The Australian Public Service (APS) has striven to become a performance-focused public service over the last two decades. This paper provides an overview of potential traps in performance management, particularly in public services, and then assesses the degree to which these traps have been avoided in the Australian Public Service (APS). While most agencies seek to manage employee performance so that it is aligned with organisational outcomes, there are problems, particularly in relation to confidence in the measures chosen, the skills and commitment of management, the fairness of the system and cultural resistance. To assist the APS in improving its performance management, the APS Management Advisory Committee has developed a guide which offers appropriate sentiments with regard to alignment, credibility and integration. However, much of the advice is not tangible, nor does it address the specific complexities of performance management in public services. Nor is there any analysis of the overall costs, benefits and organisational outcomes. While we agree that performance management is a ‘work in progress’, we see no evidence of the APS receiving clear guidance in avoiding the potential pitfalls, nor any attempt to assess whether performance management has efficiently and effectively contributed to organisational outcomes. The way forward for APS agencies remains a difficult path and future positive outcomes from performance management are far from certain.
INTRODUCTION

The Australian Public Service (APS) has striven to become a performance-focused public service over the last two decades. The impact of globalisation has been the primary motivation for pursuing performance improvement. As explained by the Prime Minister (Howard, 1998), "globalisation of the world economy…requires Australia, along with other nations, to become more efficient and innovative in the way it does business" and the public service’s “effectiveness must be seen in the context of its contribution to the strength of the national economy.” Since the 1990s one key component of this drive has been to improve the performance of individual employees. This paper provides an overview of potential traps in performance management, particularly in public services, and then assesses the degree to which these traps have been avoided in the Australian Public Service (APS).

The genesis of the reform process can be traced to the recommendations of Royal Commission on Public Administration in the 1970s, which advocated the pursuit of efficiency through clarifying objectives and devolving responsibilities to departments (RCAGA, 1976). The Hawke Labor government began the process of implementing these recommendations and its Financial Management and Improvement Plan (FMIP) devolved managerial responsibilities to departments and encouraged a performance oriented culture (MAB/MIAC, 1992). In the early 1990s performance-related pay was introduced for the Senior Executive Service (SES) in an attempt to achieve a stronger performance-focus, although the primary driver was to redress the growing disparity between the wages of senior personnel in the public and private sectors (Marshall, 1998).

The Liberal-National Coalition government elected in 1996 enshrined a performance-oriented public service. The Public Service Act 1999 established a set of values that specifically requires “achieving results and managing performance” s.10(1(k)). The Financial Management and Accountability Act 1997 specifies an ‘outcomes and outputs’ framework which requires agencies to identify and measure the outputs needed to achieve the outcomes desired by government. The articulation and measurement of organisational outputs establishes a framework for measuring the performance of individual employees. In order to ensure performance measurement at the individual level, the government’s guidelines for agreement-making require that remuneration outcomes be related to performance (DEWRSB, 2000).

Although the APS Management Advisory Committee (MAC) concluded that there has been ‘significant progress’ in performance management (MAC, 2002), other commentators suggest that there is an enormous gap between the rhetoric and the reality with employees expressing cynicism, poor morale from unreconciled expectations and no evidence of benefits to the agencies (O'Donnell and O'Brien, 2001).

WHAT IS PERFORMANCE MANAGEMENT?

Performance management can be described as measuring, appraising and improving the activities of an organisation, including the activities of individual employees or groups of employees, to ensure the achievement of desired organisational outcomes (Bacal, 1999; Glendinning, 2002; Grote, 2000; Leece, 2001). At an individual level performance management entails identifying the activities required of the individual to achieve desired organisational outcomes and judging the performance of these activities to improve performance. Thus managing the performance of employees is expected to lead to a high performing organisation (De Cieri et al., 2003).

A variety of systems exist to manage performance. Some systems focus on appraisal techniques such as quantitative measurement of tasks done or qualitative assessment of standards achieved. Others focus on motivating achievement of outcomes, such as relating pay to performance or
rewarding desired behaviours. Most are a combination these types of activities, along with developmental, counselling and disciplinary activities (De Cieri et al., 2003).

Some authors conceptualise performance management as means of strengthening managerial control over the workforce (for example see Lane, 2002). Establishment of performance standards and regular monitoring of work done is perceived as augmenting managerial control and hierarchical relationships. Others view performance management as an opportunity for participatory work practices, through mutual determination of desired standards and as providing staff with the opportunity for development and advancement (for example see Bacal, 1999).

For the APS, performance management is “the use of interrelated strategies and activities to improve the performance of individuals, teams and organisations. Its purpose is to enhance the achievement of agency organisational goals and outcomes for the government” (MAC, 2002:7). The success factors are identified as employee alignment with APS values, organisational culture and business objectives; credibility by means of a fair, transparent and rigorous system; and integration of individual and team performance with organisational objectives (MAC, 2002:8). The design of a performance management system in the APS therefore needs to ensure that organisational and individual performance are integrated, requiring clarification of objectives, appraisal of performance, feedback, recognition or reward for performance, development, training and counselling opportunities and evaluation of the system. Through these processes, the public service will achieve the policy outcomes desired by government.

MAC reports that APS agencies use a range of approaches for managing performance, utilising a variety of performance appraisal methods, links to skill development opportunities and performance motivators (MAC, 2002:41 & 52-77). Consistent with the government’s bargaining requirements, almost all agencies link remuneration to performance, most commonly by linking salary progression within a classification to performance. Other forms of performance related remuneration include linking base pay to performance, bonus payments (especially for SES staff), linking the pay of all employees to overall organisational performance, or a combination of these.

ISSUES IN PERFORMANCE MANAGEMENT

While the above-mentioned components of performance management may seem self evident, careful consideration has to be given to the design and implementation of each of these components. Further, when considered in the context of measuring services, particularly services in the public sector, a complex array of pitfalls become evident.

Clarification of the aims of an individual’s performance which meet organisational objectives and designing appropriate indicators of performance can be difficult. The setting of unrealistic targets or targets that encourage worse outcomes, such as quantity at the risk of quality, are not uncommon (Barrett, 1997; Cherry, 1993). It can be difficult to identify adequately the factors that contribute to good outcomes, or they may only manifest themselves over time, not during the period in which performance is measured (Jones, 2001). Often what is easy to measure is measured, rather than what should be measured, particularly if objectives are vague, general or interpretive, and consequently the measures, rather than the outcomes, can become objectives in their own right (Jones, 2001). Specifying measures can tend to performing only those activities which are measured resulting in omission of other desirable activities (Boland and Fowler, 2000).

Methods of measuring and rewarding performance also need careful consideration. The objectivity of measurements can be questioned, particularly when what is being measured is intangible or qualitative in nature. For example, assessing the quality of an employee’s interpersonal skills can be subject to bias from previous interactions, local worksite politics, non-recognition of particular environmental issues that affect performance or different understandings of what constitutes good interpersonal skills (Halachmi and Holzer, 1987). Issues of comparable worth and equity can increase conflict particularly when pay is related to performance (O'Donnell, 1998). For example,
an employee’s perception of their performance related reward may decline if they compare unfavourably with others in the organisation. Inadequate recognition of good performance can cause resentment, as does failure to deal with poor performance (MAC, 2002). Rewards artificially restricted by distributions, quotas or budgetary determined ceilings can diminish staff commitment to performance management (Marshall, 1998).

Jones (2001) notes that people are reluctant to assess others, for example confronting poor performance. Behaviour within an organisation can be influenced by motives such as personal gain, protecting the interests of the group and immediate rather than long-term organisational outcomes and performance judged according to these criteria. Some managers may tend to leniency to maintain support of their employees or to negate the effect of low ratings reflecting adversely on their management (Reichard, 2002). Managers may inflate ratings to avoid friction and decreased motivation in staff (Lane, 2002).

Failure to consider existing organisational structures can diminish the effectiveness of performance management. For example, measuring individual performance can be counterproductive to team-based organisational structures. The setting of fixed targets in organisations that utilise quality techniques can inhibit continuous improvement (Demming, 1982). Relating pay to performance assumes that pay is a primary motivator for high performance, whereas Mintzberg (1996) argues that although pay is an important factor in allaying dissatisfaction, it is not a motivator for performance. Other non-material rewards may have greater valence, such as working for the public good in the public sector (Reichard, 2002).

Even if realistic objectives and indicators can be clearly identified, appropriate means of measurement adopted and a natural fit with organisational structure adopted, this may mean little if the system meets with cultural resistance. As MAC identified, “To overlook cultural issues can bring a performance management system undone” (MAC, 2002:20). Further, the best performance management system with a perfect organisational fit can still fail if poorly implemented. Rapid implementation without appropriate training and cultural acceptance can lead to rejection and cynicism (MAC, 2002). Performance management can be time consuming and resource intensive, however the costs associated with managing performance cannot exceed the benefits (Jones, 2001). Ultimately the test of a performance management system is whether it delivers the benefits to an organisation with economy, efficiency and effectiveness (Barrett, 1997).

In summary, performance management systems need to be carefully designed, taking into consideration issues of appropriate targets and measurement, perceptions of staff and management, cultural and organisational understandings, careful implementation and affordability.

ISSUES IN PUBLIC SERVICES

Adopting an efficient and effective performance management system in any circumstance can be complex, but when performance management is undertaken in service industries, another level of complexity is created. As McGuire (McGuire, 1999) explains, the relationship between the provision of a service and performance outcomes is complex. Because services are intangible, service standards are hard to specify and measure. The consumer of the service participates in the exchange and are thus co-producers, making links between processes and results harder to specify and measure. Direct encounters mean that results, as measured by consumer perceptions, can change easily from one encounter to the next.

Waldersee (1999) argues that, in response to these difficulties, the usual practice in services has been to measure the parts that can be measured, diverting attention from real performance adding activities. For example, knowing that customer satisfaction has dropped does not provide useful information for managing performance. Instead understanding the dynamics involved at the service counter is much more useful. He argues that in services, where there is high uncertainty
between activities and results, intuitive decision-making can be just as, if not more, reliable than data-based decision-making.

If the service is a public service, another dimension of complexity arises. In the market-place, performance is ultimately measured by profit. If the service does not make a profit, then the service ceases to exist. However, public services are provided on the basis of societal need and generally cannot be withdrawn (Jones, 2001; McGuire, 1999). Consequently the public sector cannot rely on profit as the final measure of performance.

Further, performance has to be evaluated from multiple perspectives: the citizen, general societal outcomes, economic concerns, the government of the day, and the government agency providing the service (McGuire, 1999). This means identifying objectives becomes very complex. Moreover objectives are subject to change in response to changing government policy. O’Fairchealleigh et al. (1999) argue that time is required to ascertain successful performance of public services and by the time performance evaluation is complete, the objectives may no longer be valid. Complex and fluid organisational objectives necessarily mean that identification of indicators and measures of individual performance are not easy. Lack of clarity and inappropriate measures can lead to lack of engagement and a tendency to measure what can be measured. In the public sector, particularly when quantitative measures are used, neglect of other important administrative goals, such as legality, responsiveness, equality, common good-orientation, may result (Reichard, 2002). In a worst-case scenario corrupt practices to achieve performance targets may be stimulated. Another complicating factor is that budgetary limitations and government policy shape the delivery of the service, rather than the desires of the recipients of the service. Also the necessary resources to measure performance may not be available. Thus performance objectives of public services are not only different to private services but inherently more complex.

Relating pay to performance in the public sector raises issues about motivations of public sector workers. Several commentators argue that public servants are not motivated by pay but are characterised by a relatively high intrinsic work motivation, working for the public good, and therefore monetary rewards do not act as a motivator (O'Donnell and O'Brien, 2001; OECD/PUMA, 1997; Rainey, 1979; Reichard, 2002). O'Donnell (2001) suggests that performance related pay is inherently divisive and thus contrary to the collective nature of public sector work, resulting in diminished rather than improved performance. As the public sector is ultimately restricted by the available budget (the agreed funding for specified outputs) monetary rewards for performance can be artificially restrained (Marshall, 1998). Thus relating pay to performance is particularly difficult.

Consequently implementing performance management systems in the APS face not only the inherent pitfalls of performance management but also the particular difficulties of managing performance in the provision of public services. Despite this litany of potential problems Hughes (1998) argues this does not mean that the public sector should not try. In order to ensure efficient use of public funds and effective social and economic outcomes, the public sector must identify desired outcomes, the outputs needed to achieve these, and monitor and improve progress towards these outcomes. The rest of this paper provides a preliminary overview of performance management in the APS and an assessment of whether the pitfalls are being avoided.

**PERFORMANCE MANAGEMENT IN THE APS**

Reviews of performance management systems in the APS suggest that agencies, in the main, establish sound objectives (IPAA, 2001; MAC, 2002). Although there is evidence of poor alignment with organisational planning and inconsistent objectives in some agencies (IPAA, 2001), most link individual performance to organisational objectives, provide feedback, development and training, and reviews of the system. APS staff report that performance management has clarified expectations and their contribution to organisational goals. They also report improved communication and relationships (IPAA, 2001).
Despite the apparent soundness of objectives, implementation has not been entirely smooth. IPAA (2001) reports that managers and staff find it difficult to measure performance, particularly where work is qualitative in nature. Some APS staff and line managers feel sceptical about the value of attempts to measure and review performance and express concerns that performance standards are too vague and not standardised. IPAA recognises that there is a risk of measuring what is easy to measure rather than what should be measured.

Rating scales are identified as demotivating staff (IPAA, 2001). Staff and managers often have difficulty understanding the performance expected for each rating. Even when they received a relatively high rating, staff feel aggrieved and believe they are entitled to a higher rating. Staff indicated friction exists within sections and between supervisors and staff as a result of unhappiness with ratings.

Perceptions of bias exist and judgements are viewed as subjective (IPAA, 2001). Managers are viewed as not possessing the ability to objectively and consistently identify performance and of not modelling or rewarding the values to which the organisation aspires. Most staff believe that poor performance is not dealt with effectively (MAC, 2002).

Managers are frequently unaware of their performance management inadequacies, may not seek formal training and dismiss offers of support (IPAA, 2001). Staff observed that poorer managers do not learn from the training when they do attend. Managers who participated in 360 degree feedback tend to disregard results which they do not think are relevant and staff feel uncomfortable giving honest feedback to managers who make decisions about their pay.

Complex performance management systems incorporating a wide range of issues have been viewed as unsuccessful (IPAA, 2001). A significant number of APS managers and staff indicated that frequent changes to their performance management system caused frustration and scepticism so much so that the changes were viewed as counterproductive. Many APS staff and managers commented that the forms and guidelines are too complex, too lengthy, poorly indexed, provide unsound examples and contain too much jargon. Training costs and technological support were identified as constrained by lack of resources. When evaluating performance management systems, agencies appear to have focused on activities for which data were easy to obtain, rather than those that effectively assess the performance management system.

In summary, many APS staff are sceptical about performance indicators and means of measuring performance. Assessment of performance is perceived as biased and management commitment to the process inadequate. Confidence in management and trust in the system are lacking. In some agencies clear links between performance and organisational outcomes do not exist and there is evidence of inconsistency in objectives. Complex systems and frequent adjustments to systems cause frustration. Training, technical supports and evaluation of performance management systems can be inadequate. It is therefore unsurprising that cynicism amongst staff, diminishing morale and a perceived gap between the rhetoric and reality has resulted (IPAA, 2001). MAC (2002) observed that there is a strong culture in the APS to pay lip service to performance management and that the overriding value is to continue with the job at hand. Nonetheless, performance management in the APS has resulted in several positive outcomes; such as clarification of expectations, greater understandings of contribution to organisational goals and improved communication and relationships.

MAC (2002) concluded that the development of performance management in the APS is evolving and that the problems are merely establishment problems. They concluded that overall there has been significant progress. However, to ensure that these problems are addressed MAC has developed guidelines for the successful implementation of performance management. The guidelines centre around the key concepts of alignment, credibility and integration.
RECOMMENDATIONS FOR THE FUTURE

A number of the possible pitfalls of performance management identified in the literature have become evident in the APS. Employees lack confidence in the measures chosen, in the skills and commitment of management and in the fairness of the system. Implementation problems such as complexity and a tendency to pay lip service are evident. Given the complexities involved in managing performance in public services, these problems are not unexpected. Therefore the guidance provided by MAC (2002) will be crucial in ensuring future positive developments in performance management. We therefore look to the guidance offered by MAC.

MAC, in accordance with the literature, notes that highly quantitative measures can have credibility problems. To resolve this it recommends the inclusion of behavioural measures and that performance measures need to be appropriately aligned to the organisational environment. However, measuring behaviours is just as much exposed, if not more so, to subjective assessments. Further, while acknowledging that it is important to take into consideration the organisational environment, this offers no practical means of finding credible measures for the effective performance of public services. Service issues, such as intangibility, the nature of co-production, direct encounters and the particular complexities of the public sector identified in the literature are not addressed.

MAC recognises the importance of fairness and trust, and stipulates that consistency, systematic training and review processes are required. Staff ownership is promoted as a means of overcoming cynicism and scepticism. These recommendations offer fitting sentiments and place performance management in the category of a participatory and developmental opportunity, rather than a managerial control strategy. These suggestions may go some way to overcoming cultural resistance and the tendency to pay lip service to performance management. However, there is no practical advice pertaining to effective implementation of staff ownership, nor how to achieve the important but elusive aims of fairness and trust, particularly in an environment of cultural resistance.

MAC recognises the importance of history, values and nature of the business and repeatedly reinforces that these must be taken into consideration when developing and implementing performance management systems. Its solution is to introduce performance management systems slowly, gradually inculcating a new performance-oriented culture and allowing for the opportunity to adapt the system to meet local understandings. While slow implementation may be helpful in providing the opportunity to adapt, no specific strategies are suggested to make the transition from a process oriented to a performance oriented organisation.

MAC acknowledges that performance related remuneration is an area of debate (MAC, 2002:43 & 40-47) and consequently recommends that the use of rewards and recognition should be much wider than just remuneration. In particular MAC offers the advice that there should be strong links between the organisational culture and the types of rewards and recognitions used, and suggests that “there are a lot of good ideas to pick from” (MAC, 2002:47). Again the sentiments are apposite, but practical assistance with assessment of organisational culture and the determination of appropriate rewards are not evident. In particular there is no indication of where agencies can find “the good ideas”, or how to assess their applicability. Further, it is questionable whether tying rewards to organisational culture, rather than individual motivators, offers a credible performance management system.

Neither IPAA (2001) nor MAC (2002) have assessed the costs of implementing performance management systems. Reviews of performance management are couched in terms of whether organisational objectives are met and whether it is generally well-regarded by staff. While these assessments are fundamental to the success of performance management, the bottom line requirement that benefits outweigh costs is not mentioned, an interesting omission in the current outputs environment.
While problems in the implementation of performance management can be expected, it is reasonable to presume that the assistance offered to APS agencies offers a way through the maze of potential pitfalls. The guidance offered to agencies by MAC, while espousing appropriate sentiments, does not appear to offer realistic solutions to the complexities of measuring performance in public services. Attention needs to be paid to the intangible nature of services measuring performance and the complexities that co-production and direct encounters have on measuring performance. Means of addressing the inherent complexities and fluidity of objectives in the public sector are not identified, nor is there any contemplation of the limits of budgets nor any understanding of the motivations of public sector workers. Despite the difficulties experienced and the lack of solid guidance for future avoidance of them, the APS has achieved some positive results, such as clarification of expectations, improved communications and alignment with organisational goals.

The essential criterion of success is whether performance management is effective and efficient. This overview has identified some important positive results as well as some deficiencies. However we do not know the costs associated with achieving the benefits, nor do we know the degree to which the problems have negatively influenced organisational outcomes. Nonetheless, according to the ANAO (2002) business outcomes have been improved in some agencies. Perhaps a closer look at these agencies may be useful.

**CONCLUSION**

This paper has reviewed some of the pitfalls to be avoided for effective and efficient performance management systems and assessed whether these pitfalls have been avoided in the recent round of performance management in the APS. While some benefits have resulted, such as clarification of expectations, improved communications and alignment with organisational goals, there are also a number of deficiencies. The problems are related to confidence in the measures chosen, the appropriateness of remuneration as a reward, the skills and commitment of management, the fairness of the system and cultural resistance. Although MAC offers appropriate sentiments with regard to alignment, credibility and integration, much of the advice is not tangible, nor does it address the specific complexities of performance management in public services. Nor is there any analysis of the overall costs, benefits and organisational outcomes. While we agree that performance management is a ‘work in progress’, we see no evidence of the APS receiving practical and clear guidance in avoiding the potential pitfalls from MAC, nor any attempt to assess whether performance management has efficiently and effectively contributed to organisational outcomes. The way forward for APS agencies remains a difficult path and future positive outcomes from performance management are far from certain.
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