



A Critical Review of Literature on Performance Measurement in Public Service

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Abstract

The public sector has been undergoing reforms aimed at making it efficient in provision of services. These reforms picked pace following world financial crises of the 1980s that resulted from the unprecedented surge in oil prices and the collapse of centrally planned economic systems of the eastern bloc. The reforms have involved adoption of private sector practices in the public sector. One of the key pillars of public sector reforms is the introduction of performance measurement. This paper reviews empirical literature on success and shortcomings of introduction of performance measurement in the public service. Gaps in literature have been identified as well as controversies among scholars.

Key words: Public sector, public sector reforms, performance measurement

1.0 The Background to the Study

The public service just like the private sector face enormous pressure to improve service delivery, lower cost and become more accountable to taxpayers (Metawie & Gilman, 2005). To meet increased demand for efficient use of tax revenue, most governments in the world responded from late 1970s with introduction of reforms in what is now referred as New Public Management (NPM) with the ultimate goal of improving public service performance. Subsequently, to achieve the objectives of the reforms, governments found it necessary to adopt private sector practices in management of public service.

One of the key pillars of NPM reforms was introduction of performance auditing and measurement in the public service (Ayee, 2008). Performance measurements have assumed a central place in performance management systems in the public service (Martin & Smith, 2010). Through such measurements, the relative level of performance can be compared, evaluated and improvements made (Parhizgari & Gilbert, 2004). However organisations have multiple stakeholders and the decision on what is measured may not necessarily reflex what is important (Carton, 2004).

Previous empirical literature posit that an increased use of measurements in management of public service has led to commodification of services and to some extent reduced professionalism of workers (Adcroft & Willis, 2005). For instance, in Kenya, continued underperformance of state corporations prompted the president to constitute a task force to establish what was ailing the sector (GoK, 2013). The task force noted among other things that implementation of performance contracting (PC) produced mixed results with some corporations recording success stories; others missed opportunities while others were on the verge of collapse.

1.1 The Concept of Performance Measurement

The development and implementation of performance measurement in both public and private organisations is based on the belief that it has a positive impact on organisational performance (Bourne et al, 1999). However, empirical research indicates that use of performance measurements does not guarantee success. Even though both public and private sector organisations have been struggling to come up with performance measurement (PM) system that is cost effective and meaningful, the obvious difference is that success has been recorded in private sector while implementing performance measurement in the public service has been problematic due to lack of clear objective and the presence of multiple principals (Metawie & Gilman, 2005).

According to Armstrong (2006), performance measurement establishes achievements and gaps in order to provide feedback. It aims at improving productivity by linking strategy and performance. Through measurement, the relative level of performance can be compared, evaluated and improvements made (Parhizgari & Gilbert, 2004). Historically, organisations have relied more on financial measures to assess organisational effectiveness. The use of performance measures such as return on investment, market share, profitability, earning per share and other such financial indicators has been common in assessing effectiveness (Upadhaya, Munir & Blount, 2014). However, over the last three decades, use of financial indicators to measure performance has been challenged and more effective measures developed that include both financial as well as non-financial indicators (Parhizgari & Gilbert, 2004; Bititci *et al*, 2007).

The most commonly used performance measurement systems today are; Balanced scorecard (BSC) developed by Kaplan and Norton which have four key measures; financial perspective, customer perspective, internal business process, learning and growth. The second is the performance pyramid (SMART). It has four key operational measures; quality, delivery, cycle and waste. Third is the performance prism whose key facets of performance are stakeholder satisfaction, strategies, processes, capabilities and stakeholder satisfaction. These modern models of performance management are based on integrating both financial and non-financial measures in performance measurement with the aim being to improve performance rather than doing a post mortem of organisational performance.

2.0 Literature Review

2.1 Theoretical Review

The concept of performance measurement is based on the desire by owners of capital to measure performance of employees through setting of targets that are specific and measurable. It is therefore best studied using The Principal Agency Theory (PAT). Agency relationship arises when two or more parties designated as agent render services on behalf of another designated as the principal (Ross, 1973). The central concern of the theory is how the principal can control the behaviour of the agent. The principal has to design a contract that is attractive to the agent while maximizing benefits for the principal (Ssenooba, 2010).

PAT has been used by Petrie (2002) to describe public sector performance contracting framework basing his concept on independence of the Minister and management of public agencies. Ongeti (2014) used it to explain the governance structure in state corporations arguing that the Boards should be independent of management thus ensuring effective monitoring. Ham (2009) used the theory to explain public expectations on provision of social services by the state and what measures the state may adopt to ensure its agencies implementing the policies of the government.

2.2 Empirical Literature

There is increased focus among researchers today on whether performance measurement has an influence on organisational performance (Dickson, 2008). Most scholars are agreed that performance measurement in the private sector leads to performance improvement, but implementation of such an approach to performance of public service has been problematic because of the difficult of identifying the correct performance indicators (Metawie & Gilman, 2005). The presence of multiple principals with conflicting interests in public service organisations has made implementation of performance measurement problematic.

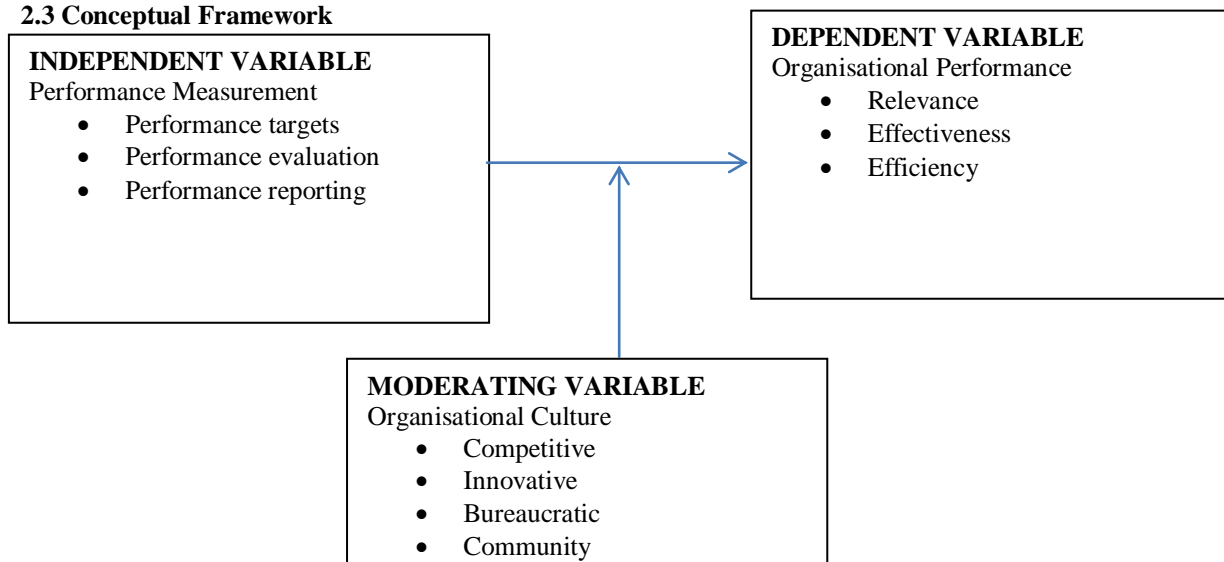
Adcroft and Willis (2005) in a study on the extent to which performance measurement in the public sector is fit for purpose found that adoption of private sector practices including performance measurement had not improved performance but had led to commodification of services and deprofessionalisation of the public sector. The focus has shifted from provision of services to the public to making return on investment. Public institutions unlike the private sector do not exist to make profit. When profit motive becomes entrenched in service delivery in the public sector, organisations fail to meet the mission for which they were established. Private sector practices will only work if they fit within the public service culture. Metawie and Gilman (2005) noted that the ethos of the public sector is different from those of the private sector.

In a study on performance measurement (PM) and public administration in Flemish organisations, Doreen (2006), found that use of performance measurement leads to measurement errors. Input and outputs are deliberately altered to conform to the indicators. Organisations stop focussing on outcomes and concentrates on outputs which are short term in nature. Management starts ignoring organisational activities that are not being measured. Doreen (2006) argued that the result is that numeric representation in PM does not represent reality. Though the study identified the undesirable behaviour of PM, it did not go far to establish the moderating variables that affect the relationship between performance measurement and performance. Some organisational cultures and institutional factors are receptive to PM while others are not.

In a study on performance measurement and performance of innovative products, Dickinson (2008) found performance improvement only occurs when PM is linked to broader issues of performance management. However, when PM is used without being linked to other performance management strategies, it fails to have any influence on organisational performance. This study did not go far to identify key variables that moderates the outcomes of performance measurement.

Ham (2009) in a study on performance measurement in the housing sector in England found that performance measurement once practised for several years leads to organisations using information generated to assess their internal systems, review their mandate, identify organisational bottlenecks to meeting goals and all these leads to improved outcomes for the organisation and ultimately performance improvement. These findings support the argument that PM is influenced and influence organisational culture. This study did not factor the role of institutional factors in affecting success of implementation of PM.

2.3 Conceptual Framework



3. Methodology

This was a desktop review and the researcher reviewed literature to identify the evolution, key concepts and the empirical literature available on the concept of performance measurement while identifying gaps in research. Based on the identified gaps, the researcher proposes to carry out research on performance measurement in Kenya's public service to investigate relationship between variables in the conceptual framework. Sample will be selected using multi stage random sampling.

4. Findings

The researcher established that a number of empirical studies on performance measurement have been conducted especially in the last few years. However, most of the studies carried out on PM and organisational performance are based on the direct relationship between the two variables while little has been done to study the relationship after factoring the moderating role of organisational culture. There is general agreement among scholars that PM has had a positive impact on service delivery in the private sector while there is mixed results in public service.

5. Conclusions and Recommendations

The purpose of the study was to identify research gaps in available literature on performance measurement and organisational performance and use the information gathered as the basis of a research agenda. It is evident from the empirical review that there is need to establish why performance measurement has worked well in private sector while its implementation in public service does not seem to produce similar results. The researcher recommends that research be carried out to establish the moderating role of organisational culture on the relationship between performance measurement and organisational performance. It is also recommended that further research be carried out to establish the mediating role of employee engagement on the relationship between PM and organisational performance in the public sector.

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