# Measuring Performance Measurement

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## Introduction

Performance measurement is a useful, if difficult, discipline. Statements such as ‘what gets measured, gets managed’ indicate its centrality to management. Sound performance measures can provide a foundation for subsequent evaluations, and evaluations often test the validity of measures or generate a monitoring framework that incorporates performance measures.

Performance measurement also has costs in terms of money, staff time and management attention. It can also have negative outcomes, such as gaming of the measures and damage to trust. In these circumstances, it is important to try to estimate the impact of performance measurement.

In this round table, I will start by discussing some approaches that may be useful in the government and not-for-profit sectors, including a logic model for how performance measurement affects performance, customer feedback, staff feedback and development of metrics. It is emphasised that I do not have clear answers to hand, so we will be relying on your feedback.

This topic is relevant to the field of evaluation in several ways. First, performance measurement is central to the discipline of evaluation, and work to advance the effectiveness of performance measurement aids evaluation. Secondly, evaluators are frequently asked to produce or advise on monitoring and evaluation frameworks, which by necessity will need to address performance measures. In either developing or using performance measures, it is necessary to consider who effective they are. In other words, it is good evaluative practice to turn the principles of evaluation on ourselves and try to assess the impact of our work – in this case, how to measure the effectiveness of performance measurement.

This is a very under-developed field. Many authors, for example, Pollitt, Hatry, Rabin, Poister, Hood, Newcomer, Wholey, Moynihan, Halligan, de Bruijn, Van Doren etc. have addressed issues concerned with performance measurement. They have considered such things as the appropriate use of performance measures, how to construct them, how to manage their introduction and revision, and have also discussed the many problems that lead to performance measurement being an imperfect enterprise. I have not yet thoroughly analysed the literature, but I am not aware of any work, other than some limited descriptive case studies, of how performance measurement affects performance.

This is obviously a challenging area, but measurement of measurement (and evaluation of evaluation) is a challenge we should take up. In this round table, only some preliminary ideas are presented, including the use of a logic model that will describe a plausible chain of connection from measurement to improved performance, the search for instruments including perceptions of staff and customers, and discussion of the feasibility of developing metrics. I hope that the round table participants will be able to add to this enterprise.

## Context

For a discipline that emphasises counting and numbers, performance measurement is surprisingly political. Views tend to the extremes: that without measurement, progress is impossible, [Quotes] and conversely that at least in some circumstances, measurement is inimical to the ethos of the area being managed. [Quotes?] As in most things in life, I take a middle way.

## Costs

Lets briefly review the costs before going on to the main topic of measuring the impact. If we consider both costs only – resources used – as opposed to negative benefits we have such things as:

* planning and development costs, including purpose, definition of key measures
* IT costs – data base investment, management, data cleansing and extraction
* time for entry of key data into data bases
* Quality assurance and checking of data entry
* assessment of validity of measures, and subsequent revision
* analysis and reporting
* Overall system management and review
* Senior management attention

So we can see that it is not a cheap operation. It is not enough, therefore, to simply state that performance measurement is a good thing and must be supported.

## Benefits

Again, lets start from first principles. Benefits accrue if the objectives are met. There may also be unexpected consequences, both positive and negative, which we will get to if there is time.

What are the objectives of performance measurement?

The main explicit purposes are improvement, accountability and decision making.

*Improvement* can be achieved through performance measures that are then compared with a standard or benchmark in order to reveal opportunities for improvement.

*Accountability* can be achieved through comparing the performance measures achieved with those that were promised – typically in a budget document. It can also be considered as a more general obligation to meet the needs of internal and external stakeholders.

*Decision-making* can be assisted through comparing performance measures achieved by competing programs that are directed to the same objective. Decision-making can also include selecting grant recipients, rewarding individuals for performance, or for adjusting resourcing based on performance. This can go both ways: poor measured efficiency may lead to funds being withdrawn; poor outcomes for the community may, in some circumstances lead to the need for additional resources to be invested. Either way, good performance measures are needed to support the decision.

By extension, performance measures can assist with prevention of waste. Together with improved accountability, they also contribute to improved government and henceconfidence in social structures. So they are potentially powerful instruments; and as such they can be used for evil as well as good.

The objectives have some overlap, but are conceptually distinct. Indeed, some authors state that use for accountability equals allocating blame, and is inimical to achieving improved performance.

## Accountability

One definition is: The [obligation](http://www.businessdictionary.com/definition/obligation.html) of an [individual](http://www.businessdictionary.com/definition/individual.html) or [organization](http://www.businessdictionary.com/definition/organization.html) to [account](http://www.businessdictionary.com/definition/account.html) for its [activities](http://www.businessdictionary.com/definition/activity.html), accept [responsibility](http://www.businessdictionary.com/definition/responsibility.html) for them, and to disclose the [results](http://www.businessdictionary.com/definition/result.html) in a [transparent](http://www.businessdictionary.com/definition/transparent.html) manner.

### Agency theories

Agency theory describes the relationship between a principal and an agent.

The agent is carrying out functions for the government, but may have its own objectives as well. Controls applied to meld the agent to be closer to the owner’s objective include performance measures.] However transaction costs vary. At lower levels of government with more tangible products, transactions are simplified. Trust is also a factor that reduces transaction costs. ‘Higher information asymmetry and goal incongruency will lead to an increased use of market-like and hierarchical control mechanisms (performance-based) rather than network-like mechanisms (trust)’

Agency theory refers to monitoring costs (by principal) bonding costs (by agent) and residual loss (from misalignment, e.g. due to moral hazard). Agents may have a lower risk appetite than the principal. However, agents may also tend to be socially influenced to cooperate with the principal and with their colleagues, other agents, thus reducing the loss. Contracts between agents and the principal may be behaviour based or outcome based – different costs will apply in different circumstances.

### Accountability as a relationship

So accountability is primarily a relationship; a relationship that is founded on information. It is also based on perceptions. If a subordinate feels that they are accountable, then they will behave as if that accountability is real. For example, if detailed performance measures are produced and made available to the principal, and the agent feels that they will be reviewed and acted on, the agent is influenced by that accountability relationship even if the principal throws the numbers in the bin.

Performance measures influence accountability, but how much? How do we measure this? In a chain of causation, we can consider what surrounds the concept of accountability.

* Quality of reporting
* Frequency of reporting
* Perception of being held responsible
* Action taken to address errors or failures
* Increased confidence of stakeholders

## Performance improvement

This is conceptually easier than accountability, but still hard to measure. A ‘Catch 22’ is that we need performance measures to measure performance improvements due to performance measurement.

There are many studies which try to measure performance improvement as a result of interventions. But what about the impact of measurement itself? Again, lets look at the ‘cloud’ of concepts that might surround looking at the impact of performance measurement.

* Performance improvement after introduction of performance measurement (with time lag)
* Extent of management improvement and corrections
* Degree of confidence of managers with respect to their knowledge of the business.

The use and acceptance of performance measurement is considered to be one attribute of a learning organisation (Senge) which in turn is posited to improve the performance of organisations. ([Moynihan, 2006](#_ENREF_24)) noted that the theory of performance measurement is that more performance information will lead to better decisions, assuming that performance information is objective, standardized, indicative of actual performance and understood.

But Radin, for instance, found that in the US there was not a single instance of measurement under the PART scheme that had led to a management improvement.

## Decision-making

I think it useful to distinguish performance information for making specific decisions – invest in this or that project, award this or that grant – from overall performance improvement of a program. Everyone recognises that decisions have to be made, and lower level of action (compared to the fate of the overall program) is less likely to be politically contested. So the hope for effective use of performance measurement is more likely to be realised in this area.

## Logic diagram

So what might a logic diagram that indicates how performance measures improve performance look like?

[see slide show for diagram]

It would indicate the overall objective of better service or more effective government, mediated through our major concepts of improvements to accountability and to performance improvement; and perhaps also major concepts such as improved decision-making and improvement.

At present this is a work in progress.

The major mediator is the use of performance measures. There are several instances I am aware of where measures are required for accountability purposes, but not used for management improvement.

The lower level of the diagram only depicts good practice in the design of performance measurement systems. So in one respect, we are back to where we started – an injunction to do it, and do it right, but without much evidence base. But at least we now have a bit of a path forward to explore how that evidence base might be added to.

## Discussion

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