

# **Towards Meaningful Measurement: Performance Management at the Crossroads of Internal Efficiency and Social Impacts**

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## **1. TEDs and TED8**

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It has grown into a tradition by now that eminent Public Administration scholars of some topical research area come together yearly in the framework of a Trans-European Dialogue in Public Administration (TED) to exchange and debate their ideas regarding their selected topic. In the eighth, 2015, Dialogue (TED8) the core theme of discussion was “Towards Meaningful Measurement: Performance Management at the Crossroads of Internal Efficiency and Social Impacts”. Since its creation it has been a tradition, too, that each year a Special Issue of the *NISPAcee Journal of Public Administration and Policy* is devoted to the respective TED event, the guest editors being the co-chairs of the Dialogue.

Over the last few decades, public bureaucracies in Western and Eastern Europe have, to broadly varying, nevertheless usually significant extents, implemented various sorts of performance-measurement and -management systems. In recent years, however, researchers have documented two lines of critiques. In some cases, performance information is not used, making performance management a paper exercise. In other cases, the use of indicators leads to unintended, often harmful effects by turning indicators into goals in and by themselves, or by damaging traditional values of professional service ethos.

The patterns of how and to what extent performance management is applied, as well as the intensity of both the main, intended, and the unintended effects seems to differ across different contexts. Performance and performance management do not necessarily have the same meaning in different countries. TED8 was dedicated to studying the views, interpretations and their implications on theorizing and action by taking stock of existing performance-management efforts and asking ourselves whether performance management can address its critiques when developed

as a learning system. This being a dialogue, participants tried to understand differences between countries and administrative traditions in Europe while also paying attention to shared challenges that European governments are facing.

Contributors and contributions to this year's TED focused, in particular, on two issues. Firstly, how contextual conditions – more specifically: features of national, administrative and/or organizational culture – shape the prospects and outcomes of performance managements. Secondly, what exactly the measurement of performance(s) may mean in different context, and how these different meanings pattern the applicability and the effects of performance management.

The following two sub-sections briefly outline these two approaches. The last subsection introduces the individual contributions to this Special Issue.

## **2. Context matters: Culture and PM**

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Similar to other management practices, performance management tools are transformed to local contexts (Christensen et al. 2002; Schedler and Proeller 2007; Verhoest 2011). Management tools that look the same at the outset, work in fundamentally different ways once they are adopted by organizations. Culture works as a prism that breaks seemingly uniform management tools into a multi-colored spectrum of management practices (Bendix 1974). The same goes for performance management. Scorecards, objectives, indicators and targets may appear similar in design across countries. Yet, organizational and administrative culture determines whether and how indicators are used in management practice.

Earlier work on the cultural factors triggering or hindering performance-related reforms (e.g. Hajnal 2005) suggest that out of the several possible “layers” of (administrative) culture – such as political-culture-as-administrative-culture, organizational-culture-as-administrative-culture and mental-model-of-organization-as-administrative-culture – it is the latter one that seems to have the largest potential in better understanding NPM-type, performance-management-related reforms (for some contrasting claims emphasizing the role of organizational culture, see, however, Verhoest 2011). According to Hofstede, these culturally ingrained mental models of what an organization is and how it is expected to operate are implied by idiosyncratic features of the national cultural context surrounding the organizational population at hand (Hofstede 1985, 2001; cf. Hofstede et al. 1990). In sum, a key direction for a culturally oriented analysis of performance-management reforms is to concentrate on the national-level culture.

As a happy coincidence, cross-cultural dialogue is ingrained in the TED; therefore the contributions had a “natural inclination” to discuss the sensitivity of performance-management practices for national cultures. There are several schemes that allow for analyzing administrative culture. One of the most widely concep-

tual frameworks used for understanding NPM – and, among them, performance oriented – reforms is the one suggested by Hofstede (2001). Out of the four key dimensions along which national culture differs – namely, uncertainty avoidance, masculinity/femininity, individualism/collectivism and power distance (the fifth one of short/long-term orientation was added subsequently) – it seems, on the basis of existing research, that predominantly the power-distance and the uncertainty-avoidance dimensions are the ones that play a role in shaping whether and how performance-based incentives work (Brown and Humphreys 1995, Verhoest 2011).

The other conceptual framework most widely used for analyzing effects of national culture is Mary Douglas' group-grid theory (Douglas 1996; Hood 2000). Group refers to the moral compulsion on individuals stemming from group pressure; in our case, being a member of the government administration. Grid refers to the density of rules, both formal and informal, within the administration. A two-by-two table defines four cultural ideal-types, which can be applied to performance management (van Dooren et al. 2015). An individualist culture scores low on group and grid. Arguably, performance-based incentives and performance pay are more easily accepted in individualist cultures. A fatalist culture scores high on group and grid. The focus on rules and group membership leaves not much room for performance management. Rules matter, not outcomes. Moreover, group pressure may run counter to the entrepreneurial spirit that is, at least in theory, supposed to underpin performance management (Hood 1991; Osborne and Gaebler 1993). An egalitarian culture has high group, but low grid scores. In such a culture, performance dialogue amongst group members can be expected to thrive. The group provides a high trust environment where performance issues can be debated. Yet, in contrast to fatalist cultures, the courses of action are not predetermined by a dense set of rules. A hierarchist culture has high rule density, but a low sense of group membership. Performance-management systems can be expected to take the form of quasi-regulatory instruments of control within the hierarchy.

### **3. Measuring differently**

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Performance measurement can be seen as a method to make sense of complicated policy problems. It is an effort to increase clarity in the decision-making of public administration (Moynihan 2002). Performance metrics can provide support for more informed choices of allocating and using taxpayers' resources (Bouckaert and Halligan 2008) and sometimes serve as a technology of distance in coping with problems of choosing between contrasting preferences among citizens, customers and stakeholders (Porter 2008).

Quite naturally, there are different ways to make sense through performance metrics. A widely held assumption, in public-administration systems across the world, is to believe in the power of design in performance measurement. According

to the doctrine it is commonplace to argue that measurements as such are solutions to public-policy problems, which is why – the assumption maintains – more high-quality measurements would almost automatically result in performance improvements (Vakkuri 2003). This approach emphasizes centralized accounting and measurement standards, top-down systems of means and ends, and usually an (over) production of performance indicators to be used by public managers and organizations. Such an engineering approach to performance measurement is (of course) one effort to make sense, but a limited one. It is not able to address fundamental features of sense-making: how do decision makers make sense through measurements, and what makes measurements meaningful in different organizational, institutional and political contexts?

Performance measurement is not a mechanical solution to policy problems. In fact, it is a problem itself that needs to be solved. For instance, public organizations need to create more accurate measurements of efficiency and effectiveness, provide more reliable customer surveys and search for best practices through uses of comparative indicators. Whether and to what extent such efforts contribute to performance problems is another way of sense-making. The value of such measurement efforts to public policies is not determined by the ways in which they are designed, but by the extent to which they come to be utilized for decision-making, and how they facilitate and enable policy action.

This process is largely influenced by what is called interpretive schemes in public-sector performance (Vakkuri 2010; 2013). According to Ranson et al. (1980) interpretive schemes create provinces of meaning for actors by providing the behavioral and cognitive schemata necessary to make sense of the organizational world. They are a collection of explicit and implicit assumptions providing explanations to a decision maker, to a performance-measurement-system designer or to a user of performance metrics as to why things happen and what should be done to influence the course of events in a public policy or organization (Bartunek 1984). Interpretive schemes may thus help public managers and policy makers (March and Olsen 1988, 337–350) to:

- understand the context of public-service provision; asking what is going on and how one should comprehend the contemporary problems of performance.
- find sensible explanations for what contributes to performance improvement; asking what should be done.
- predict future outcomes; asking how the outcomes of the performance-improvement efforts should be evaluated?

This approach presumes that in order to be meaningful, measurements should be carefully contextualized into public policies and organizations. They should be able to respond to institutionally relevant and locally defined questions of performance-improvement efforts. “Locally” may refer to the mechanisms of sense-mak-

ing at the level of public organizations or public-administration systems. Whether an interpretive scheme is “local” depends on the perspective of the inquiry. However, there is no single system of interpretive schemes, but several ones. Those with the power to control the limited resources of the organization or system are in an important position to influence things which make sense within an institutional setting (Weick and Sutcliffe 2007). Interpretive schemes can evolve, for instance, in interaction between the managers and employees of the organization, between ministries and sub-ordinate agencies within a public-administration system, or through peer pressure between countries and their respective public policies.

Reflected by distinct systems of sense-making and interpretive schemes, managers and organizations assign values and meanings to measurements differently. What is considered a meaningful measurement may vary significantly in different countries and public-policy systems. Let us reflect two examples.

First, what is actually the performance problem yields distinct interpretations in different countries. Path dependencies provide unique trajectories for designing, implementing and using performance-measurement and -management systems. This explains why the introduction of performance-measurement culture and other NPM-type mechanisms may be a primary impetus for development in some countries, whereas in others criticalities of performance-measurement uses are emphasized heavily. Furthermore, in a single country there may be a large variation in making sense through measurements within different sectors and policies of government. Thus, the ambition towards the whole-of-government approach in performance-measurement systems may facilitate several forms of institutional action and policies (Christensen and Laegreid 2007).

Second, the outcomes of the efforts of performance-measurement-system development are interpreted differently in different contexts. For instance, in some countries the emphasis is on inadequacies and dysfunctionalities of performance measurements contributing to distorted objectives and disincentives for learning organizations, while in others the potential outcomes of performance metrics are actually yet to be seen and evaluated (cf. van Dooren and van de Walle 2009; Hood and Dixon 2015). In this respect, there may be significant differences between European countries.

Measurements indeed provide a unique venue for policy action in different countries, policies and public organizations. For some, it is a cure, for others it is the disease itself (Ridgway 1956). To understand more fully the impacts of uses of performance metrics in different contexts, we need to create more a sophisticated understanding of conditions for interaction between managers, organizations and performance metrics and how they aim to respond to their local questions of performance improvements with measurement systems.

#### **4. Contributions to the special issue**

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In most real-life research the two sets of factors and issues outlined above appear, naturally, in a way inherently intertwined with one another. This was the case with much of the debates at TED8 as well as the written contributions to this Special Issue. The pieces that follow examine the above aspects and problems of performance management either from a conceptual perspective or in some particular empirical context(s).

Both of the two theoretically oriented articles have the ambition of giving a theoretical reflection especially to the conceptual problems raised by measurement of performances. These two pieces have another important respect in common: they both seek to give an inherently critical reflection to much of the mainstream performance-management discourse characterized by a rationalistic, engineering logic.

The first contribution by Johansson takes a critical look at (almost) the entire performance-management discourse of the past two decades or more. Its core argument is that the dysfunctions and unanticipated, perverse (side) effects often attributed to performance management and performance-based incentive systems are in fact not side effects but main effects. That is, they should in fact be regarded as “both rational and anticipated if organisational and decision-making theory were to be applied”. The author’s conclusion is definitely less than optimistic: decision makers’ inability to learn from systematic failures stems not so much from a lack of understanding but from the positive feedback loop of “perverse effects” and additional performance-based incentive mechanisms supposedly counteracting them.

In the second article Virtanen and Vakkuri explore the transformation process of evaluation, performance-monitoring and accountability in the public sector. They discuss the development of performance management in the context of new accountabilities, where horizontal accountability referencing a wide democratic footprint is likely to become more explicit. The article develops the idea of the transformation of public-sector performance management from the viewpoint of organizational intelligence. Much of the current performance-management doctrine originates from rationalistic performance management and evaluation models and are unable to see the social mechanisms incorporated in the mechanisms of accountability. Virtanen and Vakkuri conclude that “hard nose” rationalistic models of performance and evaluation are no longer fit for purpose. To be measured by traditional performance metrics, the society and public-sector activities are far too complex, constructed by various social networks and retrospective interlinkages and constituted by multi-faceted public-service systems. Thus, the need for new intelligence in organizational knowledge management and decision-making ought to be addressed more systematically.

The other five contributions are empirically based ones, exploring performance-management practices in various European contexts.

Hammerschmid and Löffler offer a broad picture of the European performance-management landscape by presenting the results of a Europe-wide survey of public-sector executives in 17 European countries. Examining the extent to which specific performance-management tools – such as strategic planning, performance appraisal and management by objectives – proliferated in different countries (country groups) and types of organizations they reach conclusions that seem to reinforce several of the claims we made above. Most importantly, there is a significant extent of variance with respect to the proliferation of performance management in central-government organizations; and this variability follows not so much the (East-West) division – following a dividing line largely based on the different development of formal institutions. Rather, a North *versus* South division appears, which seems to reinforce the role of diverging national cultures in promoting or hindering performance-management practices.

The remaining four cases focus on country-level phenomena, though trying to achieve some extent of geographical generalizability with respect to the region populated by Central and Eastern European new EU Member States. This geographical context is characterized by a generally modest, and oftentimes non-existent – performance-management discourse and practice. Therefore, understandably, their common feature is that – in one way or another – all four set out to analyze performance management in exemplary (in other words: best-practice) situations.

Špalková, Špaček and Nemeč examine the functioning of diverse performance management techniques in Czech subnational (regional and local) government units on both the organizational and individual (civil-servant) levels. In addition to a detailed description of how different self-government bodies implemented performance-management tools they attempted to formulate some synthesizing conclusions. According to these, the results delivered by performance management are “not in line with the positive expectations of public managers. Many such systems were developed ... thanks to financing from the public administration reform resources ... Performance appraisal systems are almost non-functional and do not provide a predictable and transparent base for allocating bonuses to employees.”

Plaček, Ochrana and Půček, focusing on the Czech Republic too, focus on a specific centralgovernment policy sector rather than subnational government; namely, higher education. Their focus is sharper also because they examine exclusively one performance-management instrument: benchmarking. Their conclusions can directly be related to the measurement issues exposed above as well as to the dilemmas exposed by the first two theoretical pieces of the Special Issue: they suggest that a “soft”, collaborative version of benchmarking would fit the Czech context better than a competitive and incentives-oriented one. Further, they formulate

specific recommendations regarding the introduction of such collaborative forms of benchmarking in higher education.

The last two pieces choose Hungary as their empirical focus. Explicitly reflecting the cultural barriers hindering the implementation of performance-based management – in particular, the *Rechtsstaat* cultural tradition of the country – Hajnal and Ugródsy attempt to examine the patterns in, and the extent to, which performance management appears in two selected “best practice” cases of Hungarian public administration. Their ambition is, to a significant extent, exploratory. Howsoever surprising this may sound (especially in the context of the several decades of mainstream performance-management literature and discourse analyzed and criticized in the two theoretical pieces of this Special Issue), organizational or policy-level performance management taking place in the realm of traditional “domestic” arenas – that is, outside the realm of EU funded programs – has rarely, if ever, been subject to systematic empirical investigation in previous Hungarian scholarly work. By examining two exemplary cases – one central government agency in the field of higher education and a local self-government – they conclude that relatively elaborate forms of performance measurement may appear even in a cultural context highly hostile to such practices and lacking institutionalized mechanisms of policy learning and transfer. However, these systems tend to be, even in the best (available) cases, characterized by inconsistency in terms of the relative development of their component parts and sub-functions. In particular, the use and utilization of measurement data seems to be somewhat lagging behind.

In the last article Mike and Balás examine a policy and organizational field which supposedly is, practically “by default”, an exemplary one, too, given the strict formal requirement of EU Funds management policies to install performance measurement schemes. Namely, their empirical focus is on the area of programs under the EU Cohesion Policy. Unlike the other three empirical studies this one takes a predominantly institutional approach: the authors examine the incentive systems created by the specific features of the (principal-agent type) relationships characterizing Cohesion Policy implementation in Hungary in the 2007–2013 programming period. They find that the incentives created by these institutional characteristics form an important obstacle to implementing real, as opposed to ritualistic and formalistic, practices of performance measurement and management.

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