal and economic crises that seriously affected public sector institutions and organizations in varied ways (Virtanen and Stenvall, 2014).

The implementation of the dominant New Public Management (NPM) ideology has consequently occurred in a period of economic difficulty and – depending on the specific country – often together with consecutive waves of recession and stagnation (Pollitt and Bouckaert, 2004).

This situation led public services to a double challenge. First, public services had to adapt to fiscal cutbacks climate. Second, they had to abandon plans for service improvement, due to tight budget. Technology advancement for example, has a questionable result, in a cost - benefit analysis, since the cost for introduction of new technologies is enormous and often fail to meet the targeted goals in the short run (Virtanen and Stenvall, 2014).

Furthermore, it is rather widely accepted that this competitive government model of **NPM failed to “understand that public management arrangements** not only deliver public services, but **also enshrine deeper governance values”** (OECD 2003:3)

It has been argued that both in theoretical terms and in practice, as a dominant approach to public service provision, NPM is no longer fit for purpose – indeed some argue whether this was ever the case (Pollitt et al., 2007) (Osborne et al., 2013), for instance, have pointed out that NPM contains **two fatal flaws**. First, **it focuses on intra-organizational processes** at a time when the reality of public service delivery is inter-organizational and consequently based on networks within and between organizations.

Moreover, according to the idea of inter-organizational processes, public service delivery today is implemented by service systems rather than by single organizations.

Second, it draws upon **management theory derived from the experience of the manufacturing sector**, which ignores the reality of public services, taking into account issues such as service culture, service systems, service production and delivery, and so on. The provision of public services, constitute the primary element of responsibility for the public administration across Europe and the OECD-countries (Pollitt and Bouckaert, 2004). Public services constitute an important interface between public administration and citizens and as such, the target is the development of the notion of an “intelligent public organization”. (Virtanen and Stenvall, 2014) (Virtanen et al., 2014)

In conclusion, the NPM paradigm rested on economic foundations which defined government activity, policy-making and service delivery. A range of weaknesses have emerged following almost two decades of experimentation, and consequently a new discourse of public management is emerging (O’Flynn, 2007).

A1.3. NEW PUBLIC GOVERNANCE (NPG): THE FUTURE

“**Intelligent public organization**” is a prerequisite for the betterment of public services since this is a prerequisite for the building of a better service culture, which in turn affects the way, in which the needs of service users are satisfied. Public organizations transform themselves from organizations to service systems.

New Public Governance based on ideas of network governance, is suggested as an ideal alternative paradigm. (e.g. Salamon 2002; Osborne 2010 cited in Koppenjan and Koliba, 2013) Many prominent network theorists and researchers provide their assessments regarding the nature and status of the transition towards the new public governance paradigm. However there is a profound question that lies beneath this theoretical framework: «Is the new public governance paradigm able to adapt to and use to advantage all the government complexities in practice?» (Koppenjan and Koliba, 2013)

The successor theory, Post- NPM philosophy or **New Public Governance (NPG) focuses on public values** and reforms the following (Jun, 2009):

1. Structural integration and less fragmentation
2. Recentralization and re-regulation
3. Inter-organizational governance
4. Eliminating role vagueness and promoting clear role relationships
5. Promoting private-public partnerships (in Greece they called Σ.Δ.Ι.Τ, Σύμπραξη Δημόσιου-Ιδιωτικού Τομέα/ Synergy of Private-Public Sector)
6. Strengthening central political and administrative capacity
7. Upgrading environmental, historical and cultural elements

In the above framework, NPG philosophy, the second generation of reform, is aiming to advocate recentralization and re-regulation, so that it corrects the dysfunctional aspects of NPM, empower government capacity and improve control and coordination within and across political and administrative systems. Decentralized, overlapping and divided roles create a high degree of role ambiguity. New Public Governance (NPG), reform the strategies that are designed to put the problem of coordination and control to a realistic basis, and

also to alter employee behavior, so it complies with the expectations of management (Jun, 2009).

Public services provide much of the "*raison d'etre*" for public administration. They exist in the spaces between the citizens and the system. Simultaneously, public services can also be seen as the fortification of public administration in complex widespread network society, extending public authority into civil society (Virtanen and Stenvall, 2014).

(Ostroff, 2006) Despite the rapid spread of terms such as governance and networks in academic literature, in practice this new governance model may have less penetration than it has been anticipated. Also, network governance operations are also demanding, requiring considerable governance skills and it is not certain that they will succeed. Network governance may not only be the solution to the problem of complexity, but will become part of the problem. To conclude, it is not necessary to have a new set of one-size-fits-all solutions as provided by new public management (Koppenjan and Koliba, 2013).

A2. CHANGE MANAGEMENT in GOVERNMENT ORGANIZATIONS

Growing literature and numerous surveys have been examining the causes of the dysfunctions and deviant behavior, in the framework of performance management and measurement in the public sector. Similar methods have been used also to high performing public organizations, to identify the factors of their success. Common denominator to their success was their adaptability and amenability in implementing change. There are **five main principles** that characterize **successful public-sector change** efforts, which can achieve the targeted results (Ostroff, 2006).

A2.1. PRINCIPLE 1: Improve Performance against Agency Mission - Ensure Top Management Support and Commitment

Public organizations often have multiple political supervisors, pursuing different objectives from their constitutional aim. Also, politically appointed executives often have quite weak relationship with career civil servants (Fernandez and Rainey, 2006). Taking into consideration these obstacles, executives implementing changes in their agencies must obtain external support from powerful sources. The reason is that public-sector organizations do not aim to maximize shareholder's wealth. Rather, they are charged with promoting a particular aspect of the public's welfare. Effective and efficient execution of their mission is what taxpayers pay for. However, mission can get blurred or lost as political priorities shift and agency leaders come and go.

Top management support for change, requires the cooperation of top-level career civil servants together with the politically appointed executives. Because of the frequent and sudden turnover of many executives in government agencies compared to business executives, the need for leadership continuity and stability is even more imperative. This may explain the reason that, contrary to stereotype, many significant changes in public organizations need to be -and have been led-, by career civil servants (Holzer and Callahan 1998 cited in Fernandez and Rainey, 2006). Executives need a strong ally to support the desired changes over political or other stakeholders' interests.

A2.2. PRINCIPLE 2: Win Over Stakeholders - Ensure the Need – Overcome Resistance

Public organization executives have to manage and cultivate a rather wide range of stakeholders (as frontline employees, union leaders, taxpayers, taxpayers groups, managers, members of Parliament, members of Government e.t.c), compared to the corresponding network of the private sector (as lenders, shareholders, insurance companies etc.) In general, they are categorized in two groups, external and internal stakeholders. (Ostroff, 2006)

The first step to success requires that managers will verify and effectively communicate the need for organization's change to other members of the organization and important external stakeholders. They can create a vision, a picture or image of the future, that it is easy for the majority of the interesting members to find appealing (Kotter, 1995). A lot depends on top management's ability to disseminate information about the change and convince employees of its urgency.

A2.2.1. Internal stakeholders

Public-sector employees often stay at their agencies for a long time, typically much longer than their agencies' leaders. Many of them have watched change efforts attempts with little effect. However, employee's longevity can actually be helpful to a leader seeking change (Ostroff, 2006).

Those employees know a lot about how their agencies run and where they falter. By actively eliciting operational knowledge from them, leaders not only lay the intellectual foundation for the change effort, they also help gain the employee support needed for it to succeed.

Usually, a portion of employees are initially receptive to a change initiative, a portion of them are resistant and the rest of them are on the fence. To keep the first group of employees on board, the goals of the change effort must be aligned with their values.

The administration has to set an identification process with the use of questionnaires, interviews, and observation to determine who in the organization is amenable to change. According to the results, leaders on the one hand must

build internal support and on the other hand must overcome the resistance (Fernandez and Rainey, 2006) .

How can this happen? Several researchers have observed that a crisis, shock or strong external challenge to the organization, can contribute to reduce resistance to change. Van de Ven (1993) explains that because individuals are highly adaptable to gradually emerging conditions, a shock is typically required for them to accept change as inevitable. Kotter (1995) even observed that in a few of the most successful cases of organizational change, the leadership manufactured crisis. (Laurent 2003; Thompson and Fulla 2001 cited in Fernandez and Rainey, 2006)

The literature also indicates that involving organizational members, helps reduce the barriers to change by creating psychological ownership, disseminating critical information and encouraging employee feedback for fine-tuning the change during implementation (Fernandez and Rainey, 2006). Lack of change readiness can usually be attributed to issues of employee skill and will. Well-crafted training programs can ease concerns about skill deficiencies. Their value is both psychological and practical. As employees gain confidence, they become more open to changes in their work or environment.

Other tactics address a lack of will. For example, the creation of a change team representing all agency functions and reporting levels, as well as both management and union members, to develop employee understanding of the agency's performance challenges and support for recommended changes. The team could visit high-performing public agencies and companies to learn from their experience in combating workplace ills. From this sort of exposure, the team members can gain a sophisticated grasp of best practices and, no less important, a newfound belief in their feasibility (Ostroff, 2006).

Last but not least, there should be tactics focused on incentives, so that employees embrace new procedures. Employees could be rewarded for expertise, leadership, increased responsibility, and other contributions to performance.

A2.2.2. External stakeholders

Ordinarily, every public organization has many external stakeholders. The scope is identifying them, work hard to understand their issues and concerns and be prepared to meet them ahead of time. For example the U.S.A army, reduced Special Operations Forces (SOF) that were active in the Vietnam War, from seven active groups to three. The SOF leadership had to convince current stakeholders of the range and value of the forces capabilities. Among them, were the US diplomats that should realize how Special Forces could be helpful to them (Ostroff, 2006).

A2.3. PRINCIPLE 3: Create a Road Map - Provide a plan - Engage Resources

Executive managers must develop a course of action or strategy for implementing change. This will serve as a road map for the organization, offering directions, identifying obstacles and proposing measures for overcoming the obstacles. It is crucial that this plan has the following characteristics (Ostroff, 2006):

- ✓ Clear and specific policy goals
- ✓ Causal thinking about the connection between the targeted aim and the action to be implemented in order to achieve it

A change effort road map generally has **three major phases**: Identify performance objectives; Set priorities – Engage resources; and Launch the program-Institutionalize change.

A2.3.1. Identify performance objectives

First, the agency leader and the senior managers have to **define the mission**. Afterwards, the agency leader can **delegate a change team** composed of different organization levels (hierarchy) individuals, who are highly respected by agency peers, strongly support the need for change, and are directly affected by the change effort. This team identifies the sectors of performance requiring the most urgent attention and focuses to the highest barriers to reform (Ostroff, 2006).

A2.3.2. Set priorities – Engage resources

Successful organization change management requires **sufficient resources** to support the process. Planned organizational change involves redeployment of scarce resources toward new activities, such as developing a plan for implementing the change, training employees, reorganizing the structure, experimenting with innovations. Failure to provide inadequate resources leads to poor implementing efforts, higher levels of interpersonal stress and even neglect of core organizational activities and functions (Fernandez and Rainey, 2006).

Once resources are secured and all the suggestions are on the table, the next step is to decide which to adopt and in what sequence. Should an organization concentrate on areas where the potential for improvement is most marked? On areas that external stakeholders, including the society, care most about? Or on areas where one can get results the fastest, thereby inspiring further efforts? The decision should be taken, after considering the performance criteria set (*impact on performance*) by the management, in combination with the level of difficulty of their implementation (*hardship involved*).

A2.3.3. Launch the change plan – Institutionalize change

Managing the design and rollout of a change program requires the involvement of **a steering committee** to supervise the appropriate implementation, to prevent any misfortunes and to take remedy action if needed. The committee is usually composed of the agency's leader and senior managers of areas particularly affected by the transformation. Specifically, the committee approves the sequence of steps, imposes milestones, specifies deliverables, approves change-team recommendations, defines the expected contributions from employees, intervene to correct course when necessary (Fernandez and Rainey, 2006). Finally, the committee should effectively institutionalize and embed changes to the organization culture. That means, to incorporate the new policies or innovations into everyday procedures, so that gradually they become part of the employee's behavior and as a result part of the organization culture.

A2.4. PRINCIPLE 4: Pursue a Comprehensive Approach

Many researchers argue that for fundamental change in behavior to occur, top management must make systemic changes to all the subsystems of their organization. Changing only one or two subsystems will not generate enough power to move ahead the organizational transformation.

In the above framework, it is clear that for organizations to perform at a superior level, the full range of factors—leadership, structure, processes, infrastructure - also technology-, human resources, and performance management—must be integrated and aligned.

However, the tendency within government is to select those organizational elements that the leader person or group driving the change effort knows best, at the expense of the other elements. This may cause serious deficiencies in the performance results (Ostroff, 2006).

A2.5. PRINCIPLE 5: Be a Leader, Not a Bureaucrat

So far, there has been analyzed the stages necessary to lead a change program. There are, however, two qualities of public-sector leaders to implement such a task. On the one hand, there are the Bureaucrats leaders that by nature, respect barriers. On the other hand, there are the Change leaders who do not necessarily knock them over; instead they find ways to see over and around them (Ostroff, 2006).

he other problem many agency leaders face is the perception that because they are political appointees, their commitment to improving performance against mission may be questionable. Such leaders must convince stakeholders of their sincerity (Fernandez and Rainey, 2006).

Agency employees mostly start out believing in the agency's mission, which, whatever its particular focus, involves serving citizens and taxpayers (Ostroff, 2006). Over time, they see change programs come and go without making a dent. Meanwhile, the public interest is neglected. If an agency head can convince the rank and file that this time is different—that he is committed, is willing to invest the personal time and energy that is required, and will commit the necessary people and resources—then its original dedication will be reawakened.

A3. PERFORMANCE MANAGEMENT and PERFORMANCE MEASUREMENT via CHANGE MANAGEMENT in Public Sector

"The greatest challenge in bringing about successful change and significant, sustained performance improvement in the public sphere is not so much identifying solutions, which are mostly straightforward, as working around four unique obstacles" (Ostroff, 2006).

These obstacles derive from substantial differences in the **missions**, the **purposes**, the **cultures**, and the **contexts**, within public organizations operate, contrary to the private sector businesses. As a result, a new model of change management has to take over.

The targeted aim is to convert the "old-classic" public sector, to an efficient and effective public sector, that contributes the maximum to the society and citizens, fulfilling that way his constitutional role.

Adopting a performance management and measurement system in government organizations requires an overall approach, with many extensions and serious involvement, in three levels (Goh, 2012):

- the managerial discretion that relates to *"...persons be given the capacity to deliver results through a combination of authority, resources, a reasonable degree of control over events and, in general, a supportive environment to fulfill the anticipated and expected results"* (Thomas, 2007 cited in Goh, 2012),
- the organizational culture and
- the stakeholders' framework

A3.1. PERFORMANCE MANAGEMENT and MEASUREMENT in PUBLIC SECTOR

Usually every government in the past 40 years has launched initiatives to improve government performance. In this framework, performance measurement and management have become the focus of central organizations in government, to address the issues of accountability and transparency. Yet, performance management and performance measurement, have often been used as synonymous, cause they are closely related concepts.

However, performance management is an essential management tool that can be used to lead to better performance in government organizations, by setting targets and performance indicators. In contrast, performance measurement focuses mainly on the metrics, to evaluate how an organization is performing. Thus, performance measurement is a necessary but not sufficient condition to performance management (Goh, 2012).

Performance Measurement Systems (PMS) were widely developed in the 1990s as a means by which large companies can support their strategic management functions. The Balanced Scorecard is currently the most popular among PMS framework worldwide.

Performance measures are monitored and used most effectively through performance measurement systems, especially to assess performance and enhance programmatic or organizational decision-making and accountability (Poister, 2003).

On the one hand, **performance measurement** represents the process of adopting measures. Performance dimensions (outcomes, productivity, output, efficiency, and so on) are the elements characterizing this process. On the other hand, **performance management** refers to the actual use of performance measures. This distinction is useful in order to understand the impact of the factors that are presumed to influence the performance measurement and management process.

Indeed, people need different information at different levels of the organization. Senior managers and politicians need a strategic overview of organizational performance, to plan strategies for future performance improvement and in

decision-making. Managers require information that helps them to manage their services or team. Individuals also need to know how they are performing. In other words, there is a hierarchy of measures reflecting the structure of the organization and each organizational level is characterized both by specific performance dimensions and use of measures (Sole, 2009).

Therefore, despite the widespread use of performance measurement in the public sector worldwide there has been increasing criticism of its effectiveness in fostering performance improvement (Radnor and McGuire, 2004)

The reason is that as increasing accountability, pressures are forcing managers in public sector organizations to gather metrics to justify their programs. On the other hand, there are few opportunities to identify problems, learn from mistakes and experiment with new strategies for improvement (Sanger, 2008 cited in Sole, 2009).

A study of two public sector organizations in the UK illustrates this problem. They found that despite implementation of a performance measurement system including balance scorecards, there was lack of ownership and accountability of the system and that most were "working the system" in order to just comply with the requirements imposed on them (Radnor and McGuire, 2004).

Political priorities, sometimes are better served if the goals are ambiguous or often changed. One explanation, how ambiguous goals can lead to dysfunctional performance measurement, is that if the goals are vague, there will be numerous ways to present how they are achieved.

Thus, the challenge is to conclude to a process in the public sector, where performance measurement can be effective and sincere at the same time. There is increasing research evidence, that the behavioral and managerial context in the implementation of performance measurement is an important but neglected aspect (Goh, 2012).

CHAPTER B: CASE STUDIES, A PERFORMANCE MANAGEMENT SYSTEM in PUBLIC ORGANIZATIONS

It is common ground, that the last decades there have been substantial efforts to “reinvent the government” and improve performance in public sector organization (New Public Management & New Public Governance). These efforts have been focused on performance management practices, with a special importance given to productivity issues in the public sector (Verbeeten, 2008).

The concept of productivity is often confused with the more extensive and more common concept of performance management and performance measurement. **Productivity is one of the tools used to define and measure performance** (Byus and Lomerson, 2004). Performance contains both economic and operational perspectives (Tangen, 2005 cited in Linna et al., 2010).

Public organization’s operations may be measured under the title of performance measurement – such as quality of outputs, or it may be a question of individual indicators or whole measurement systems and methods (Brax, 2007 cited in Linna et al., 2010).

B1. PERFORMANCE MANAGEMENT (PM) PRACTICES

Performance management is profoundly related to:

- Specifying which goals to achieve,
- Selecting strategies to implement,
- Allocating decision rights,
- and Measuring and rewarding performance (Heinrich, 2002; Ittner and Larcker, 2001; Otley, 1999; Kravchuk and Schack, 1996; Brickley et al., 1995 cited in (Verbeeten, 2008).

A fundamental question is whether PM is applicable in the public sector, and whether it will actually improve public sector performance. Clear goals and measurable results are prerequisites in order to focus in pursuit of organization’s mission, gain coherence and speed up.

In this section of thesis, there will be an attempt to investigate whether the use of PM practices in public sector organizations, affect their performance, in what

degree and which perspectives. It is generally accepted that public and private organizations differ from the performance measurement aspect.

In the public sector there are many stakeholders with different and conflicting interests. The potential stakeholders of a public sector organization may include local citizens, clients, consumers, users, the media, elected representatives, the central government, regulatory agencies, managers, and employees (Wisniewski and Stewart, 2004 cited in Rantanen et al., 2007). Due to the above reality, the performance measurement system in public sector has to face two major challenges.

First, to take into consideration all stakeholders requirements that may result in producing a multitude of performance measures that satisfies no one (Wisniewski and Stewart, 2004 cited in Rantanen et al., 2007).

Second, it may be difficult to set targets or to make decisions based on the measurement results, because some of the stakeholders have conflicting objectives. This leads to the fact that often, the ultimate target of operations may also be unclear or blurred. Thus, it is difficult for the organization management to locate the most important measures for the evaluation of the produced outcome (Rantanen et al., 2007).

Apart from the above substantial problems, there are also some other obstacles that can restrain the acceptance and application of performance measures in the public sector. For example, mistrust of measurement, lack of credibility and usefulness, lack of standards and being on time to work, lack of substantial investment of time and resources, and resistance by public officials, department heads and employees. It is common belief among practitioners and academics that the public sector organizations have quite a lot of problems in applying performance management systems (Pollanen, 2005).

B2. PRODUCTIVITY PRACTICES

Productivity in public sector is as important to economic performance of a country as that of the private sector. There are three main reasons that public sector's productivity is crucial. Public sector is:

1. A major employer
2. A major provider of services in the economy, particularly business services (affecting cost of inputs) and social services (affecting labor quality)
3. A consumer of tax resources (Thornhill, 2006 cited in Linna et al., 2010)

Any changes in public sector productivity may have significant implications for the economy. Productivity is generally defined as a measure of the amount of output generated per unit of input (Boyle, 2006 cited in Linna et al., 2010). The definition of productivity as the relationship between input and output does not cover issues that many people have in mind when they talk about public sector productivity.

A common sense of productivity in the public sector incorporates broader concerns about the outcomes achieved by the public sector. Generally speaking, many people talking about public sector productivity have in mind the clear question of what value they receive from public services in return for the utilization of public funds (Linna et al., 2010).

Productivity and performance are dependent on many factors – ranging from top management support, committed personnel at all levels, a performance measurement system, employee training, reward structures, community involvement and feedback to correction of budget-management decisions. It is thus important to build up capacities for productivity improvement (Holzer and Seok-Hwan, 2004 cited in Linna et al., 2010).

Thus, public sector productivity is most often measured as labor productivity. The more intensive customer contact or the more tailored service product is, the harder it becomes to study productivity. The complexity of inputs and outputs and their number also add to the difficulty of measurement. How many different components are combined to create the final service? How many different components may be distinguished in inputs and outputs of the service? Does

one service process produce several end results at the same time? (Brax, 2007 cited in Linna et al., 2010).

B3. THESIS RESEARCH METHOD

There seems to be a lack of in-depth case studies analysis that would reveal the specific challenges faced by public sector organizations in designing and implementing performance management system (Rantanen et al., 2007).

This section aims to identify the specific factors, challenges and problems faced by the public sector organizations in three western model EU countries (Finland, the Netherlands, Ireland) and Australia, primarily through **selected Case studies paradigms** and the **Qualitative research approach**.

The Case study method is often used in business and management studies. It refers to a research strategy that focuses on understanding the dynamics of management and organizational processes. It mainly tries to explain questions like "How?" and "Why?" (Yin, 1989 cited in Rantanen et al., 2007).

Selecting the cases is an important phase of case research. Case research does not rely on the random sampling used in statistical research. On the contrary theoretical or intentional sampling is used (Eisenhardt, 1989)(Yin, 1989; Curtis et al., 2000 cited in Rantanen et al., 2007). A basic criterion to choose the cases could be to present new aspects of the studied phenomenon, or sometimes extreme or polar situations, e.g. successful and unsuccessful cases, are chosen (Eisenhardt, 1989).

Another criterion could be the number of cases, where single or multiple case studies can be used, depending on the analysis targets set. Multiple case researches allow cross-case analysis. Furthermore, due to the need for deep understanding in a scarcely studied area, the qualitative research approach is the best alternative to be. *"With qualitative data one can preserve chronological flow, see precisely which events led to which consequences, and derive fruitful explanations."* (Miles and Huberman, 1994 cited in Rantanen et al., 2007)

In order to support the analysis of the empirical research, a short reference of prior literature and research findings is carried out each time. This makes it

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possible to analyze the cases study findings and qualitative research in relation to the phases of measurement.

The following empirical researches will attempt to enlighten the specific challenges related to the design and the implementation process of the performance measurements in the public sector.

B4. FINLAND

Finland, like other European countries, has to cope with major challenges, due to rapid aging of the population and financial difficulties in the public sector. The whole existence of the Nordic welfare state is disputed. Public sector organizations and the municipalities are moving towards a crossroads, where they have to find the appropriate effective way to produce services (Linna et al., 2010).

To improve public services productivity, seems to be the first obvious solution. Understanding the issue of productivity and how it is measured or should be measured, become increasingly important, as it is expected that the share of the public sector labor, will grow in Finland for the years to come.

In Finland, it has been claimed that it will become harder in the future to raise the standard of living or even to maintain the high quality of public services, especially in the social field. The labor supply is shrinking, and international competition is becoming more intensive. Finland is located away from the fastest growing international markets (Waller, 2006; Kaitila et al, 2006 cited in Linna et al., 2010).

Information and communication technology allows reorganization of many services. Though, reluctance to reshape established practices may constitute a bottleneck (Linna et al., 2010).

Whatever the uncertainties about underlying conditions are, a need to accelerate productivity will serve as a policy recommendation and a key economic policy objective, in Finland. Economic growth and rising living standards depend on higher productivity. The less manpower and capital are available, the more productivity growth must be accelerated (e.g., Waller, 2006; Kaitila et al., 2006 cited in Linna et al., 2010).

B4.1. RESEARCH METHOD

The present study has been carried out as an **action research**. "*Action research engages the researcher in an explicit program to develop new solutions that alter existing practice*" (Kaplan 1998 cited in Rantanen et al., 2007).

In addition, organizations reveal more information to a researcher who works in order to develop the organization than to a researcher who only makes observations (Rantanen et al., 2007). This study is also a **multiple case study**.

The case organizations are:

(A) A Finnish university;

(B) A state agency working under the Ministry of Trade and Industry, serving also the Ministries of the Environment, the Interior, and Transport and Communications and;

(C) The maintenance functions of the Finnish Defense Forces (FDF).

The cases were chosen because they represent different kinds of public sector organizations. In this framework, there is the possibility **to identify common factors in public sector PMS design and implementation** and at the same time to detect the specific characteristics of a certain type or organization (e.g. university or military) (Rantanen et al., 2007).

It should be pointed out that while organizations A and B are independent units and design their own strategy without any interference, the organization C is subject to FDF and its target setting is indirectly driven from FDF targets. Some of the researchers were working inside these organizations and this facilitated the data collection, the processes observation and the gathering of additional information (Kulmala et al., 2006).

Finally, in cases A and B a semi-constructed questionnaire was used to interview members of the management team and some employees involved in the implementation process. Organization C was concentrated mainly on cost and productivity measurements and consequently the questionnaire was out of context (Rantanen and Leva, 2005; Rantanen and Oikarinen, 2005 cited in Rantanen et al., 2007)

B4.2. CASE A: A MEDIUM-SIZED UNIVERSITY

B4.2.1. Organization A - Characteristics

- Budget of 56.5 million euros
- About 900 persons working
- The persons interviewed by a semi-structured questionnaire were three: the Dean, one subgroup member (professor) and one administrative worker

The interviewees were all are familiar with performance measurement (in practice and theory level). The Dean had launched the performance measurement program, the professor of accounting was a member of a group that developed measures for teaching and the administrative worker acted as a secretary in all the subgroups developing measures.

One of the researchers worked inside the organization and was also a member of one subgroup developing the measurement system (Rantanen et al., 2007).

The university had a rather big range of objectives for the integrated performance system. The main objective included that the system would be deployed in the performance measurement at all university levels and certainly in the strategic steering, decision-making, and university management. The measurement project was carried out in 2003–2005.

B4.2.2. Methodology of the project

Launching the project, the university administration organized three subgroups to design the measurement system. Their interest and their efforts to develop special measures were related to the **three strategic areas** of the university: Teaching, Research, and Production of services for the community (Rantanen et al., 2007).

Furthermore, there were three levels for the measurement system to be applied:

1. University level as a whole,
2. Department level,
3. and the level of teams and individuals

B4.2.3. Problems detected

The basic problem perceived was related to the fact that the participants of the project had not clearly realized the main purpose of the measurements. The interviewees expressed different opinions for the project aim. The Dean had a slightly clearer view on the main purpose than the other interviewees. The consensus thought was that the development project was aiming in supporting the management or leading the operations.

Also, the interviewees had conflicting opinions concerning whether the expertise in the performance and measuring projects of their own organization had been utilized enough or at all for the project. The management thought that the knowledge of specialists among the university staff was utilized, an opinion that was not empathized by the interviewed specialists (Rantanen et al., 2007).

From many aspects it was obvious that the design and implementation process was lacking a sincere target-orientation. Specifically, as interviewees reported:

- The whole project was lacking a timetable or a budget
- There were some scheduling problems. At the same period with the measuring project :
 - A need for quality system development was emerging
 - Also, a national evaluation regarding an individual work performance system including a bonus salary system, was to be adapted in the beginning of the year 2006 in all universities in Finland.

The above unscheduled projects required also development resources, which affected the development of the PMS (Rantanen et al., 2007).

- Additionally, there was a slowness detected in the progress of all development processes that was mainly attributed to insufficient financial resources.

B4.3. CASE B: A STATE AGENCY SUBJECTED TO THE MINISTRY OF TRADE & INDUSTRY

B4.3.1. Organization B - Characteristics

- Budget of 9.8 million euros
- About 120 specialists working
- The persons interviewed by a semi-structured questionnaire (total three) were representatives of the management and white-collars workers

The interviewees were all familiar with performance measurement and their objectives (in practice and theory level). One of the researchers worked inside the organization and had also an active role in the performance measurement project (Rantanen et al., 2007). The manager who had launched the project and the specialist were involved in this project.

The main objective of the administration of the state agency was **the development of a productivity measurement system**, to calculate the productivity of the organization (Rantanen et al., 2007). The measurement project was carried out in 2003–2005.

B4.3.2. Methodology of the project

Soon they determined that their objective was to develop a PMS for the organization, so that they could measure and improve the performance effectiveness in different sectors. Through this procedure they wanted also to extract information for satisfying the stakeholders' need for reporting.

B4.3.3. Problems detected

One of the main problems in case B was related to the dualistic nature, of the agency's operations. The organization had two basic operations. The first was that of an official supervisor and the second was that of a customer-oriented expert organization, providing technically integrated and reliable solutions for their customers. The above fact, created confusion to the interviewees, about who the real customer of the agency was (Rantanen et al., 2007).

Also, the main target of the measurement project was somehow vague and it was not clear to the project team from the beginning, what management level they had to measure (units, actions or sectors etc.).

Another basic problem had to do with the fact that the group leader were specialist in technology and lacking knowledge and capabilities in management and consequently in measurement tools (Rantanen et al., 2007). Other existing problems related to:

- The non-effective flow of information in the agency, which had to do with communication problems and overlapping projects with measures and indicators defined in various levels and units.
- Bad communication and disagreements between personnel. Those lead to low commitment to the development process (Rantanen et al., 2007).

B4.4. CASE C: THE MAINTENANCE FUNCTION OF THE DEFENSE FORCES (FDF)

B4.4.1. Organization C- Characteristics

It concerns the vehicle fleet maintenance of the Finnish Defense Forces, which consists of centralized management and several repair shops. The leading generals and officers from different maintenance units had no experience and education on performance management. Their work experience was from military operations, where the meaning of performance has a totally different interpretation, than in management accounting (Rantanen et al., 2007).

On the other hand, due to the fact that Organization C is under the command of FDF, lead the management accounting professionals to only providing data for responsible persons. They had no involvement in designing a performance measurement system (Rantanen et al., 2007).

The main objective of the administration **and key driver** for measurement practices was the need **to measure** activity-based costs and to analyze the productivity of FDF units. This need came up from an observed potential of using outsourcing **to reduce cost and improve efficiency**. Previous empirical research in UK had shown serious signs that private public partnership could release military resources from supporting operations (maintenance) to the core business (defense). Some of the commanders at the FDF Headquarters were convinced of the above expected results. However, before proceeding to the

above venture and outsourcing any FDF activities, they had to measure the costs and efficiency of in-house operations (Rantanen et al., 2007). The measurement project was carried out in 2003–2004.

B4.4.2. Methodology of the project

At first, several maintenance units decided to organize activity-based cost and efficiency analysis of different activities independently. The measurement was not standardized in different units, and the units measured non-comparable activities. The activities were coordinated by consultants knowing almost nothing about the other consultants in the other units.

To solve this problem each territory commander organized a new cost and efficiency analysis, in which all the units in his territory were measured with standardized methods (Rantanen et al., 2007).

B4.4.3. Problems detected

The results were communicated to the **employees** that afterwards **became suspicious about losing their jobs, in case of potential outsourcing** and posed questions on how it's possible to calculate different costs to the same activities (Rantanen et al., 2007). Also, FDF utilized activity-based costing. The system provided well-organized information on the total costs and performance indicators, like productivity at the overall garrison level.

Therefore, the administration for the maintenance function, could not utilize the data gathered from this system because it was unfeasible to decide whether a vehicle is faster back in use from a private maintenance shop or from an FDF maintenance shop and what the cost of using different maintenance processes was (Rantanen et al., 2007). At the same time, significant resistance to change from employees took place when the results of different cost and efficiency indicators were compared to the relevant performance indicators selected from the private sector.

The majority of FDF employees' supported that the total works at FDF is defense work and therefore the costs should not matter. Private companies should not be involved in this issue. However, there were a lot of activities that had been outsourced to private companies many years ago.

The real problem had to do with the different customer's issue (dualistic nature of the operations) (Rantanen et al., 2007).

On the one hand a lot of warehousing and planning was done in order to prepare for a crisis, while on the other hand most of the routine work was done to continue peacetime military education. On the basis of the crisis preparation, a low capacity utilization rate was accepted, but in peacetime activities the same rate was characterized as inefficient. The only solution to this problem had to do with separating the peacetime activities from the crisis planning activities (Rantanen et al., 2007).

Thus, the stakeholder group supporting different interests seemed to determine the objectives for any measurement in the FDF.

- The commanders had as their first priority the efficiency and effectiveness of activities,
- The politicians had as their first priority low total costs, high activity volume, or decreasing the unemployment rate, depending on their political direction,
- The employees had as their first priority making their maintenance unit look more efficient than others in order to preserve their jobs.

These interactive interests were leaving too much non-objective space for speculations, when something had to be measured (Rantanen et al., 2007).

B4.5. ANALYSIS – TYPICAL PROBLEMS

The most typical problems in Finnish public sector measurement as revealed in the three case studies are the following (Rantanen et al., 2007):

1. In all cases **the objective was not clearly strategy driven**. It was rather taken from a single objective appointed by the relevant ministry and seemed to go too much into detail of individual measure development.
2. **The measure development did not serve one "master"**. Rather, it tried to fulfil many perspectives of the results, uncovering the fact that the public sector organizations did not focus on integrated strategy, but managing one single success factor at a time. Every "master" would demand the project to serve its interests, ignoring the other "masters" needs.

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3. The majority of **the employees did not relate to the objectives.**
4. **The employees mostly did not recognize any utility of the project** in their everyday work. In some cases they even expressed opposition to the project or resistance to change. If this happened in the private sector, they would certainly lose their job.
5. There were **too many responsible persons** in the development process which **led to non-responsibility.**
6. The existence of **overlapping projects spent unproductively the time** of the people.

The above observations support previous studies. As it has already been mentioned in the literature review, public sector organizations have many different stakeholders that might have conflicting interests (Rantanen et al., 2007). In this framework, some of the common (to the previous studies) findings and challenges in measurement projects, are related to the difficulty of setting common targets, of informing the structure of the organization and having inadequate resources (Leinonen, 2001 cited in Rantanen et al., 2007), of expressing mistrust of measurement and resistance of employees. (Hacker and Brotherton, 1998) (Pollanen, 2005 cited in Rantanen et al., 2007).

	Case A	Case B	Case C
What was the aim of the measure development?	To support strategic steering, decision-making, and overall management	To improve productivity and performance	To reduce costs and improve efficiency
How was the measure development organized?	Different subgroups for three functions	Internal project group supported by researchers	Outsourced to different consultants
How did the personnel involved understand the aim?	Not clearly, contradictory	Not clearly and not fully	Contradictory aims
Who was responsible for the development?	No clear responsibility, nominally the rector, practically the secretary	No clear responsibility	Maintenance function commanders and unit commanders
How did the personnel involved react to the development?	Ignorance, concentration on other projects, contradictory	Contradictory, even conflicting	Resistance of change, manipulation of results
Were there overlapping projects?	Yes	Yes	Yes

Source: (Rantanen et al., 2007).

B4.6. KEY CAUSES FOR THE PROBLEMS

In conclusion, as the empirical research revealed, the design and implementation processes in the Finnish public sector organization, faced the above mentioned problems. These problems were provoked due to the key characteristics of the public sector and subsequently led to performance measurement difficulties.

The main causes for the problems in performance measurements in Finnish public sector and as previous studies confirmed, (in other countries' public sector), are the following four:

- I. There are **several stakeholders with conflicting interests**, that should be taken into consideration when designing a PMS (Lawton et al., 2000; Wisniewski and Stewart, 2004 cited in Rantanen et al., 2007)
- II. The **main objective activity is vague** (Lilian Chan, 2004) (Pollanen 2005 cited in Rantanen et al., 2007) and it is not mainly driven by economic criteria. Besides, cost effectiveness and target orientation are not so often met in public sector organizations.

For example, the main objective in a school is most likely the quality of learning and in the defense force the defense capacity. Though, many times critical evaluation of the procedures is overlooked and in our examples, learning results are often explained with the size of the class and defense capacity is usually measured with the monetary input. Compared to the private companies where usually profitability is the long term goal, setting long-term goals in public sector it's a hard procedure and guided by too many different issues.

- III. Usually, there is **lack of ownership of the property**. It is not obvious who is responsible for the hospital or university, as in private companies. In the framework of representative democracy, is often distant to preserve the public property and the individual taxpayer cannot easily interfere with these issues in everyday life. As a result, since the "ownership is missing", the control of the performance is also missing (Rantanen et al., 2007).
- IV. There are **poor management skills**. In Finnish public sector the manager is usually chosen by job substance skills, rather than managerial skills. So, the manager chosen in a public organization could be the best expert

(for example in a hospital the best surgeon), but not the best manager for the administration.

An incompetent manager doesn't know how to manage human resources, how to encourage and motivate them, how to set target and consequently to measure performance.

The first two causes are strongly related to the nature of public sector organizations, it is not easy to go beyond them and they mainly **affect the design of the performance measurement system (PMS)**. The last two causes are related to the management of the public sector organizations and **affect the implementation of the PMS** and thus, there are ways to overcome them. The whole environment in public sector in Finland (mechanism for decision-making and operating procedures) is primarily defined by the political and social culture (Rantanen et al., 2007).

B4.7. DISCUSSION and CONCLUSIONS

The study of the development processes during performance measurement system, in three Finnish public sector organizations, provided a framework of challenges and practical problems that came up.

Even though the framework is based on the specific case organizations, it is believed that the results can also be utilized in other public sector organizations. However, there is an important question raised for further research:

What are the possible ways that the factors affecting the design and implementation of a PMS in public sector organizations, could be overcome or incorporated in the system, so that it manages to operate more effectively in practice? As a basis for further research and development the following means are suggested (Rantanen et al., 2007):

1. In order to influence the **factors related to the nature of public sector organizations** that affect the design of the PMS, it is suggested to empower the use of:
 - Outsourcing,
 - Public-private partnerships and
 - Privatization

These methods promoted by the model of New Public Management or even more New Public Governance (as it has been analyzed in the Literature Review section), would enhance the potential for control in the operations and steering the public activities towards the private companies model (Koppenjan and Koliba, 2013).

2. In order to influence the **factors related to the management of public sector organizations** that affect the implementation of the PMS, it is suggested to emphasize:
 - Employees education and training
 - Recruitment from the private sector and
 - Setting new selection manager criteria

These methods could improve the managerial competencies and thus the effectiveness of the implementation of several management tools including a PMS (Rantanen et al., 2007).

B5. IRELAND

In Ireland, until recent decades, health, education, and social welfare have traditionally been held by the voluntary organizations and especially dominated by the Catholic Church (Donoghue et al., 1998 cited in Conaty, 2012). The state played a background, secondary role, led by economic necessity. (Donoghue et al., 1998; O'Ferrall, 2000, pp. 17-41; Purcell, 2005 cited in Conaty, 2012).

During the 1960s, in recognition of the need for State and citizen responsibility together with the deterioration of the resource base of the religious organizations involved, public funding became a reality. Consequently, these services were funded both directly and indirectly through the religious and voluntary non-profit organizations (NPOs) who continue to play a leading role.

The dependence of such organizations on direct state funding and on the continuation of their non-profit origin, classify them as a type of **"Hybrid" organization** especially concerning the provision of social services (Conaty, 2012).

"The role of NPOs as providers of social services for central government and local authorities has increased, and they have become significant actors in the welfare economy" (Bar-Nir and Gal, 2011)

This evolving situation, where public sector meets NPOs, raises questions when it comes to the management of performance. The emerging roles of the "public manager in partnership" are changing and expanding the limits of the State to include a host of nongovernmental partners complicating the problem of achieving and evaluating performance (Agranoff, 2005).

This is of particular importance in the Irish society and in the areas of marginalized communities, people with disabilities, the elderly etc. In this sector there is an established history of NPO activity, that we see some of the most developed of these hybrid organizations (Conaty, 2012).

Around 26,000 people were registered in Ireland at the end of 2009 on the National Intellectual Disability Database (NIDD). In 2012 in Ireland, around 62 voluntary, philanthropic, and religious organizations account for approximately

85 per cent of service provision to persons with intellectual disabilities. The whole of these organizations are practically State funded (Conaty, 2012).

This emerging situation led the public sector on driving change through the application and roll out of cost improvement programs, performance indicators, financial management systems, financial targets, performance measurement, and other related techniques from management theory looking for greater efficiency (Pettersen, 1999).

These reforms became in the framework of New Public Management (NPM) and in Ireland became governmental policy to public sector through the launch of the Strategic Management Initiative (SMI) in 1994 (Robbins, 2006, cited in Conaty, 2012). This policy was also been adopted by the non-profit sector (Courtney, 2002). Performance management in the public sector and in NPOs has been widely examined from the research community (Bouckaert et al., 2007; Tilbury, 2004; Speckbacher, 2003; Pijl and Sminia, 2004).

This field of relationships between the public sector and NPOs, can be examined through several levels (Bouckaert et al., 2007).

- a. The "macro" level, at the highest national governmental policy
- b. The "meso" level, at senior public policy management
- c. The "micro" level, at the individual program/organization

B5.1. RESEARCH METHOD

This case study was based on the findings of a preliminary case study carried out in 2006. The present case study **focuses on the organizational and stakeholder attributes of an "Hybrid" NPO in public sector** setting and seeks to identify determinant elements and characteristics for understanding the challenges for performance management. Stakeholder's relationships and implications are explored in their interdependence with different aspects of governance, power, institutionalization, and culture (Conaty, 2012).

The subject of the preliminary case study is an Irish Regional Service Organization (RSO) of a large international religious (catholic) NPO. RSO is funded primarily by the State, through the Health Service Executive (HSE) and is exclusively engaged in the provision of services for people with intellectual

disabilities. RSO was selected because it considered to be a substantial and typical example of an NPO operating in a hybrid NPO/public sector organizational setting.

The preliminary case study was conducted with semi-structured interviews with senior management (the CEO, the head of finance, the head of service planning and development, and a senior service sector manager).

The interviews were backed by knowledge of policy and systems documentation, annual reports and service agreements (main contracting agreements with the HSE). The current public policy context was explored through a review of publications, reports, and policy statements of government departments, state agencies and other relevant sources in the sector in the four years prior to 2006 and to the end of 2011 (Conaty, 2012).

B5.2. STAKEHOLDER RELATIONSHIP

Comprehension of the network of stakeholders' relationships, consist the key success factor for performance management (AGRANOFF, 2005; Bouckaert et al., 2007; Hyndman and McDonnell, 2009). Complex organizational settings for public policy in the twenty-first century attribute greater emphasis on governance, networks and stakeholders. There are six key performance relationships between the following four actors:

- a. Executive politicians,
- b. Legislative politicians,
- c. Administration,
- d. and the Citizen/customer

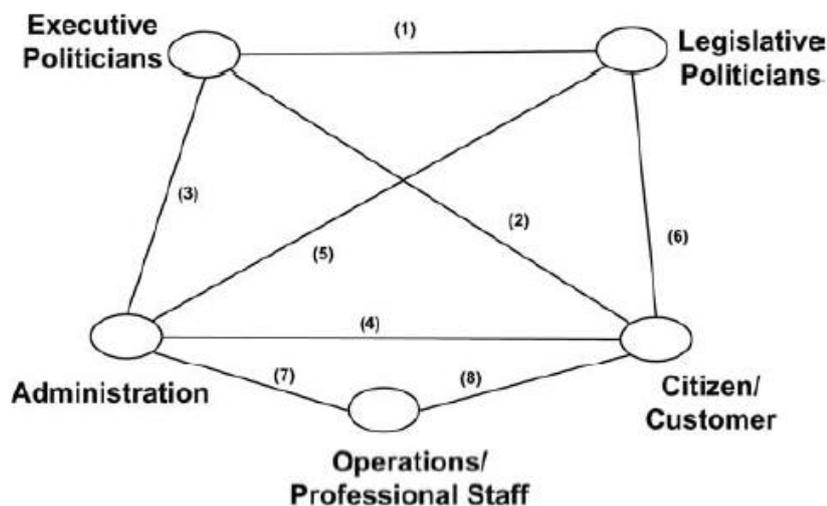
Understanding the nature of performance expression and of performance operation to change relationships in each of the relationships network, is quite a decisive factor in order to understand performance management in the public environment. Those six (6) key performance relationships are set as follows (Bouckaert et al., 2007):

1. Between Executive and Legislative/Parliament (related to performance budgets and performance audits)
2. Between Executives and Citizens (related to general charters)

3. Between Executives and Administration (related to contracts)
4. Between Administration and Citizens (related to specific charters: service level agreements and quality surveys)
5. Between Administration and Legislative/Parliament (related to accountability agreements)
6. Between Citizens and Legislative/Parliament (related through input to the policy process, via committee work, or remodeled ombudsman)

Additionally to the four mentioned actors "Professional and Operational staff" can be suggested as an important internal stakeholder and have been included in the adapted stakeholder relationship profile (Figure 1). This adds two further performance relationships (Conaty, 2012):

7. Employment contracts incorporating responsibilities and performance assessment
8. Interaction between Citizens and the Staff responsible for the service provision



Note: Adapted from Bouckaert and Halligan (2008)

Figure 1. Public sector stakeholder performance relationships (Conaty, 2012)

Nevertheless, reference should be made to key external stakeholders of charities as identified "the charity", "donors", "beneficiaries". The term "Supra-stakeholder" has been adopted to represent the "charity" stakeholder (Hyndman and McDonnell, 2009).

All NPOs will have an equity invested ownership organization, religious or not, essentially responsible for the existence, mission, values and ethos of the NPO. However, for some NPOs it is difficult to distinguish the "Supra-stakeholder" from the board or management of the organization. It is nevertheless important to separate out this "equity invested" relationship (Conaty, 2012).

B5.3. CASE STUDY: IRISH REGIONAL SERVICE ORGANIZATION

B5.3.1. Organization's Characteristics

The religious congregation of RSO (the Congregation) established their first services in Ireland in the mid nineteenth century. The provision of these services grew steadily over the years and today the Congregation is a significant provider of services for people with an intellectual disability in Ireland (Conaty, 2012).

RSO is substantially funded by the State and is not involved in any other activities. The overall RSO's mission statement is to support and improve the quality of life of people with an intellectual disability. As expected, RSO encompasses a complex multiple stakeholder network. Consequently all ten stakeholder relationships as set out for non-hybrid NPOs, also apply in this case (Conaty, 2012).

It's worth mentioning that because of the close interrelationship and interdependence between the RSO and the State, two additional stakeholders, usually found in the public sector, show up. It's the "public sector service organization" as the primary contracting State body, in this case the Health Service Executive (HSE) and the "political stakeholders" representing the interests of the State, one or more government departments (Conaty, 2012).

The recognition of these two additional stakeholders has a significant impact on the number of performance relevant stakeholder relationships, which now formulate a network of six more relationships. The above analysis reveals the complexity of the stakeholder's relationships network, as the stakeholder set increases. This is a particular feature of the hybrid nature of the NPO/public sector organization structure and creates unique challenges in performance management system.

B5.4. ANALYSIS AND KEY OBSERVATIONS

Literature review establishes that power distribution (AGRANOFF, 2005; Bar-Nir and Gal, 2011; Modell, 2005) and cultural-institutional characteristics, have been identified as key elements to interpreting performance.

There is a delicate but basic distinction between “**power to**” and “**power over**”(Agranoff, 2006). In this case study power is taken to encompass both. Specifically, the “power to” influence organizational decision making and “power over” is observed in inter-stakeholder relationships.

Relative asymmetry in power distribution was evident between the stakeholders in RSO. The asymmetrical scenery within RSO tended to be away from the service users and directed towards management, the public sector service organization (in this case the **Health Service Executive (HSE)**), the supra-stakeholder (the Congregation) and the political stakeholders. The latter sub group of stakeholders could be argued to be the “dominant” one (Conaty, 2012).

This power asymmetry was evident in RSO by the exclusion of service users, from the strategic, control and decision-making mechanisms of the organization, but more importantly from ownership and governance. Except from “Heads of Departments” and “Sector Managers”, staff were also poorly represented in the strategic, control and decision making mechanisms.

There was relative power in the hands of the other stakeholders, characterized by control of funding on the part of the HSE and the State, control over strategic and operational decision making by management and governance oversight and equity ownership by the Congregation (Conaty, 2012).

The RSO board and management had full autonomy in developing organizational level objectives and were accountable to the Congregation. RSO were also accountable to the HSE as the substantial funding provider and purchaser of services for service users. Accountability to the HSE was expressed through a multi-annual “Service Agreement” (Purcell, Value for Money, p. 9, 2005 cited in Conaty, 2012).

Regular meetings across management levels did take place between RSO and the HSE. Such meetings regarded as essential to facilitate ongoing service delivery. There were two perspectives from which to observe RSO accountability

to the HSE. On the one level there were poorly developed "formal structures" and on the other hand significant ongoing operational communication and monitoring at an informal or semi-formal level (Conaty, 2012).

The organizational structure of RSO was complex and characterized by the separation of the multi-disciplinary professional team from administrative and operational management. The "multi-disciplinary team" was made up of the heads of each of the six therapy fields. They were directly responsible for the determination of therapy protocols, policy, service programs and managing service delivery in their field. They had limited input into overall organizational strategy determination, management control or decision making (Conaty, 2012).

The relationship between RSO and the HSE was dominated by the agreements or contracts for services and funding arrangements. State funding requirements for RSO were determined by a subcommittee of the "Service Management Team".

Because of the multiple stakeholders involved in organizations like RSO and their relative power (perceived and real), vested interests take on a particular importance. This resulted in a complex management structure while making visible the protectionist aspects of institutional behavior (i.e. carefully constructed ownership, governance and management structures).

Finally, there was a strong element of interdependence between RSO and the HSE. The former depended on the "service contract" from the HSE for its very existence while the latter needed RSO's expertise, professional resources and infrastructure in order to provide the services it is required to provide as directed by the State (Conaty, 2012).

B5.5. NPO, "HYBRID" ORGANIZATION: ATTRIBUTES and PROBLEMS

A study on NPO governance and the public interest, revealed a total new scenery where;

"The boundaries between nonprofit governance and public governance are increasingly fluid and overlapping, and our theoretical understandings as well as our empirical work on governance must expand to encompass this relationship" (Stone and Ostrower, 2007).

Specifically, the study of the performance management characteristics and challenges in hybrid settings, such as the case of RSO, has been gaining ground (Agranoff, 2006; AGRANOFF, 2005; Appleton, 2005; Brandsen and Pestoff, 2006; Huxham, 2003; Kettl, 2006; Lewis, 2008; Stone and Ostrower, 2007)

The substantial research of the RSO case, make evident that such organizations, because of the interface or **collision of the NPO and the public sector, exhibit particular attributes** that justify further examination, from the following perspectives (Stone and Ostrower, 2007):

B5.5.1. Complex Inter-stakeholder relationships

Comprehending and managing inter-stakeholder relationships is fundamental to performance management (Bouckaert et al., 2007; Hyndman and McDonnell, 2009). Responsibility is inevitably shared in this multiple-stakeholder environment. In this framework a basic question comes up: *"is it possible to clearly fix accountability on anyone?"* (Kettl, 2006).

The crowded stakeholder setting consist an appropriate environment for avoiding responsibility and handing off accountability. The governance challenge is one of recognizing and supporting legitimate inter-stakeholder relationships, while eliminating or mitigating the impact of negative inter-stakeholder activities and enhancing positive activities (Conaty, 2012).

In the RSO case study research, the most obvious common stakeholder objective is the maximization of the quality of life of people with an intellectual disability in need of support (within available resources). At the same time individual inter-stakeholder relationships host many other objectives. In order to

approach this governance and performance management challenge it is necessary to map the complex dynamic of action, inaction and interaction, along with each individual inter-stakeholder relationship, against all other stakeholder relationships (Conaty, 2012).

B5.5.2. Tension across Priority Objectives

The nature of voluntary organizations has a "values expressed character", which distinguishes them from either business or government organizations. This distinctive character of voluntary organizations creates a special context for their governance and management (Jeavons, 1992).

In addition, in NPO public sector hybrid settings, the principal objectives of the dominant stakeholders require particular attention. The expanded stakeholder set poses challenges of balancing the primary objectives and needs of a greater number of "**dominant**" **stakeholders**: in particular, the political stakeholders, the public sector service organization (in this case the HSE) and the supra-stakeholder (in this case the Congregation).

These objectives may overlap in significant measures. Their differences create tensions that have to be released somehow. Indeed, recognizing the existence of these differences and providing space for their expression is critical (Conaty, 2012).

In the case researched, it was observed considerable **tension in the area of funding**, where there was a noticed disconnect between NPO organizational strategic level and those of the public service organization, HSE. HSE appeared to give priority to fiscal management over service outcomes, in contrast to the NPO's objective of targeting to meet the needs of services users as their first priority.

Regardless of the type of hybrid organization, the combination of characteristics and different objectives present, generate conflicts of interest (Thomasson, 2009). This further underpins the argument for more integrated governance structures in an effort to mediate these objective tensions.

B5.5.3. Cultural and Institutional clashes

In the above-mentioned framework a culture clash between the NPO and the public sector, is more possible than ever to have. The institutionalized practices and behavior of the NPO will not necessarily be aligned with those in the public sector organization and can lead to **tension in the accountability function between these two dominant stakeholders.**

A key challenge in performance management is to maintain equilibrium between performance systems based on trust and those based on control (Bouckaert et al., 2007) .

In these hybrid service delivery structures establishing and maintaining trust is provoked by the evident cultural differences between the dominant stakeholders. In order to militate against negative performance impacts of cultural differences, an understanding of cultural tensions and activities to promote cultural integration may be required (Conaty, 2012).

B5.5.4. Power distribution

The more the stakeholder set increases in number and becomes complex, the more the distribution of power becomes more scattered and unbalanced. Managing organizational goals in a shared power environment requires an understanding of the role of power distribution in governance and management processes.

“Recognizing that power relationships partly evolve and manifest themselves through the construction of meanings in organizational fields adds new perspectives to public sector performance measurement research.” (Modell, 2005)

For organizations such as the RSO case, with an observed power asymmetry skewed away from the service users and where the primary objective is to maximize service user quality of life, an understanding of the impact of the interrelationship of stakeholder power and organizational behavior is twice vital (Conaty, 2012).

B5.5.5. Interdependent stress

It is extremely difficult to align with the aspects of power and organizational objectives between the NPO and the state public sector organization. Some autonomy is necessarily lost by both parties in an interdependent relationship (Saidel, 1991).

In an examination of voluntary hospitals in Ireland it was observed that as a result of the necessity to compete with state owned hospitals for a variable element of their public funding, the voluntary hospitals had in some ways become indistinguishable from their public sector counterparts undermined their separate identity as voluntary organizations (Robbins, 2008 cited in Conaty, 2012).

What is observed in the NPO/public sector hybrid setting is a range of "dependence" relationships ranging from true interdependence to relationships approaching more of a dependent or co-dependent nature.

Understanding the nature of the hybrid relationship in terms of dependence is critical to identifying those dependence relationships that potentially erode the long term health of the organizations involved. Co-dependence tendencies could lead to an undermining of organizational confidence and a stripping away of essential organizational abilities (Conaty, 2012).

B5.6. PERFORMANCE GOVERNANCE: "THE IDEAL MODEL"

Answering the questions of how performance should be approached, viewed, and managed, in the detailed exploration of public sector performance management, a suggested potential ideal type of "performance governance" is reported. This analysis builds a staged **evolutionary set of four models** (Bouckaert et al., 2007):

- (1) Performance administration,
- (2) Managements of performance,
- (3) Performance management, and finally
- (4) Performance governance.

The above **Performance governance model** expands the distance of the performance framework (from policy objectives driven by needs, to inputs,

through to process, outputs, outcomes and stakeholder trust) and the depth of the performance framework (from whole-of- government (macro) through policy level fields (meso) and organizational (micro)).

It is suggested that "governing performance is by definition an intergovernmental exercise, which confirms the largest possible depth of performance" and further that "linking public sector organizations to others, private, not-for-profit, non-governmental, ad hoc citizens groups is all part of the governing tool kit" (Bouckaert et al., 2007).

The earlier analysis has suggested five organizational characteristics, attributes as central to performance in the hybrid NPO/public sector collaborative approach: complex and numerous inter-stakeholder relationships; tensions across the priority objectives of the dominant stakeholders; cultural and institutional clashes; stakeholder power asymmetry and interdependent stress. Given that performance governance requires the mixture of a range of processes, structures and indicators at differing levels these challenges provide particular barriers to moving in that direction (Bouckaert et al., 2007).

However, there should be substantial efforts to address these challenges, in order to move to the full adoption of performance governance as an ideal type in such settings.

B5.7. CONCLUSIONS and SUGGESTIONS

Public sector and NPO collaborations are on increase rate and especially in the Irish context (O'Ferrall, 2000; Purcell, 2005 cited in Conaty, 2012). This evolution is explained by the governments' intention to leverage social capital in order to meet service demands and by the acceptance of state responsibilities for services historically delivered by religious or philanthropic organizations (AGRANOFF, 2005; Appleton, 2005; Bar-Nir and Gal, 2011).

These developments have given rise to varying forms of hybrid NPO/public sector organizational arrangements, with increased organizational complexity that significantly affects performance management.

To examine these organizational settings is necessary to identify the relevant organizational attributes, critical to performance management in the broad

perspective. This perspective is suggested as being societal and organizational in context as opposed to individual in focus and incorporates not just the achievement of outcomes but the means employed towards that achievement and the organizational structures (Bouckaert et al., 2007; Broadbent and Laughlin, 2009). In this framework, the analysis of the preliminary NPO/public sector hybrid case suggests five organizational characteristics as critical to understanding the challenges for performance management in such settings:

- (a) Inter-stakeholder relationships:** a complex stakeholder network is observed, where due to the hybrid nature of the organizational structure, is rendered even more complex and numerous (Bouckaert et al., 2007). Identifying, understanding and managing the complex inter-stakeholder relationships is critical to overall performance management.
- (b) Tension across priority objectives:** the different priority objectives of the "dominant" service delivery stakeholders (the NPO and the public sector service organization) recorded significant tension. These tensions and conflicts can bring about significant barriers to the success of such collaborations (Kettl, 2006; Meyer and Hyde, 2004; Thomasson, 2009).
- (c) Culture and institutional clashes:** to appreciate the potential for negative performance impacts of cultural and institutional differences (in particular the potential for erosion of trust), the nature of such differences and the reactive behavior of the stakeholders concerned, need to be understood (Conaty, 2012).
- (d) Power distribution:** Significant asymmetry in power distribution between stakeholders was observed in the case study. Further understanding the role of power, is a key element in understanding performance management in such complex stakeholder environments (Bar-Nir and Gal, 2011; Modell, 2005).
- (e) Interdependent stress:** Significant interdependence between the primary service delivery stakeholders was noticed. This probably led to negative organizational outcomes due to the partial loss of identity and autonomy that may arise in interdependent and dependent relationships (Saidel, 1991);(Robbins, 2008 cited in Conaty, 2012).

The adoption of collaborative public sector models suggests a move toward performance governance as a performance framework ideal type (Bouckaert et al., 2007).

However, the performance challenges identified in the hybrid setting consist particular barriers to any substantive movement in that direction. Addressing and better understanding these challenges is prerequisite for the progressive adoption of elements of performance governance as an ideal type.

While there has been considerable research directed separately to performance management of public sector organizations and NPOs, performance in an NPO/public sector collaborative service structure or hybrid, has only relatively recently become the focus of research in the field.

The case study contributes to this developing area by suggesting that performance management research in NPO/public sector hybrid organizations focuses on understanding the implications of the five critical organizational characteristics/attributes identified and further, that performance governance, as a performance framework ideal type, faces significant challenges in hybrid settings (Conaty, 2012).

B6. THE NETHERLANDS

The Netherlands is a unitary, but decentralized state: *"Traditionally, the Dutch state...has always resisted centralization of state authority"* (Kickert and In't Veld 1995, p.45 cited in Pollit and Bouckaert 2004).

The Dutch governmental system is organized as three different layers: central government, provinces, and municipalities. This means that the relations between the layers are hierarchical: municipalities have to adhere to the policies of the central government and the province. At the same time, municipalities have considerable freedom in implementing policies, which is an important source of variation between municipalities (Ter Bogt, 2008).

During the 1980s specific reform ideas (the New Public Management, NPM) came from a number of other countries, especially Sweden, the UK and the USA (Roberts 1997, p.101 cited in Spekle and Verbeeten, 2015). Business-origin management ideas increasingly penetrated public sector. Dutch municipalities have been under constant pressure to adopt NPM based thinking in management and control, while retaining sufficient autonomy to resist or mold this pressure. However, in the Netherlands, the drive for efficiency and measures to reduce expenses did not carry the same antigovernment ideological edge as it did, for example in the UK under Thatcher, or in the USA under Reagan (Verbeeten and Speklé, 2015).

It should also be noted that the Netherlands, relative to its size, has one of the largest communities of public administration academics in Western Europe. Many professors played some part in advising government on administrative reform, while during the 1990s the Dutch academic community played an important role in developing the "new steering model" of governance (Kickert and In't Veld 1995, cited in Verbeeten, 2007); (Pollitt and Bouckaert, 2004).

With regard to the study in Netherlands public organizations, there will be a four-point contribution to the Performance Management (PM) literature (Verbeeten, 2008):

1. This study is **included in a rather limited number of large-scale, empirical studies** that investigates the impact of PM-practices in public

- sector organizations (Van Helden, 2005). It also extends results from previous small sample studies, case studies, and literature reviews (De Bruijn, 2002; Newberry and Pallot, 2004; Smith, 1993; Van Thiel and Leeuw, 2002)
2. Most of the literature in this area has relied on the relation between one factor (e.g. defining clear goals (Brignall and Modell, 2000); or introducing incentives, (Newberry and Pallot, 2004) and performance. The effects of **several variables are analyzed** in this paper.
 3. There is a distinction between **quantitative and qualitative performance** in order to investigate the effects of PM-practices. This is quite important since it relates to the trade-off between (short-term) efficiency and (long-term) effectiveness.
 4. This study **responds to previous calls in the literature** to integrate several research demands (Merchant et al., 2003; Van Helden, 2005). The use of economic and behavioral theories provides the opportunity to investigate what PM-elements help in explaining public sector organization's performance.

B6.1. LITERATURE REVIEW and HYPOTHESIS

There will be a confrontation of this model with the relevant literature to assess its consistency with theory and empirical findings and to provide theoretical context to help interpret the results.

B6.1.1. Management control systems

Performance management system in the public sector focuses on the management control systems, which concern the implementation of the strategies considering two directions: first, to design effective programs and second to implement them efficiently (Anthony and Young, 2012 cited in Verbeeten 2007). Three forms of control can be used by organizations:

- output (results) controls,
- action (behavioral) controls,
- and clan (personnel/cultural) controls

Output controls involve evaluating and rewarding individuals (sometimes groups of individuals) for producing good results, or taking penalty measures for those with poor results. **Action controls** try to assure that employees perform (or do not perform) specific actions known to be beneficial (or harmful) to the organization. Finally, **clan controls** help to ensure that employees will control their own behaviors or each other's' behaviors. Clan controls clarify expectations; they help ensure that each employee understands what the organization wants. It should be noted that these forms of control are not necessarily discrete, and elements of all three forms may be found in organizations (Merchant and Van der Stede, 2007).

According to previous literature, (Gupta et al., 1994; Johnsen, 2005; Merchant and Van der Stede, 2007; Modell, 2005; Mol, 1996; Pollitt, 2005) output controls are most useful when objectives are clear, outputs are measurable, activities are repetitive, and the effects of management interventions are known. In case these conditions do not co-exist, reliance on other forms of control is necessary in order to efficiently and effectively achieve the goals of the organization.

The most difficult case in public sector organizations when it concerns the management control system, is when **objectives are excessively ambiguous**. Then:

- It is likely that the incidence of political control also increases. Specifically, the organization is more likely to depend on power structures, negotiation processes, particular interests and conflicting values (Hofstede, 1981; Vakkuri and Meklin, 2006).
- There may be clear political benefits (and therefore incentives) to set ambiguous objectives: unclear objectives provide politicians the chance to react to changes in the political environment (Hofstede, 1981).
- Ambiguous goals may also prevent budget cuts in "pet projects"; if the organization does not invest in efficiency and transparency, it is not clear to other politicians whether money can be saved (De Bruijn, 2002).
- Finally, ambiguous goals decrease the extent to which politicians can be held accountable for problems and disasters: a multitude of goals provides the opportunity to compensate underperformance in one area (for example, exceeding cost budgets) by referring to over performance in

another area (Bevan and Hood, 2006; Johnsen, 2005; Vakkuri and Meklin, 2006).

B6.1.2. Performance management practices

Public sector organizations were used to relying on action controls, meaning rules and procedures, to control organizations. However, the past decade has witnessed a shift towards output controls (Gray and Jenkins, 1993; Guthrie et al., 1999; Hood, 1995; Lapsley, 1999; Ter Bogt, 2008).

Most Western countries have promoted several initiatives to stimulate the use of performance management (PM) practices in public sector organizations (including central government, local governments and other public sector organizations such as hospitals, education institutions, police forces, etc.) (Cavalluzzo and Ittner, 2004; Hood, 1995; Van Helden, 2005; Van Thiel and Leeuw, 2002) PM-practices can serve several political as well as managerial purposes (De Bruijn, 2002; Kloot and Martin, 2000; Propper and Wilson, 2003). Yet the focus of this study is on the managerial purposes.

First, the definition of clear missions and objectives facilitate employees to understand what the organization wants and be focused in operations "communication purpose" (Hyndman and Eden, 2000; Kaplan, 2001; Merchant et al., 2003; Rangan, 2004)

Second, by measuring performance with regard to the objectives and targets, politicians and public managers can present to the public how their money is used, satisfying purposes of transparency and accountability (Verbeeten, 2008)

Third, public sector organizations may use performance measurement for "educational purposes". The transparency created by measuring performance may indicate where the organization excels, and where improvements are necessary (Verbeeten, 2008).

Fourth, performance measurement systems may provide the basis for compensation of public government officials "appraising purposes". A careful specification and monitoring of performance, along with a set of incentives and sanctions, can be used to ensure that the public sector managers continue to act in society's interest (Newberry and Pallot, 2004).

The nature of public sector organizations may also result in unintended managerial side effects of PM-practices such as additional internal bureaucracy, a lack of innovation, a reduction of system or process responsibility, tunnel vision etc. As a result, the performance of organizations may decrease rather than increase due to the use of PM-practices (De Bruijn, 2002; Hood and Peters, 2004; Pallot, 2001; Pallott, 1999; Smith, 1995; Vakkuri and Meklin, 2006; Van Thiel and Leeuw, 2002)

B6.1.3. Performance: Quantitative versus Qualitative

Performance should be distinguished into quantitative and qualitative performance, for the better understanding of this research project. Quantitative performance relates to quantitative methods of performance such as the use of resources (budget depletion, cost saving), number of outputs produced, and efficiency (Carter et al., 1992, p. 36 cited in Verbeeten 2007). Although efficiency relates output to input, it can still be considered as a quantitative performance measure since it usually contains no or limited indication of quality. Qualitative performance refers to both "operational quality" (for example, accuracy) as well as "strategic capacity" (for example, innovation and long-term effectiveness) (Kaplan, 2001; Kloot and Martin, 2000; Newberry and Pallot, 2004).

Measures for "operational quality" can be critical by suggesting that: *"More often, the real indicators of quality will be that the ordinary, routine things are being done properly and on time"* (Carter et al. 1992, cited in Verbeeten 2007).

Measures for "strategic capacity" are also critical in order to maintain (or improve) the long-term effectiveness of the organization (Atkinson et al., 1997; Kaplan, 2001). Thus, these measures bear aspects of subjectivity; performance measurement systems that ignore it are likely to lack balance (Kaplan, 2001). Empirical findings support that quantitative performance measures tend to ignore the quality aspect of service delivery since qualitative performance is much more difficult to measure (Julnes and Holzer, 2001; Kloot and Martin, 2000; Pollanen, 2005; Pollitt, 1986).

The focus on quantity performance (measures), could be explained by the fact that the increase in quantitative performance (efficiency, number of units produced) has been achieved at the expense of quality performance (operational

quality) or innovation and long-term effectiveness (Newberry, 2002; Newberry and Pallot, 2004), (Henley et al., 1992; Carter et al., 1992, cited in Verbeeten 2007).

B.6.1.4. Motivation theories

Exploring the literature review, there will be a focus on **Behavioral and Economic theory** for complete and integrated conclusions. Specifically, Goal setting theory provides a behavioral explanation for the hypothesized relation between clear and measurable goals and performance (Locke and Latham, 2002) while Agency theory is concentrating on the optimal incentive contract (Baiman, 1990; Eisenhardt, 1989, 1985; Lambert, 2001).

A. Goal setting theory

Goal setting theory argues that people with specific and challenging goals perform better than those with ambiguous, easy or no goals. When managers know what they are aiming for, they are motivated to exert more effort, which increases performance. Challenging goals are usually implemented in terms of specific levels of output to be attained (Locke and Latham, 2002).

Empirical evidence from the public sector provides somewhat mixed results. For example, in a research case the chief executives of nine agencies in Northern Ireland, were interviewed. All their respondents indicate that a focus in mission, objectives, and performance measures had improved the performance of the agency, while also indicated that the poor implementation of the system (i.e. systems that value efficiency over quality and/or short-term over long-term results), and the tendency to overemphasize numbers at the expense of judgment, could jeopardize performance (Hyndman and Eden, 2000).

Summarizing, although goal setting theory suggests that clear and measurable goals should be positively associated with performance, relevant empirical evidence is indefinite. The main problem relates to the impact of clear and measurable goals on long-term, qualitative performance; the above result in the following hypothesis (Verbeeten, 2008):

H1: There is (a) a positive relation between clear and measurable goals and quantity performance, and (b) no relation between clear and measurable goals and quality performance.

B. Agency theory

The agency theory, is based on the relationship between one or more individuals (called principals) that hire others (called agents) in order to delegate responsibilities to them (Baiman, 1990). The rights and responsibilities of the two parts are specified using the metaphor of a contract. According to the theory, individuals are fully rational and be motivated by self-interest incentives, such as wealth (monetary and non-monetary) and leisure.

Incentives can be defined as extrinsic motivators where pay, bonuses, or career perspectives are linked to performance. Individuals are presumed to have preferences for increases in wealth and increases in leisure (Bonner et al., 2000). Agency theory suggests that incentives play a fundamental role in motivation and the control of performance because individuals have utility for increases in wealth. The public sector's specific attributes make the design of incentive schemes quite complex for the following reasons:

1. Public sector organizations generally have multiple stakeholders (principals) with multiple goals. Each principal will offer a positive coefficient on the element(s) (s)he is interested in, and negative coefficients on the other dimensions (Dixit, 1997).
2. Several dimensions of performance are hard to measure. Consequently, in the incentive scheme there will be included those that are easy to measure, with undesirable effects on overall performance (Burgess and Ratto, 2003; Tirole, 1994).
3. Agency theory assumes that an agent gets utility solely from the incentives, and disutility from the effort he exerts on behalf of the principal. In reality, agents in public sector may be motivated by the idealistic or ethical purpose served by the agency (intrinsic motivation).
4. Professionalism may motivate agents in public sector organizations. As a result, organizations can use so-called "low-powered incentives" (i.e. incentives are not based on performance) (Dixit, 1997).

Empirical evidence on the effectiveness of incentives in public sector organizations provides mixed results (Bevan and Hood, 2006; De Bruijn, 2002; Newberry, 2002; Newberry and Pallot, 2004; Van Thiel and Leeuw, 2002). For

example, in a research case the use of performance management of public services in England was investigated. The results indicated that English health care managers were exposed to greater risk of being dismissed when measured indices (including star rating indicators) were used and individual hospitals were "named and shamed". Although there have been dramatic improvements in reported performance in the English health care sector, it is rather impossible to determine whether these improvements are genuine or whether they are product of gaming and/or a reduction in performance dimensions that are not measured (Bevan and Hood, 2006).

Summarizing, although agency theory suggests that incentives should be positively associated with performance, relevant empirical evidence is inconclusive. Overall, the use of incentives appears associated with an increase in quantity performance yet a decrease in quality performance. The above result in the following hypothesis (Verbeeten, 2008):

H2: There is (a) a positive relation between incentives and quantity performance, and (b) no relation between incentives and quality performance.

B6.2. METHODOLOGY

B6.2.1. Sample

The survey sample is consisted of public sector organizations, located in Netherlands. Students of an executive education program carried out the data collection, by conducting survey participants. This procedure resulted in high response rates, yet sample selection was not random (Verbeeten, 2008).

Potential problems with respondent identification (i.e. a junior employee responds to the survey, instead of a manager) and respondent understanding of the questions were mitigated. Students have been instructed to clarify discreetly if needed, ensuring at the same time results objectivity.

The survey was pre-tested by four experts, former managers of non-profit organizations or survey experts. A cover letter, explaining the goal, desired respondent and other issues, accompanied the survey, informing respondents

that they could ask to receive the results from this study, giving them an incentive to cooperate (Verbeeten, 2008).

A total of 93 useable surveys were returned. The sample mostly includes government organizations (central government, municipalities), while education and health care organizations are underrepresented. Therefore, sample is biased and the results cannot be deployed by all public sector organizations. Respondents' allocation included general directors and general managers (48%), financial directors and controllers (26%), department heads (19%) and others (7%, heads, and staff advisors). All respondents had at least some managerial responsibilities. On average, respondents were working for nine years in their organization (median: six years) and have been employed in their current function for five years (median: three years). These data suggest that respondents were well informed on PM practices of their organization.

The questionnaire selected information on the incentive and performance system of the public organization, on the clarity and measurability of the targets and on the control variables number (Verbeeten, 2008).

B6.3. DISCUSSION and CONCLUSIONS

This study investigates whether performance management practices affect performance in public sector organizations in the Netherlands, by testing economic and behavioral theories with empirical findings.

According to the findings of this study, clear and measurable goals are positively associated with quantity performance (efficiency, production targets) as well as quality performance (accuracy, innovation, employee ethos). This finding is aligned with goal setting theory (Locke and Latham, 2002, 1990 cited in Verbeeten 2007) where the specification of clear and measurable goals provides focus in operations and improves performance. The use of incentives is positively linked to quantity performance, yet not related to quality performance. This finding is consistent with the notion that incentives may not be helpful to stimulate effort when goals are ambiguous or performance is difficult to be measured (Verbeeten, 2008).

Additionally, institutional factors (Sector and secondary the Size) appear to influence the use and effectiveness of PM-practices. Local government organizations appear to have more ambiguous and difficult to measure goals as well as lower performance than other public sector organizations. Large organizations occur to have more difficulty to define clear and measurable goals and are less likely to use incentives. Eventually they have lower quality performance, which is mostly consistent with the notions of agency theory (Dewatripont et al., 1999).

Summarizing, it seems that the behavioral consequences of PM-practices on public sector managers are as important as the economic consequences.

The results from this study suggest that public sector organizations face a trade-off between achieving quantitative goals (i.e. short-term performance goals such as efficiency and quantity produced) and quality goals (i.e. long-term or strategic performance goals such as quality, accuracy, innovation and employee morale and ethos). In order to attain quality targets, the organizations should focus on providing inspiring missions and goals and not only on introducing performance measurement and evaluation systems (Verbeeten, 2008).

B6.4. SUGGESTIONS

The literature suggests a number of strategies that organizations can apply in order to achieve a balance between quantitative and qualitative performance (De Bruijn, 2002; Likierman, 1993; Van Thiel and Leeuw, 2002) (Simons, 2000 cited in Verbeeten 2007). Organizations:

- 1) Can use a variety of competing performance measures for all tasks. Indicators should change over time, according to the conditions. Also, adequate "safeguards" against "quantity indicators" need to be developed; that is, soft aspects of performance should also be included in the performance measurement system (Verbeeten, 2008).
- 2) Can use external sources (such as important stakeholders, external experts) to consult on "adequate performance measures" that should be included in the performance measurement system, as well as criticize on how they view the "soft aspects of performance".

- 3) Should plan performance measurement systems together with the employees. Such an interaction gives performance measures chances to appear understood, consistent and fair to the targets. The use of PM-practices should also be accompanied by conduct guidelines (such as ethical codes and codes of behavior) that diminish the "pressure of quantity measures" (Verbeeten, 2008).
- 4) Are recommended to make target comparisons over time, between organizations, and between different units within the same organization.

These strategies may provide the opportunity to exploit the advantages of PM-practices, while limiting the downside risks of PM as presented in the literature review.

B6.5. LIMITATIONS

Even though the research project is one of the first large-scale empirical analyses that investigate whether the use of PM practices is associated with the performance of public sector organizations (Van Helden, 2005), there are some limitations to the findings:

- 1) The results presented here are based on correlations, not necessarily causal relations. Although the research model is based on normative PM-literature (Ittner and Larcker, 2001; Kravchuk and Schack, 1996; Otley, 1999, cited in Verbeeten 2007), it may be argued that the implementation of PM-practices provide the opportunity to define clear and measurable goals or that a high level of perceived performance makes it appear as if the organization has clear and measurable goals.

Additionally, it may be argued that performance is better when there are clearer goals because, when goals are clear, it is easier to measure performance. However, the previous argument would suggest that, after recognizing the impact of task uncertainty and all other "objective" factors that may explain the use of PM-practices, all organizations in one sector would use similar PM-practices and have similar performance. This would exclude the impact of political decisions and other stakeholders influence and dynamics (Ittner and Larcker, 2001, p. 399 cited in Verbeeten 2007).

- 2) The results are based on perceptions rather than "hard measures". These perceptions may be inadequate due to inappropriate measures or inadequate interpretation of the survey instruments (Jacobs, 1997). While the use of validated instruments and the pre-tests on survey experts and public managers should prevent such errors, additional research may be necessary to further validate the results from this study.
- 3) The study is based on a cross-sectional survey of public sector organizations. Institutional differences in these specific types of public sector organizations (such as the mandatory initiation of PM, the collective labor agreements that hardly allow the use of bonus payments or the legally required diversity of tasks) may explain some of the results in this study (Verbeeten, 2008).
- 4) Factors such as mutual trust amongst stakeholders and managers or financial stress that may affect PM-practices and performance have not explicitly been considered in the survey.
- 5) The survey instrument that measures performance focuses on managerial tasks. The respondents are asked to compare the performance of their organization to other comparable organizations with regard to quantities and qualities produced the number of innovations and morale of unit personnel. The survey instrument does not ask respondents whether these tasks are politically sensitive, or whether political executives are satisfied with the achieved performance. As a result, the survey does not capture "political performance", while this could be the real criterion that is used to judge the performance of the organization (Verbeeten, 2008).

B6.6. POLICY IMPLICATIONS

There are some questions following this research for further research, to address the reasons why some public sector organizations have vague and "hard to measure" goals while others have clear and measurable goals. These questions are partly explained by the operational processes of each organization (Chenhall, 2003), yet others may be related to political choices in society or in the organization (Dranove et al., 2003; Hofstede, 1981; Hood and Peters, 2004).

The consequences of these choices might be interesting from financial, political, or societal perspectives.

Another issue for further research relates to the interaction of the performance measurement and reward system, combined with other aspects of the control system (behavioral controls, social controls).

It is unclear at this point, whether the introduction of result controls are used as substitutes or complements to other forms of control. The question remains: *"Does the introduction of PM-practices diminish behavioral and/or cultural controls or can we use behavioral and/or cultural controls to increase the effectiveness of PM-practices?"* (Verbeeten, 2008).

B7. AUSTRALIA

Australia is a federal state, in which the state level is strong and indeed, served as "laboratory" for some of the public management reforms which were subsequently introduced at the federal level (Halligan and Power, 1992 cited in Pollit and Bouckaert, 2004).

During the 1980s, Australia was obliged to move away from previous protectionist policies, which had involved a high degree of state regulation and intervention in the economy. Increasingly turned to the private sector and the use of market principles within the public sector, which have been linked to broader programs of economic reform (Halligan, 1997 cited in Pollit and Bouckaert, 2004).

In this framework, the systems of performance measurement have gradually become more refined and widespread and **Australia has been a leader in public sector performance management for the last three decades**. However, despite the long period of implementation and refinement, fundamental weaknesses persist in the quality and use of performance information since the system was established (Hawke, 2012).

Bouckaert and Halligan (Bouckaert et al., 2007) developed a framework for classifying the different types of performance regime applied by governments, as has already mentioned before in this thesis in the "Ireland case study".

The period of application related to the range of practices to measure and incorporate performance covering economy, efficiency, effectiveness and trust. The framework established four distinct evolving approaches to managing public sector performance from the most basic, "Performance administration", "Management of performance", "Performance management" to the most integrated, "Performance governance".

They evaluated Australia as a "performance management" type of system, albeit with some limitations. They assessed that the Australian system exhibited a hierarchical performance measurement system with integrated, coherent, and comprehensive elements (Bouckaert et al., 2007).

This classification is due to limitations of management at the meso (at senior public policy management across organizations) and macro (across the whole of government policy) levels, along with the weaknesses in the systemic application of performance information, particularly in terms of the effectiveness and trust dimensions.

B7.1. POLITICAL REVIEW

In 1984 the Australian Government introduced the **Financial Management Improvement Program (FMIP)**, incorporating program management and budgeting (Parliament of Australia, 1984). The Australian performance management framework consists of several prominent features: budget planning on the basis of outcomes and explicit performance measures, considerable flexibility to reallocate resources within each budgeted outcome, and last, devolution of responsibility to line ministers to define their intended outcomes and performance measures, subject to minimal intervention by central departments, Cabinet or the Parliament (Bouckaert et al., 2007).

The Australian parliament regularly reviewed the implementation of the FMIP over almost a decade after its introduction. The criticism of the program had to do with mainly poor quality of performance information and continued to be directed in the late 1990s, at subsequent performance management arrangements (Hawke, 2012).

The **Australian Labor Party (ALP)**, the main Opposition party in Parliament until late 2007, adopted a policy for public financial management reform called "Operation Sunlight" (Tanner, 2008). The policy proposed changes to address perceived inadequacies, in the quality and relevance of budget information, particularly regarding outcomes. The election of the ALP to government in 2007 set the policy platform into implementation. This was supplemented by further government action. The Labor government did not identify any specific results to performance management, except that the new arrangements showed, "*a clear and continuing commitment to openness, transparency and good governance*" (Tanner, 2008). The main changes introduced in relation to the outcomes and outputs framework were:

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- o to review all outcome statements against a set of basic standards,
- o to replace outputs with programs and deliverables,
- o to improve the quality of budget reporting
- o and to establish a clearer link between organizational performance and the responsibilities of senior executives.

Some other changes were also introduced in the last five years, but it is quite early to assess the full impact of recent changes to the performance management regime, though the first signs are not promising (Hawke, 2012).

The **Australian National Audit Office (ANAO)** in 2011 completed a performance audit of the quality of performance information in portfolio budget statements. Weaknesses observed by the ANAO and others in earlier assessments support the lack of consistency and quality of performance information (ANAO, 2011).

According to Bouckaert and Halligan classification, (Bouckaert et al., 2007) Australia in 2012 has not move closer to the "performance governance" type, despite the changes made the last years (Hawke, 2012).

B7.2. OBJECTIVE OF THE STUDY

This study focuses on the ulterior factors of success in the implementation of performance management arrangements in the public sector. It uses Australia as a case study in an attempt to test the factors identified as important in the academic and practitioner literature. It draws conclusions on how those factors have formed Australia's performance management together with their potential to affect future success. Performance management in this study refers to the "interrelated strategies" and activities to improve the performance of individuals, teams and organizations (Hawke, 2012).

The findings will be used for discussing the future direction of public sector performance management in Australia. The analysis in this paper focuses on performance management at the national level.

B7.3. THEORETICAL FRAMEWORK

This study considers performance management with regard to the quality of performance measures and their perceived usefulness to key stakeholders. As there are few studies of the quality and usefulness of performance information in Australia, it is important to rely on general published and unpublished reports and related information to draw conclusions (Hawke, 2012). Reviewing the success of Australian public sector performance management, the study focuses on **six factors** that appear to be related with the success.

- 1) External,
- 2) Structural,
- 3) Managerial,
- 4) Technical,
- 5) Cultural and
- 6) Behavioral factors.

The above factors have been attentively chosen after extensive review of the performance management literature, to select those clearly connected with success across countries that have adopted some form of public sector performance management (Arizti et al., 2010; Bouckaert et al., 2007; Boyne, 2006; Forbes et al., 2006; OECD, 2007; Van Dooren et al., 2010). The analysis approaches various strands of theory including institutional, management, behavioral, organizational, public administration, and communications.

External factors include all the external stakeholders, which can have impact on performance management of the public sector. The most well reported in the performance literature are political factors (de Lancer Julnes, 2008; Pandey and Moynihan, 2006). Political factors encompass the influence of politicians in government and the impact of changes, as well as those who wish to exert political influence in opposition. They also encompass civil society, economic effects (domestic and international), and comparative developments relating to performance management.

Structural factors relate to the legal, regulatory, institutional, and organizational environment where performance management operates. At the system level, these elements are specific to a country and apply to all public bodies. The

significance of these influences on individual entities is less important than the significance of their effect on the overall result (Wanna et al., 2010, 2003).

Managerial factors encompass the role of government and organization managers in implementing and using the framework. These influences concern the effects of leadership, change management and organizational alignment with policies of administration and control. They cross and interact with structural, cultural, and behavioral factors in regard to the effects of hierarchical relationships (Kotter, 1995).

Technical factors are those arising from the design of performance management systems. Specifically, they include the capacity of civil servants to implement the arrangements, the achievements in terms of measurement quality, maintenance of systems and reporting procedures. Additionally, they include the effect of guidance and training of people responsible for designing performance information and those receiving and using the information (Hatry, 2007; Kamensky and Morales, 2005; McDavid et al., 2012; Newcomer et al., 2015). Technical factors set the boundaries for management, culture, and behavior to operate.

Cultural factors include methods of operating and values inherent in the system such as institutional, operational and societal cultures. Culture affects the way in which performance management is applied and the extent to which it is incorporated in the system (De Bruijn, 2007; Franke et al., 1991; Moynihan, 2008).

Behavioral factors are differentiated from culture, because they relate to the way people respond to the performance management system and to the results of performance information. A crucial aspect of behavior, concerns how it affects people to choose the appropriate measures and how to use performance budgets and targets to avoid the constraints placed on them through performance expectations. Behavior is strongly influenced by culture and management factors, and is very responsive to technical and institutional factors (Bevan and Hood, 2006; Radin, 2006; Radnor, 2008; Schick, 1990). The above-mentioned factors can appear strong interrelationships (some have already been mentioned) that can alter or emphasize the effect of others.

B7.4. METHODOLOGY

Study's focus is the analysis of Australia's public sector performance management in terms of the above outlined framework. It is based on previous research, published reviews (there are a few), performance audits and government policy statements during the last three decades to identify and discuss how the various factors have contributed to the development and quality of the Australian performance management system. The paper concentrates on the last decade because of the significant changes that have occurred during that period. Since there have been few published studies in the period, it converts this paper's character that follows recent changes timely, as a record of reform progress (Hawke, 2012). Specifically:

Performance management is regarded as a dependent variable and attempts to interpret the impact of six groups of independent variables (analyzed above) on the outcome that have been achieved in Australia: external; structural; technical; managerial; behavioral; and cultural. The case study approach to testing and processing theoretical propositions is a well-used method, common in the performance management literature (Forbes et al., 2006), although it has not been documented previously in the public sector.

Many studies have looked at one or more of the factors referred to in the theoretical framework. There are none that cover all six and the interrelationships between them, in a comprehensive or systematic way. In conclusion, this paper has the dual function of enlightening on the suitability of the theoretical framework for further research and providing an updated assessment of Australia's progress on performance management, or perhaps its evolution to performance governance, in terms of the Bouckaert and Halligan model (Hawke, 2012).

B7.5. AUSTRALIA: FIGURING PUBLIC SECTOR PERFORMANCE MANAGEMENT

Since the first reforms established in Australia in 1984, there has been considerable changes in the nature and operation of factors figuring performance management. In the initial stages of reform establishment, the external factors of

political change and the willingness of powerful institutions within the public sector were quite dominant (Hawke, 2012).

During the subsequent refinement phase of the 1980s and 1990s, the technical and structural factors gained growing importance. Managerial factors increased in significance at that time. Finally, during the last decade technical factors have continued to be influential driver for reform while the significance of cultural and behavioral factors has begun to emerge.

Afterwards, there will be a detailed look at the changes in the last decade; however, reference is made to earlier circumstances where they contribute to understanding and explaining recent developments (Hawke, 2012).

B7.5.1. External factors in Australia

All major political parties in Australia since 1984 supported the performance management framework, building on review and analysis of public administration in the preceding decade (Parliament of Australia, 1976, 1983). The establishment of the regime required external political initiative from the ALP (Australian Labor Party) government, which came to power in 1983. However, at that period around the election and the implementation, the country was facing economic difficulties, which provided additional stress to the whole attempt.

All successive governments since 1984 have sought to refine performance management, but the core of the system, **the basic principles, has not been seriously challenged by changes in political external environment**. This has been a strong, dynamic foundation for the success. On the one hand, officials have been consistent to the framework; they had no doubt for its future and expected to apply it indefinitely. On the other hand, politicians from both major parties have strived for promoting a culture of transparency and accountability for performance and results throughout the last three decades. Their influence has resulted in frequent refinements and changes but without altering the basic framework (OECD, 2007).

In 2007, there was an important deviation from the implementation path of performance management, which was associated with the change of government and the subsequent influence of the global financial crisis. The new ALP (Australian Labor Party) government after was elected again, initiated a

review program of public expenditure as part of its election commitment for a cost cut. These reviews were aiming at reducing inefficient expenditure and reorienting public activity to the policies of the new government (Hawke, 2012).

The new government made an assessment of the efficiency of policies and programs that were decided to have a cut (aligned to the previous government's policy agenda) and proceed to relevant recommendations. The cost cut reviews were finalized before the global financial crisis reached a peak, but the recommendations were not fully implemented (Hawke, 2012).

On the contrary, the government decided to modify the strategy, either due to the effects of the financial crisis, or closer examination of other potential consequences of specific cuts in public expenditures, or a combination of factors. As a result, there was a substantial increase in public expenditure to stimulate economic activity and boost consumer sentiment.

These newly formed alternate policies (policy assessment, recommended cost cut and finally increase in expenditure) were attributed little to the performance information and analysis framework that had been developed within the public sector over the previous years. Yet, the government's emphasis on policy and program renewal and follow up actions in response to international macroeconomic pressures, became the predominant drivers for change (Hawke, 2012).

B7.5.2. Structural factors in Australia

Australia is characterized by high levels of ministerial authority compared with more legalistic systems used in other countries. Another key feature of the Australian administration system is the **high degree of decentralized authority** and **accountability to senior managers**, subject to limited legal controls **focusing on principles rather than detailed rules**.

Senior managers in the public sector are career civil servants who are typically appointed based on a concept of individual merit rather than political affiliations. The outcome of the above administrative procedure means that senior managers are expected to implement the policies of whichever government is in power with equal energy and professionalism (Hawke, 2012).

Managers have considerable responsibility, authority, and accountability. Without the constraints of detailed laws, regulations and directions, they rely primarily on policy objectives, ministerial decisions and their own managerial and organizational capabilities to perform their duties. There is a clear hierarchy, where parliament makes laws and allocates resources. Afterwards, governments implement laws and policies through their organizations in the form of departments and public authorities. This is a fertile environment for performance management procedures to grow (Hawke, 2012). Performance management procedures offer a mechanism to define and measure what is required and what is achieved.

Australian administrative framework on performance management place accountability largely on organization managers, while government ministers make major resource allocation and policy decisions; these are the limitations of the system. This provides an incentive to promote positive achievements and hide less flattering results.

A key feature of performance management in Australia has been the strong role played by central agencies, particularly the **Department of Finance** (Bouckaert et al., 2007; Wanna et al., 2003).

This has been a determinant factor in both the design and implementation of the system, which has supported and delivered the policy decisions of politicians. An important consequence of the strong role played by Finance was that the system was tightly built on the intention that performance information would be used for budget planning and accountability. The system has been designed to provide performance classifications that can be used for budget allocation, and reporting on results in terms of the budget appropriations and forward estimates for three years beyond the budget year (Hawke, 2012). This approach has fortunately led people to be focused on the budget system on categorization by key performance objectives.

Another important institution in Australia is the **Australian National Audit Office (ANAO)** (Blöndal et al., 2008). The ANAO has been a major observer on the quality of performance management in Australia. Since the evaluation of the FMIP (Financial Management Improvement Program) in 1992, there has been

no thorough evaluation of performance management despite numerous limited reviews of reporting and significant changes to financial management policies. Additionally, The ANAO has repeatedly included performance information in its audit work program, and has proposed three better practice guides to assist organizations in responding to the governmental demands (Hawke, 2012).

That period, the Department of the Prime Minister and Cabinet led the development of a "**Blueprint**" for reform of public administration that has performance management and skills as core elements of a broad strategy (Advisory Group on Reform of Australian Government Administration, 2010). The government initially responded quite enthusiastic to this initiative, by committing substantial resources to implementation. Shortly however, budget pressures and priorities for savings eroded the resources available for the initiative and the potential impact.

At the organization level, structure can play a significant role in the success of performance management because it defines the lines of responsibility and accountability and often the budget allocation within the organization. In case that organizational structure is different from the structure of performance reporting requirements, the value and usefulness of performance information is seriously undermined. This is a probability that it might occur in Australia (Hawke, 2012).

The ANAO detected that approximately 25 percent of organizations surveyed reported that misalignment of organizational structures and performance reporting framework was creating a disadvantage (ANAO, 2007). Over 90 percent of surveyed organizations reported that they monitor performance primarily on the basis of their organizational structures for internal use (ANAO, 2007).

B7.5.3. Managerial factors in Australia

Australia, by decentralizing management framework, has suggested that management at the organization level is crucial to the operation and success of the system. Central organizations provide the principal instructions to line departments but the latter group has been primarily responsible for implementing the instructions. This has led to a wide range of approaches and significant

variation in the quality and usefulness of performance information at the organization level, since they designed the performance measures and operational arrangements that support the system (Hawke, 2012).

Specifically, managers usually choose to meet the minimum requirements to produce performance information for budgeting and external reporting, or they see benefit in figuring performance information to their use. The above approach, results in an integrated performance system linking corporate strategy with budgets and activities, in some organizations. In others, even some large organizations, there is performance data only for the high-level outcomes necessary to meet budgeting (ANAO, 2007).

At both of these cases, and in between, management has played an important role in designing the operations or choosing not to make much effort to establish useful performance indicators.

In the 2007 audit of performance, reporting in portfolio budget statements the ANAO observed that, *"Agencies often find it challenging to implement all the required elements of such a regime in a manner that concisely reports on effectiveness and efficiency"* (ANAO, 2007).

It was not a surprise to ANAO to find that the extent to which agencies had integrated outcomes and outputs information into internal operations varied substantially (ANAO, 2007). More than one quarter of organizations surveyed did not include performance information in any planning documents other than those required for external use and were rarely, if ever, included in individual performance agreements (ANAO, 2007). Almost all surveyed agencies used information other than publicly reported indicators for monitoring performance for operational management and around 20 percent, rarely or never used published performance information for decision-making on agency priorities, budget plans or resource allocation (ANAO, 2007).

In 2011 the ANAO released a new report on performance information. Its findings were consistent with previous audits in terms of the variability of performance information across agencies. It reported that in cases, agencies had clearly defined program objectives, it was more likely that they would have meaningful and quantitative effectiveness indicators and targets. Around one-third of the

entities covered in the ANAO survey had appropriate indicators, one-third had mixed quality indicators and the remaining one-third required much further development (ANAO, 2011). In conclusion, the ANAO stated that "executive leadership is critical in emphasizing the importance of performance information for decision-making, and in ensuring work is commissioned to assess the effectiveness of KPIs (Key Performance Indicators) (ANAO, 2011).

B7.5.4. Technical factors in Australia

Nowadays, it is a common sense that technical factors have a significant effect on the success of performance management regimes. The academic and practitioner literature confirm so, with plentiful examples:

Of technical and administrative prerequisites for good performance management, for the impact of differences in the content and quality of performance measures, for the importance of data quality, and suitable performance information for various other uses (Arizti et al., 2010; Hatry, 2007; Kusek and Rist, 2004; McDavid et al., 2012)

This is recognized in Australia from the earliest reviews of the FMIP to the most recent audits by the ANAO. A major factor that distinguishes Australia from many other countries that have adopted performance management regimes, is its emphasis on outcomes. **Outcomes** are defined as "***the results, consequences, or impacts of government actions***" (Department of Finance and Deregulation, 2009). They are probably the most important performance issues for public policy and administration in Australia.

They are the basis for budget reporting and all other elements of the performance management arrangements cascade downwards from the outcomes. **Programs are defined within outcomes**; deliverables contribute to programs; performance indicators are considered to be a guide to the success of programs. If organizations experience difficulty in choosing, specifying and managing with outcomes, then it is likely that the secondary information will suffer – either in terms of its usefulness in explaining the outcomes, or in being able to draw together the secondary elements that are intended to contribute to those outcomes.

This effect was highlighted by the ANAO in their most recent audit, as mentioned above (ANAO, 2011). **The importance of having good quality outcome definitions is well understood by the government.** A key action under "Operation Sunlight" was a comprehensive review of outcome statements, resulting in revision of the number and content of outcomes across the national public sector.

Outputs were one of the main elements of the performance management framework from 1999 until 2009, when they were dismissed from Finance guidance documents. They **were replaced by** other concepts, namely **"programs" and "deliverables"**. The parliament and others had criticized outputs as being unhelpful in understanding performance and being difficult to link to the intended outcomes. Outcomes were at a very high and broad level, and the lack of intermediate level indicators made it difficult to see and understand the links (Hawke, 2012).

Programs on the other hand, were seen as a more relevant concept as they are set at a higher level than many of the outputs and related more to policy initiatives and groups of activities, which are more easily associated with an outcome (Parliament of Australia, 2007); (Murray, 2008 cited in Hawke, 2012).

It is not clear whether the switch from "outputs and outcomes" to "programs" has improved the quality and usefulness of information for parliament, since the changes have not had time to be fully tested. According to some early indications, they will require substantial further work to be improved at presenting performance information (ANAO, 2011).

At the organization level, the impact of changing from outputs to programs caused a substantial reassessment and realignment of the performance management framework. The agencies/organizations have experienced both positive and negative effects. The **positive effects** were related to the process of reviewing and redefining the means for contributing to outcomes, refreshing the indicators and measures in the process. The **negative effects** came from the destabilization of existing information structures and systems and the costs of rebuilding them (Hawke, 2012).

The notion of programs is not new to Australia. "Programs" were the ground for the original system of performance management established in 1984. They had been replaced with outcomes and outputs in the 1990s, due to the attempt to improve the precision and focus of performance information on results rather than on actions and intentions.

Although the precise meaning and arrangement of programs are different in the current context, it remains to find out whether they still suffer from the same weaknesses identified in the previous types of programs. There is also the possibility that the return to the programs concept may provoke a longer term destabilizing effect on the framework, by weakening confidence in the stability of basic technical features.

It is worth emphasizing that the implementation of performance management is not only dependent on the quality of its technical design, but also on the capacity of government officials to apply the requirements (Hawke, 2012).

Another important part of implementation is the quality of guidance and training for officials, managers, and members of parliament in the appropriate way to understand and use the information in relation to their duty. Finance has released and updated guidance almost annually since the introduction of the outcomes and outputs framework in 1998. Even more, it provided access to training for agencies in the first few years after its introduction until 2001 (Department of Finance and Administration, 1998).

The ANAO has supplemented Finance guidance, with its own better practice guides (ANAO, 2004). The ANAO in 2007 identified lack of awareness and understanding of the requirements to be a significant weakness in the implementation of Australia's performance management regime (ANAO, 2007) It recommended that Finance update its guidance, facilitate the exchange of information, and provide ongoing practical advice on implementation. Finance agreed and adopted the recommendations (Department of Finance and Deregulation, 2009).

The audit of performance information by the ANAO in 2011, suggested that there were still some weaknesses in the effective implementation and made some further recommendations for Finance to improve its guidance (ANAO, 2011).

B7.5.5. Cultural factors in Australia

The gradually evolved actions of government and officials, supported by some fundamental legislation and procedures relating to financial management, accountability and management of the public service, consist the institutional framework of Australia (Hawke, 2012).

The **Public Service Act 1999 (PS Act)** contains 15 explicit values and code of conduct that public servants are required to adopt. Some **core values** recorded that are relevant to performance management, include accountability for action, responsiveness to government, delivery of services in a fair, impartial, courteous and effective manner, and a focus on achieving results and managing performance. At the same time, the **Financial Management and Accountability Act 1997 (FMA Act)** requires agency heads to make efficient, effective, economical and ethical use of resources (FMA Act, s.44 cited in Hawke, 2012).

Research undertaken by the **Australian Public Service Commission (APSC)** provides some evaluation of the values system in performance management. Each year the APSC prepares a "State of the Service" report, which among other things, assesses the application of values under the PS Act, based on an annual survey of employees. In 2009-2010 the APS found that 91 percent of respondents believed that their supervisors "always" or "usually" acted in accordance with the values. On the surface, the results seem very positive. However, the respondents also rated public sector values, performance management, financial and program management among the lowest core skills needed to do their jobs (APSC, 2010, pp. 43-58 cited in Hawke, 2012).

Considering the importance of each of those skills for effective performance management, the survey results sent some "alarming signals". There were plans to revise the public service values under the PS Act in an effort to simplify and improve the focus (Hawke, 2012).

In 2010 the Australian Public Service Commission (APSC) released for public comment, a proposal to reduce the number of values from fifteen (15) to five (5). The **five values proposed** were **committed to service; Ethical; Respectful; Accountable and Apolitical** – none of which contain the emphasis on results

and performance included in the current values set (APSC, 2010, p. 41 cited in Hawke, 2012). It is not clear so far, how this will affect the culture of performance management, but the exclusion of performance from the values it is uncertain that it will be a positive evolution.

B7.5.6. Behavioral factors in Australia

The actions related to the way people respond to the performance management system and to the results of performance information are figuring the behavioral factors. Primarily, it has to do with how people use performance budgets and targets to avoid the constraints placed on them through performance expectations. A crucial concept is linked to accountability, which is a strong element of budgetary management through extensive regular reporting, parliamentary examination of budget estimates and outturns. There is a strong incentive to ensure that obligations to report on performance are satisfied (Hawke, 2012).

Any failure to present information on performance runs a high risk of being exposed through monitoring by Finance, detailed control of budget related documents by the Parliament or performance auditing by the ANAO.

On annual basis, government organizations prepare very detailed portfolio budget statements, incorporating extensive information on their outcomes and performance indicators to assist the parliament in examining budgets. At the end of the year, organizations are required to produce similarly detailed reports on their achievements against the indicators presented in their portfolio budget statements. This is a strong incentive to comply with the requirements for preparing and publishing performance information (Hawke, 2012).

However, there is **inadequate emphasis on review of actual performance results**. There is little evidence of any review or oversight body calling an agency/organizations to account for underperformance against published targets or indicators. This was a point emphasized by the Minister of Finance in his 2008 update of "Operation Sunlight" (Tanner, 2008). Even within agencies, the discussion of disappointing performance, or taking corrective measures is limited to a few instances. A study of annual reports by agencies reveals this attitude (Government of Australia, 2011).

Specifically, although there was a review of outcomes in 2008-09 across all departments initiated as part of "Operation Sunlight", **progress on review and revision of performance indicators and targets is less evident.** (ANAO, 2011). Finance recognized the need to highlight the importance of good performance indicators and it reissued guidance on performance indicators in October 2010 to remind agencies of their obligations and to assist them to improve quality (Department of Finance and Deregulation, 2010).

The lack of careful examination of performance information provides an opportunity for providers of information to shape their reported performance plans and results in ways that minimize their exposure in criticism. At the same time, they don't have serious concerns about being challenged to deliver better results or more appropriate performance indicators.

This tendency is also encouraged by the **strong political culture of avoiding criticism.** The Australian authorities have recognized the importance of behavior to effective policy. In 2007 the APSC issued a series of publications on contemporary government challenges, one of which was on changing behavior (APSC, 2007). The publication was facing behavior as a means of improving policy effectiveness in the whole community, including the government.

B7.6. AUSTRALIA: SUCCESS or STAGNATION?

Australia cannot be accused of stagnation, in regard to performance management arrangements and especially concerning improvements in performance information and reporting (Hawke, 2012).

During the last decade, the country proceeded to incremental reform especially on the technical elements; such as outcomes have been refined, programs have replaced outputs, agencies are being encouraged to improve the quality of performance measures and targets (ANAO, 2011). Updated guidance was issued to assist agencies in adapting to the new refinements with the external factors having a leading role.

The managerial, cultural, and behavioral factors have affected the pattern of implementation, but not the process of refinement and improvement of the system. As presented in the previous analysis, each factor influenced certain

areas in ways that could undermine or mitigate the success of performance management. However, these effects have not been addressed in any substantive way as part of the reform agenda.

Even though stagnation has been eliminated as an option, success still cannot be claimed. The latest available evidence indicates that the quality of performance information aspect still leaves much to be done (for example, see ANAO, 2007).

The use of performance information appears limited, even in the organizations that produce it, despite the wide availability of performance data and reports. There is also little indication that Australia is moving towards a more sophisticated type of performance management system in terms of the Bouckaert and Halligan framework (Bouckaert et al., 2007). It seems that the reforms being implemented strengthening its status as a "performance management" system rather than supporting an evolution to "performance governance" level.

The persistent problems identified related to the quality of performance information, (particularly to effectiveness) remains a barrier for further progression (ANAO, 2011). There have been pronouncements by the government and others bodies for adoption of some elements of performance governance (for example see Advisory Group on Reform of Australian Government Administration, 2010). However, no evidence of progress has been detected so far.

Concerning the changes arising from technical refinements introduced after the change of government in 2007, it is quite early to tell whether they will have a major effect on the success of performance management in terms of quality and use of information. It is a matter for concern, though, that many of the factors that negatively affecting performance management have not changed so far (ANAO, 2011).

B7.7. CONCLUSIONS

Within the context of six key influence success factors, this study has examined the progress of Australia's public sector performance management regime, the last three decades. Specifically, it is ascertained that:

- 1) The importance of external political factors was paramount in establishing and retaining the system. Further advantage in the external environment may have an impact on the speed and nature of performance management changes (Hawke and Wanna, 2010).
- 2) Successive governments from both major political sides have demonstrated a willingness to retain performance management arrangements but also have displayed an irresistible tendency to make changes (Hawke, 2012).
- 3) Two national bodies, the Finance and the ANAO played a crucial role in shaping and strengthening the framework through ongoing refinement and maintaining a focus on accountability.
- 4) The importance of technical and structural factors was determinant, in refining and maintaining the system. However further refinement and clarifications need to be done (Hawke, 2012).
- 5) Technical factors have been important in designing the system and setting the foundations for good quality information and operations. The academic and practitioner literature acknowledges that those elements are necessary, though not sufficient to ensure the achievement of public sector performance management at a high standard (Van Dooren et al., 2010).
- 6) The framework continues to be limited by weaknesses. In particular, the variability and general weakness in the quality of performance measures have been identified as persistent challenges (ANAO, 2011; Parliament of Australia, 2007).
- 7) Despite continuous efforts to improve the performance management framework, the system has not been able to resolve the problems and evolve from a "performance management" system to a "performance governance" system (Bouckaert et al., 2007).

- 8) Some of the key factors for successful performance management have not received the proper attention, which could provide the means to progress more effectively in overcoming persistent challenges. These factors are management, behavior, and culture (De Bruijn, 2007; Moynihan, 2008; Radin, 2006).
- 9) Cultural factors can have a powerful impact on the quality of implementation and use of performance information (Pandey and Moynihan, 2006), however this does not seem to have been a major part of the government strategy for improvement.
- 10) The significance of behavioral factors is limited in the Australian system because of the general weakness and variation in quality of performance measures and targets within and across organizations (ANAO, 2011).
- 11) As remarked by the ANAO, public sector's management can play a substantial and significant role in improving the success of public sector performance management arrangements (ANAO, 2011), a point also identified with the performance literature (de Lancer Julnes, 2008; Kotter, 1995; Pandey and Moynihan, 2006).
- 12) Although the importance of those factors has been acknowledged by governments and officials in Australia (Advisory Group on Reform of Australian Government Administration, 2010; ANAO, 2011;) (Tanner, 2008) there appears to be considerable scope to increase effort to adapt them in the refinement of the system.

B.7.8. POLICY IMPLICATIONS

The findings of this study provide important practical implications for further researching the significance of all six factors discussed in this paper in shaping public sector performance management.

The reviews and studies discussed in the paper, particularly the work of the ANAO, indicate that considerable variation in quality and use of performance information exists at the agency or organizational level. It is likely that a better understanding of the influence of the six factors could be obtained by studying the variation in their impact within and across agencies, in addition to work at the national level.

Australia is not the only country struggling to address the deficiencies in quality of performance management. In 2010 the UK's National Audit Office observed that, despite long experience and improvements, around 40 percent of public service agreement data systems were not fit for purpose and strengthening was necessary across the framework (National Audit Office, 2010). Other countries with less experience are also having difficulties in achieving success with performance management arrangements (Arizti et al., 2010).

It's worthwhile, in review of other countries experiences, using the framework adopted in this paper to examine the significance of the six factors, and their interaction, on the success of performance management.

CHAPTER C: BEST PRACTICES for GREEK PUBLIC ORGANIZATIONS

C1. THE GREEK PUBLIC SECTOR

We have profoundly examined three European countries' public sector cases (Ireland, Finland, and the Netherlands) along with the Australian public sector case in implementing a performance management system. The last, is considered one of the most successful globally, about adopting and implementing the new public management aspects.

There will be an attempt to deploy this precious international experience acquired via the "trial and error" procedure, in the Greek public organizations, following the **Best Practices method** (or Benchmarking), which gives **emphasis on the strategy**. This method is applied globally in public organizations for the last decades, even though it was first developed for the private sector's needs (Bouckaert et al., 2007; Zervopoulos and Palaskas, 2010).

C1.1. THE STRUCTURE OF GREEK PUBLIC SECTOR

Greek civil service is a large and complex system, which consists of various types and size public organizations that provide all kinds of state services (e.g. health, education, social services, economic, cultural services etc.).

Central government and most of the public organizations are based in Athens (the capital of Greece). It is only the last years – through the implementation of "Kapodistrias" Act in 1998 in the first place and of "Kallikratis" Act in 2011 a few years later – that central government began to decentralize many of its responsibilities to local authorities (Sotirakou and Zeppou, 2005). The permanent employees are around 565.000 civil servants according to civil servants census 2016 (www.apografi.gov.gr).

Greek public administration is a bureaucratic, highly centralized, inflexible, and inefficient system. It needs urgent and radical changes in order to become productive, effective and an asset to the suffering from the economic crisis Greek economy. Public organizations are structured as pyramids; policies decisions are formulated at the top, responsibilities and tasks are decided at the upper level of

the pyramid and assigned to the lower levels through a hierarchical chain of command. Power rests at the top of the hierarchy. (Makrydimitris, 1991 cited in Zepou and Sotirakou, 2005).

In this hierarchical system, a given responsibility for a defined group of tasks must be fulfilled through certain sets of fixed procedures and strict rules. Rising in the ranks, gives power and status to personnel and constitutes the main incentive for promotion efforts (Wilson, 1966; Argyriadis, 1971; Mouzelis, 1978; Makrydimitris, 1991 cited in Zepou and Sotirakou, 2005).

It is fortunate, that consensus has been achieved eventually between Greek politicians – from all political parties, businessmen and academics, that public administration must transform itself. That means a transformation from a centralized inward looking bureaucracy, to a strategically thinking, open, transparent and flexible organization that meets the demands of all stakeholders (Argyriadis, 1998; Makrydimitris, 1999; 2003; Civil Service Union, 1996 cited in Zepou and Sotirakou, 2005). This is especially critical for Greece because as a member of the EU Greek public administration must confront with the European directives on public service delivery and adapt its legal and administrative procedures.

According to the European and international experience, the challenge of administrative reform that the Greek public sector is confronting includes: .

- Holistic framework of managing and measuring performance – (responsiveness to market conditions along with assurance of citizens' rights and well-being) and
- Competence in managing this performance framework

Making human resources active players in the process of change, which means making human resources competent users of the performance management model, constitutes an absolute necessity for achieving results or high performance (Kaplan and Norton, 2001), (Frigo, 2002, cited in Zepou and Sotirakou, 2005). This is also one of the most fundamental tasks of the HR managers in the postmodern era.

C1.1.1. Performance measurement - Contemporary legislation in synopsis

There has been no serious legislation approach in performance measurement in Greek public service, before 2004.

At that time, the **Law 3230/2004** pursued to establish a performance measurement system through setting targets (Management by objectives), with a "bottom up" procedure. This procedure based on rates, failed because of the difficulties in selecting and figuring objectives from the lower levels of the administrative pyramid and because of the high administrative cost in human and statutory resources. There has been no performance philosophy and setting targets culture before. In addition, the necessary government ordinances that specified the law were never edited (Zervopoulos and Palaskas, 2010).

The recent legislation, **Law 4250/2014** introduced some amendments expected to refine the previous legislation concerning the evaluation of civil servants (www.minadmin.gov.gr). However, the legislator evaded to take into consideration the peculiarities of Greek public sector and the resistance to changes caused by strong administrative transformations. The basic principles concerned the following:

The comparative employees' evaluation was introduced, through employee evaluation quota, which necessarily classified civil servants in three categories: the excellent with grades 9-10 (up to 25%), the good with grades 7-8 (up to 60%), and the inadequate employees with grades 1-6 (the 15%).

This change targeted to activate positive employee competition, though without first establishing a performance measurement system. Additionally, the appropriate administrative infrastructure that could define some quantitative and qualitative criteria to distinguish between employees' performance (e.g. strategic planning, organization chart, job-description, job-difficulty, target setting) were never took place. (www.minadmin.gov.gr).

Even more, there was no connection between performance, salary, and ranking rising. Only one assessor evaluated every employee. This created insinuations for preferential treatment and subsequently promotion.

This law provoked intense opposition from the vast majority of civil servants, which expressed with a very high rate of abstention in the evaluation procedures.

The statutory instruments were never completed and the law was never put into practice.

According to the legislation currently in force, **Law 4369/2016** makes an effort to connect performance with rising in the rank for salary and promotion and to establish a context of meritocracy for the upper levels of government administration. The basic principles concern the following (www.minadmin.gov.gr):

It establishes the "National Register of Senior Executives of Government". It is considered a substantial reform and it relates to the government's effort to eliminate the favorable relationships between political system and the high levels of executive positions in the government.

The law introduces the evaluation of the department or directorate heads from their subordinates. This is a little progress towards the integrated model of "360-Degree Assessment", which in total provides the evaluation from the peers, customers (citizens), suppliers (public agencies, providers of information), subordinates and superiors (Gerhart, Hollenbeck, Noe, Wright, 2000).

It cancels the employees' evaluation quota introduced by the previous law, which is advancement, but it establishes the limitation for the excellent rating that can be attributed up to the 10% of the employees. This may lead to the exclusion of capable employees and may affect their promotion. In addition, it introduces the rule of "faster promotion" for the employees of "excellent performance" with the limitation of 5% of them. (www.minadmin.gov.gr):

It evaluates the employee's knowledge and capabilities together with their performance, in relation to their job requirements. Absolute necessity for its correct application is the production of the organization charts and jobs description.

Summarizing, the Law 4369/2016 proceeded to some improvements compared with the previous Law 4250/2014, but it has not so far clarified the statutory instruments for its correct application and how it is linked to management by objectives. (www.minadmin.gov.gr):

C2. BEST PRACTICES for GREEK CASE

C2.1. STAIR: A PERFORMANCE MANAGEMENT MODEL

Within the context of the present empirical research (multiple case study) and taking into consideration the various performance management approaches from the investigated countries, **this thesis proposes the STAIR model, as the main tool for the Greek public sector performance management.** STAIR model was tested in a survey conducted in Greece in 2002 (June-Feb). It was delivered by the Greek Civil Service College and concentrated 348 fully completed questionnaires (95% response rate).

This STAIR (Strategy, Targets, Alignment, Implementation, Results) model (Sotirakou and Zeppou, 2005) recommended being the appropriate performance management and measurement framework for identifying the organizational competencies that can lead to public sector performance.

In recent years that governments face the demands for a result-oriented and citizens-focused public administration, they have drawn on traditional wisdom such as *"what gets measured gets managed"* and *"you get what you inspect not what you expect"* (Nichols, 1997; Norman, 2002; Simons, 1994).

STAIR model is a step by step approach that **bridges the gap between performance and strategic management** and can lead to organizational success (Sotirakou and Zeppou, 2005; Zeppou and Sotirakou, 2003).

According to the model's rationale, the principal steps for changing organizational performance or designing a strategic thinking and acting organization, are (Sotirakou and Zeppou, 2005; Zeppou and Sotirakou, 2003):

- 1) **Strategy:** design and clarify strategy, communicate strategy and gain consensus.
- 2) **Targets:** translate strategy into specific objectives and clear concrete targets; convert targets to performance indicators.
- 3) **Assignment:** assign projects and set targets to lower levels through a bottom-up process; develop specific action plans.
- 4) **Implementation:** implement action plans through the alignment of all internal operational subsystems to the agreed strategy.

- 5) **Results:** evaluate performance against the established strategic and operational goals, as described in the relevant action plans; review and take action based on results.

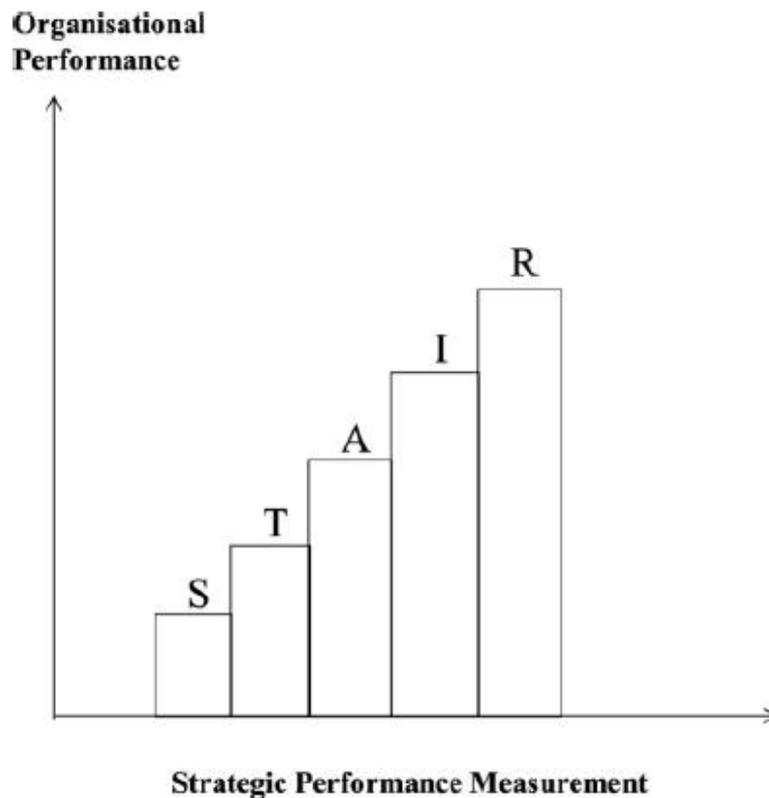


 Figure 2. STAIR

Source: (Zeppou and Sotirakou, 2005)

STAIR considers organizational performance as a multidimensional variable, consisted of goal accomplishment, service quality and standards, speed in service delivery, employee productivity, organizational learning, and innovation. All the above dimensions have been regarded as critical factors in defining performance (Hoggett, 1991)(Schon, 1983; Jackson, 1995 cited in_Zepou and Sotirakou, 2005).

Furthermore, **STAIR views performance as a reflection of the strategy** and suggests that the development of a performance measurement system enables an organization to create consistency of vision and action. Specifically, the measurement system is dynamic, it should change and adapt as the organizational goals and targets change (Zeppou and Sotirakou, 2003).

The STAIR framework consists of three distinct but complementary stages: strategic planning (STA), strategic implementation (I), strategic results evaluation (R) which represent the three critical phases of an organization's operation.

It should be highlighted that the **STAIR model** is characterized by **two core elements**: an **operational** and a **cultural**. The operational aspect of the model includes a set of functions that must be successfully executed to enhance its performance. The cultural aspect includes the set of values that the organization must cultivate in order to achieve sustainable performance and innovation. STAIR model draws enormously the attention on cultural dimensions like citizen involvement, transparency, meritocracy, trust, learning, and evolution (Sotirakou and Zeppou, 2005).

Compared to other conventional measurement systems, it does not think only in terms of ends and means, inputs and outputs, but recognizes the importance that a value system can have in changing organizational performances, as it has already presented in the above mentioned countries case studies.

C2.2. CHANGE MANAGEMENT BEST PRACTICES

The implementation of the STAIR model will be a significant and strong change that will need a supportive environment of adaptability and recognition, in order to succeed.

According to the European and international empirical research in this thesis, the fundamental suggested strategies employed to minimize the negative impact of change are (Management Concepts, 2016):

- 1) Involving leaders personally, strengthening managers' ability to manage change (Ashkenas, 2013):
- 2) Identifying change drivers and anticipated roadblocks
- 3) Changing processes for efficiency
- 4) Providing training and push and pull communication methods all the way up and down the organization levels
- 5) Improving the workplace culture
- 6) Identifying and analyzing the metrics

At the same time, self-identified successful organizations understand the barriers to change and actively work to eliminate them with the support of leaders and all team members inside the organization (Ashkenas, 2013). Successful organizations consistently use these strategies to their advantage.

C2.3. PERFORMANCE MANAGEMENT BEST PRACTICES

In order for the STAIR model to be successful and keeping alive for the years to come, there are some best practices selected and proposed from the case studies research investigated. It concerns general as well as specific actions and policies that could reinforce the model by sealing the potential leaks to come up.

Specifically, it regards **Designing Strategies and Performance Measures, on Government and Organization level:**

1. All political parties to comply with the priority agenda of performance management arrangements and to keep continuity in the relevant legislative framework and policy, in case there is government change (Hawke, 2012).
2. The government to establish a national body, according to the Australian model (Australian National Audit Office) to be the major observer and severe auditor of the quality of performance management system in public sector (Hawke, 2012).
3. The government and the organization management together, to set as master strategy to keep continuous efforts to the ideal level according to Bouckaert and Halligan classification, that is the "performance governance" system (Bouckaert et al., 2007).
4. In the above direction, to adopt methods promoting the New Public Management or even more New Public Governance. It is suggested to empower the use of outsourcing, public-private partnerships, and privatization. To influence the factors related to the management of public sector organizations that affect the implementation of the PMS, it is suggested to emphasize employees education and training, recruitment from the private sector and setting new selection manager criteria (Koppenjan and Koliba, 2013).

5. Management to claim for a leading role and attention. It crosses and interacts with structural, cultural, and behavioral factors about the effects of hierarchical relationships.
6. Use external sources (such as important stakeholders, external experts) to consult on "adequate performance measures" that should be included in the performance measurement system. The total control of deciding, observing and applying the measures, should stay inside, to the organization leadership.
7. Plan performance measurement systems together with the employees. Such an interaction gives performance measures chances to appear understood, consistent and fair to the targets (Verbeeten, 2008).
8. The management to adapt strategies in order to achieve a balance between quantitative and qualitative performance. Achieving quantitative goals and qualitative goals will lead the organization to the highest level of performance.
9. However, to attain quality targets, the organizations should focus on providing inspiring missions and goals and not only on introducing performance measurement and evaluation systems.
10. The management has to define clear and measurable goals, which can stimulate employee's effort and to give special attention to behavior, and culture factors; those provide the means to progress more effectively in overcoming persistent challenges
11. Use a variety of competing performance measures for all tasks. Indicators should be dynamic and change over time, according to the conditions (Koppenjan and Koliba, 2013).

C3. POLICY IMPLICATIONS and CONCLUSIONS

C3.1. POLICY IMPLICATIONS

Attempting to change performance in public administration is a difficult procedure, but if is carefully planned, executed and continuously monitored can prove highly valuable for public service "customers" and for the government's effectiveness as a whole.

The suggested STAIR model is far from being a panacea for changing organizational performance. However, it is certainly a practical tool that could help Greek public organizations to align with the new public management or even better governance policies, in the future (Sotirakou and Zeppou, 2005).

It would worthwhile and add value to the present survey's results and best practices, to explore the consequences of the involvement of multiple stakeholders in assessing STAIR's model application (e.g. managers from various organizational levels – as internal auditors and citizens, business, media, etc. – as external auditors), through a qualitative approach.

Additionally, it would be interesting to make a research on how achieving and maintaining unity between the model's two core elements; operational and cultural. A research analysis on the compatibility of the two core elements would be a challenge for public sector human resource managers on a national and European level.

C3.2. CONCLUSIONS

In conclusion, of the literature and case studies research of this thesis, performance management is the process of setting goals for an organization and managing effectively to achieve those goals and eventually bring about the desired outcomes (Poister, 2010, 2003).

In that sense, performance management needs to be designed in the upper organization level (top leadership) where strategies are selected and thus **strategic management** can be viewed **as performance management at a strategic level** (Poister, 2010).

Public managers need to link strategic planning much more closely with performance management processes in response to continued pressure for accountability as well as their own commitment to managing for results. More specifically, they will need to provoke three fundamental changes in the direction of managing performance in public organizations over the next decade (Poister, 2010):

1. Shifting from strategic planning to strategic management
2. Moving from performance measurement to performance management
3. Linking strategy and performance management more effectively

Besides, surveys of public managers in Welsh local authorities (Boyne and Gould-Williams 2003 cited in Poister, 2005), as well as municipal governments in the USA (Poister and Streib, 2005 cited in Poister, 2005) have found that strategic management is credited with bringing about improvements in both organizational capacity and performance.

C3.3. RESEARCH LIMITATIONS

The implementation of the STAIR model in Greek public organizations could operate only on some conditions. First, the model requires general political consent and management alertness. This is important as the model views performance as a reflection of the strategy and thus demands consistency of vision and action.

Second, it requires clear and measurable goals, quantitative as well as qualitative, to convert to performance indicators. Third, the framework needs continuous observation of the goals and targets set, because the measurement system is dynamic and should change and adapt accordingly.

Forth, STAIR model, demands a developed value system, where employees can comprehend and respond to the bottom-up process of assigning projects and action plans.

From the above limitations or model's prerequisites, it seems that in general requires a performance management system, which already operates adequately and by applying the model, the management pursues to upgrade it.

THESIS: "ADOPTING A PERFORMANCE MANAGEMENT SYSTEM: BEST PRACTICES
IN CHANGE MANAGEMENT"

In the end, the suggested best practices concerning change management and performance management may not have the anticipated benefits, because those benefits depend also on the sector and the nature of the public services organization.

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