# A new approach to the art of managing performance, while reducing operating costs

# - or squaring the funding cuts circle

## 1 Summary


- Performance management and use of targets are here to stay.

- Cross-cutting actions and multi-agency collaboration are another fact of life.

- Clarifying contributions to overall purpose, goal achievement and negotiated agreements are fundamental requirements for high levels of service.

- Much research indicates that many conventional approaches to managing performance do not work well. These include:

  - The use of lots of KPIs and targets.
  - One-way only feedback - one facet of command and control management styles.
  - Annual (or other periodic) performance reviews with much form-filling, tick-in-boxes, grades - and, horror of horrors, forced distributions.
  - A focus on inputs, compliance and conformance (instead of outputs and outcomes).
  - Financial incentives.

- There are several guiding principles that need to be applied in the design of any effective performance management regime. Underlying all of them is the need for trust – within and between agencies. Headlines are:

  - Clearly articulated strategic intent and direction are essential and work better than long range strategic plans (another failed approach).

  - Only operational people deliver actual results – the role of everyone else is to enable them to be successful.

  - All goals / actions / contributions need to be negotiated, and this includes enabling contributions.

  - Internal or external scrutiny is hugely resource-intensive and adds little value to service delivery.

  - **Myths** about what works in the private sector must be ignored – the **evidence** about what works and what does not should be followed instead.


 

- Applying the Golden 6 rule for the number of KPIs (standards) is critical.
- Leading performance indicators are needed as well as lagging indicators.
- All feedback processes should operate in two directions - direct report to manager as well as vice versa – service delivery results, enabling contributions and developmental actions and results need to be covered.
- Broad guiding principles enable adaptive strategies to be developed – these work better than tightly prescriptive rules.
- The widespread existence of wicked problems that need to be tackled means that there is no best practice regarding solutions that can be transferred between locations. Locally developed, multiple, partial solutions are a better bet.
- Communities and politicians must play a central role in agreeing local goals and priorities.

- The long term goal of a new performance management regime for the public sector must be about achieving an excellent allocation of resources to service delivery, with those resources being focused on priority outcomes required by local communities.
- By the same token, the resources consumed by non-service-delivery activities needs to be minimised.
- There are several implications of the goal as stated above. Headlines include:
    - Scrutiny needs to be eliminated, over time.
    - Inspection can and should continue, but only in the sense that it spreads learning. This includes the methods used to develop solutions to local (wicked) problems where there is no best practice available regarding the solutions themselves. It would probably help if the name 'Inspection' was to be dropped and replace by something like 'Learning Central'.
    - The basis of performance management must be focused on the value that is being added to goals / outcomes.
    - This applies to organisations and individuals.
    - It applies both to the delivery of services, the enabling contributions and developmental actions designed to improve service delivery.
    - In times of financial stringency, programmes that add no discernible value to purpose, goals and desired outcomes should be eliminated.
    - At the very least, such programmes or organisations should not be permitted to consume the resources of those that do add value.

## 2 Background and objectives

The Institute for Government 2009 report Performance Art draws a number of conclusions about the art of managing performance, as it operates within the public sector. Briefly:

- In spite of much, often justified, criticism of actual performance management regimes, performance management and use of targets are here to stay.
- There is a need to focus on fewer, more strategic outcomes rather than on short-term results.
- Targets will need to be based on negotiated agreements about outcomes rather than on top-down-imposed figures.
- Collaboration between agencies will be a key enabler of good performance.

The report also notes that while much progress has been made, there is a need to accelerate that progress. One of the drivers for this is the fact that public expectations about service delivery are increasing at the same time as there is downward pressure on public sector budgets. In 2014, and for the foreseeable future, that pressure will be extreme.

It has long been understood that local agencies do not stand alone in terms of service delivery – cross-cutting is a fact of life. Some local collaboration agreements, however, are more concerned with the formality of inter-agency relations than with the reality of getting results on the ground.

The existence of local heterarchies[1] is a reality that complicates the challenge of managing performance. There is no single source of authority for deciding strategic targets. Agencies have to negotiate agreements about strategy, goals, and the means of achieving them. Putting these into practice means that operational people and their first-line supervisors also have to collaborate within and across agencies. They have to translate strategy into appropriate action on the ground to solve problems and deliver results. As there are no formal, structural reporting relationships to fall back on in these circumstances, this means that informal networks are critical for 'oiling the wheels' of heterarchies.

An 'on-the-ground' reality is that the agencies involved have different roles and contributions, and often these may be in conflict with each other. Confronting these conflicts and negotiating agreements about shared strategy, goals, and actions will be key in any effective performance management regime.

The natural sciences have some lessons that help to open the door to a new way of thinking about the art of managing performance. This discussion paper sets out some of those lessons, and presents an outline for a different approach to managing performance. The idea is to build on the progress that has already been made, applying lessons identified through recent reviews. The overall aim is to suggest a means of accelerating that progress - one that will help tackle the 2014 challenge of 'squaring the funding cuts circle'.

First, we outline a brief history of different tactics applied to performance management, and why they fail.

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1 Heterarchy – a collection of hierarchies pursuing the achievement of shared goals.

 

## 3 History – some false starts

There is plenty of evidence about what works and what does not in managing performance. For example, a 2006 McKinsey report, 'Managing by the Evidence', highlights the top four common failing management practices identified through their research, quoted here:

- *"The carrots and sticks of incentives appear to be the least effective of the four options commonly used to motivate and encourage employees to perform well and stay with a company.*

- *Applied in isolation, KPIs and similar control mechanisms (such as performance contracts) are among the least satisfactory options for improving accountability."*

- *Relying on a detailed strategy and plan is far from the most fruitful way to set a company's direction.*

- *Command-and-control leadership - the still-popular art of telling people what to do and then checking up on them to see that they did it - is among the least effective ways to direct the efforts of an organization's people."*

The McKinsey report, and much other research that has reached similar conclusions, point to a number of false assumptions about managing performance. Here are some of the more common:

**Top down, one-way only feedback**

This is a step back towards a command-and-control management style which, whilst it may be appropriate for managing crises, does not work well in performance management. Part of the problem is that word 'accountability' used in the McKinsey report. If the target-setting and feedback processes operate only in a downward direction, this implies that the manager issuing the feedback has no accountability for the results produced by the other people involved[2]. Employees on the receiving end of one-way feedback know this and resent the process.

**The use of lots of KPIs or targets**

The McKinsey report challenges the use of lots of targets. The difficulties are manifold, but perhaps three will suffice here. First, most targets, when there are many, reflect aspects of short-term, cyclical performance, which can produce an effect similar to running hard on the spot. Second, the evidence suggests that more than about six targets is simply too much for people to handle, especially when they are busy. Finally, too many targets virtually always produces conflict between them.

In the case of local agencies, there is an additional twist to this particular problem. Different agencies have different inspection and scrutiny authorities. These work to different criteria and standards, and different inspection cycles. Many serious performance improvements can only come through tackling 'cross-cutting' problems, and this depends on high levels of collaboration. By introducing pressure to deliver on conflicting targets, one effect of inspection is to limit the opportunities for, and practice of, successful collaboration, and this can only damage performance.

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2 Individual managers who claims that they have no accountability for the results of their people should consider this simple principle. Either the manager is making a difference to results or not. Assuming that the people in question are performing less than perfectly, then in either case the manager is part of the problem. To deny this is equivalent to the managers making the claim declaring their own redundancy.

 

**A focus on inputs rather than outputs and outcomes**

There are two common variants to this approach. One targets activity – based on the false notion that being busy is equivalent to being effective. There is little evidence anywhere that suggests that there is any sort of causal link between just being highly active and the achievement of excellent performance. 'Running hard on the spot' comes to mind.

The other variant is based on the assumption that skilled people will always deliver better results. In this model people are assessed against a variety of skills matrices. (Modern day applications of this approach that use competency frameworks are no better than their simpler forerunners – just more complicated). There are two main reasons why this approach fails. Assessment and performance management are two quite different concepts, and when they are confused and / or combined, problems follow[3]. The second is that there are many determinants of performance, other than skills – i.e. there are many other inputs. Individual people are just part, albeit a very important part, of a complex system. Treating one part only of the system is not likely to produce good results for the system as a whole.

**A focus on compliance or conformance**

A very easy trap to fall into is the confusion between compliance or conformance, on the one hand, and performance on the other. There is no guarantee that highly compliant organisations will also be high-performing organisations. Indeed, if the key focus is on compliance, then the opposite is likely to be true. The need for compliance should be treated as a given, and not the subject of performance targets and management regimes. An excess focus on compliance is a good way to divert precious resources away from improving real performance. In passing, it might be noted that compliance is generally focused on avoiding negative outcomes, not gaining positive outcomes.

**The use of financial incentives**

The assumed value of the use of financial incentives to try to improve performance is also challenged by the McKinsey evidence, and elsewhere. The general conclusion is that there is little connection between the use of financial incentives and performance. For example, in the case of PRP, (performance related pay), the evidence from research suggests that the best result that can be achieved is a neutral effect on motivation to perform. As one survey of HR professionals concluded, *“At best, their incentive plans didn't do too much damage”. (Ron Sewell – Fly with the Geese).*

Linking a performance management regime with salaries is just another variant on the 'financial incentives theme', and is no better or worse than more complicated incentive packages. It is now accepted that incentive schemes are an abdication of management. As Professor Michael Beer of Harvard has pointed out:

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3 Assessment is essentially a judgement about the person, and the fit between the requirements of the job and the knowledge and skill set of the individual. As it is a one-way process, assessment can be done by the manager acting in isolation, behind a closed door (not recommended), and drives decisions about the job holder’s suitability for the appointment, and possible personal development needs. Performance management is about the actual results achieved by the job holder compared with the desired and agreed standards and goals relating to the job. It only works as a conversation between the two parties involved - job holder and manager - and if it operate as a two-way process. On the table is the performance of the job holder, **AND** the performance of the manager as an enabler of the performance of the job holder. The conversation drives an analysis of causes of whatever results have been achieved and decisions about a set of goal-oriented performance development actions to be taken by both parties. This output should always be a negotiated agreement between two people.

 

*“Managers tend to use compensation as a crutch. After all, it is far easier to design an incentive scheme that will do management's work than it is to articulate a direction persuasively, develop agreement about goals and problems, and confront difficulties as they arise.”*

The last quotation neatly states the challenge that is facing the public sector in applying the art of managing performance.

## 4 Guiding principles

***First find people you can trust and then trust them – Confucius***

We have used the following guiding principles in re-thinking performance management.

- **Roughly West**. While strategic direction may stay reasonably constant, strategy should always be emergent. A direction needs to be agreed, followed by responses to what happens in the wider environment – tactical moves are largely opportunistic, as circumstances change. In the case of local agencies and their relationships with central Government departments, the reality is that strategic direction is likely to be re-visited on a three-year cycle, in line with the timing of negotiation of LAA, PSA and other performance agreements. This is likely to lead to a perception that strategy is fixed for the duration, and inhibit peoples' comfort with developing and implementing responsive tactical moves. Instead of being a sensible reaction to changing circumstances, such moves might be perceived as challenging the strategy.

- **Moving away.** One intriguing take on the Roughly West approach to strategy suggests that, where the future is unknowable, the emphasis should be on ‘moving away from’ more than ‘moving towards’. As with any journey, it is difficult to make sound decisions about the first moves unless the current position is known. This implies the need for an objective, reality-based appraisal of the ‘current state’ of the organisation, followed by hard conversations about the priority issues identified along with their key drivers, and what the first steps ‘away from’ the current state need to be. This in its turn, implies taking advice from the only people who truly know the ground-floor realities – those operational people who deliver services.

- **Only operational people deliver performance** – everyone else should be an enabler. This observation implies that management’s role is to create a work environment in which operational people can achieve their job goals. In the case of heterarchies, management’s job is largely about enabling operational people from different hierarchies to operate together, sharing information and other resources across functional boundaries, to tackle local problems and achieve jointly-agreed goals.

- **Role, Goal and Context**. People generally perform better when they understand the context they are working in and the contribution their role makes to organisational purpose and goals. At the most basic level, people need to know the answer to the question 'Why does my job exist? What is it for?' At a higher level, most people respond positively when they are encouraged to develop their own role definition. The key to this is to provide the opportunity for people to make decisions about what their role **SHOULD** contribute to the success of the organisation – and then provide them with the conditions in which they can deliver that enhanced contribution.

- **Negotiate on key goals and actions**. Successful negotiations are where two or more parties mutually commit to actions so that all parties achieve their predetermined priority objectives. This means that all parties have to find out what the objectives of the other parties are, and then agree to an exchange of actions so that all parties are comfortable with the agreements made. In the case of negotiation of performance outcomes, the actions agreed will differ between the two parties. One party needs to agree what they will do that will deliver the required outcomes. The other party needs to agree what enabling actions they will take that will provide the environment in which the first party can deliver the required outcomes.

- **Trust is key**. Successful negotiation requires high trust at all levels within and between organisations - collective leadership, shared resources and distributed power are all critical, as are leaders who role-model 'it is OK to trust'. While the trust must exist at the top, there may be enabling actions needed to develop that level of trust throughout other key parts of the heterarchy, specifically between people in different hierarchies. Since it is only operational people that deliver performance, unless operational people trust each other enough to share information and other resources across functional boundaries, little cross-cutting problem-solving will occur.

- **Less scrutiny**. Scrutiny is hugely resource intensive, produces questionable results, and is very costly for both scrutinised and scrutineers[4], and hence costly to the Tax-payer!! Most scrutiny focuses on compliance and conformance, not performance. This means it generally adds little value to improving outcomes for customers. Taken to its ridiculous conclusion – who scrutinises the scrutineers? – recurring through the scrutineers of the scrutineers of the scrutineers, and so on ... Performance regimes should aim to reduce or even eliminate the need for scrutiny, as the organisation gets better at delivery and self-monitoring. At the very least, scrutiny should focus on outcomes for customers, not inputs, and be largely devolved to those doing the delivery. The resources previously devoted to handling the scrutiny regime should be devoted to service delivery.

- **'But the private sector does it.'** There is a persistent myth that targets are one of the prime drivers of greater efficiency and effectiveness in private sector organisations, when compared with public sector organisations. The McKinsey report quoted above argues the contrary. In fact, targets nearly always produce unintended consequences. For example, people adopt 'work-arounds' as they strive to achieve their target numbers – on paper at least. As another example, an excess of short term targets almost always results in silo thinking, and conflict across functional boundaries.

- **The 'Golden 6' rule.** Established by GEC, and operated over many years, this rule was based on two observations. One, already mentioned above, is that busy people can only work with about 6 performance indicators before the additional performance indicators start to produce counter-productive effects. The second is the confusion between performance indicators and diagnostic information. Performance indicators highlight whether the performance of the organisational unit is 'there or thereabouts'. Diagnostic information is only used when one of the performance indicators is not where it should be, or where there is a trend suggesting a problem is looming. Treating diagnostic information as if it is a set of performance indicators simply increases the probability of conflict between indicators and the inevitability of breaching the 'Golden 6' rule.

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4 Anyone who doubts that statement about the value added by scrutiny should consider two facts. Outside the public sector, there is only one major industry where scrutiny is widely practised - financial services. All that scrutiny did not stop the collapse of the system in 2007 / 2008. In the public sector, where a variety of forms of scrutiny have been practised for decades, there are still some very low-performing organisations, and frequent stories in the media of high-profile failures of individual agencies.

- **Getting the ‘right’ performance indicators is key**. It is a truism that all high-level performance indicators in the 'Golden 6' set must be about performance outcomes, not compliance or conformance. It is also highly desirable that there should be a mix of leading and lagging performance indicators. Leading indicators open the door to anticipating a performance problem, instead of relying on problem-solving to deal with a service failure after the event – when it is already too late. A seldom-used tactic is to involve operational people in the search for valid leading indicators – experience suggests that they generally develop valuable ideas on this topic.

- **All performance reviews are based on two-way feedback** - downwards on achievement of problem solving goals - upwards on achievement of goals agreed for enabling actions. A good performance review does not stop at feedback, analysis and learning. The purpose of any performance review is agreement on a new set of actions that are designed to improve performance. This means that the underlying structure and style of the review is the same as that for negotiating, as defined above. The ideal outcome of any performance review is a set of three agreed actions – those to be done by the reviewed; those to be done by the reviewer; and those to be done jointly by both parties. Two-way feedback applies both within agencies and between agencies. Implicitly people are accountable for what they have committed to.

- **The Janus Principle.** This lesson from the natural sciences defines the relationships between the organisational units (levels) in hierarchies. These organisational units are referred to as ‘holons’. Key lessons are:

    - Holons act both as whole entities and as parts of the hierarchy
    - When looking downward and acting as a whole, the role of the holon is self-assertion. This is the exercise of discretion in interpreting guiding principles handed down from higher level holons, and deciding courses of action.
    - The downward-looking face is one of independence and self-sufficiency
    - The downward-looking face has a degree of self-governance and practises self-regulation
    - When looking upward and acting as a part, the role of the holon is integration
    - The upward-looking face is one of dependence and following rules
    - The upward-looking face has only limited freedom of decision and conforms to rules emanating from a high-level holon
    - Rules to be followed by upward-facing holons need to be simple, guiding principles that enable complex, adaptive strategies to be developed and implemented

There may be an apparent contradiction here, between the need of holons to practise self-assertion at the some time as being dependent and following rules when facing upwards. The reality of whether or not there is a contradiction depends on the nature of the rule-set handed down. If it consists of detailed prescriptions, then there is a contradiction. What tends to develop under those circumstances is a form of covert self-assertion, which generally is not healthy. If, however, the holon's self-assertion is only bounded by guiding principles, as suggested in the last bullet point above, then the contradiction disappears.

Providing only that the whole organisation has a customer / service delivery focus, then the guidelines provided will make this clear. That then enables holons in their self-assertion mode to concentrate their adaptive strategies and tactics on external outcomes.

- **Leaders set direction and operational people implement local solutions**. The Janus Principle from the natural sciences implies that leaders, including those higher up the hierarchy and hence more remote from delivery, set direction and agree goals. Those closer to the coal face define and implement local strategies and tactics to suit local needs. In the reverse direction, those at the coal face sense incoming messages about changes in the environment, and refer these up to be translated into changes in the rule set. This in turn enables adaptive changes to be developed and implemented locally. In public sector organisations, this means the role of leadership is to agree broad guidelines that enable complex adaptive strategies to emerge at the operational level. Downward prescription of behaviour inhibits those closest to the issues developing strategies and tactics to match the needs of variable local circumstances.

- **Tackling Wicked Problems**. An implication of the nature of working with heterarchies to improve performance in service delivery is that often the challenge is to solve wicked problems. These are the messy, complex and ambiguous problems that have no simple, linear causes or solutions. They are generally novel, with unique local variations. Generally speaking, they cannot ever be totally eliminated - that means that multiple, partial solutions are all that can ever be applied. Moreover, since local causes vary, so will local actions. This challenges the idea of there being any 'best practice' that can be applied. It also means that local operational people must have the opportunity to share resources across functional boundaries to tackle their local variants of wicked problems. In other words, those high up in organisational heterarchies must set the guidelines and allow those closer to the coal face to come up with solutions, just as in hierarchies.

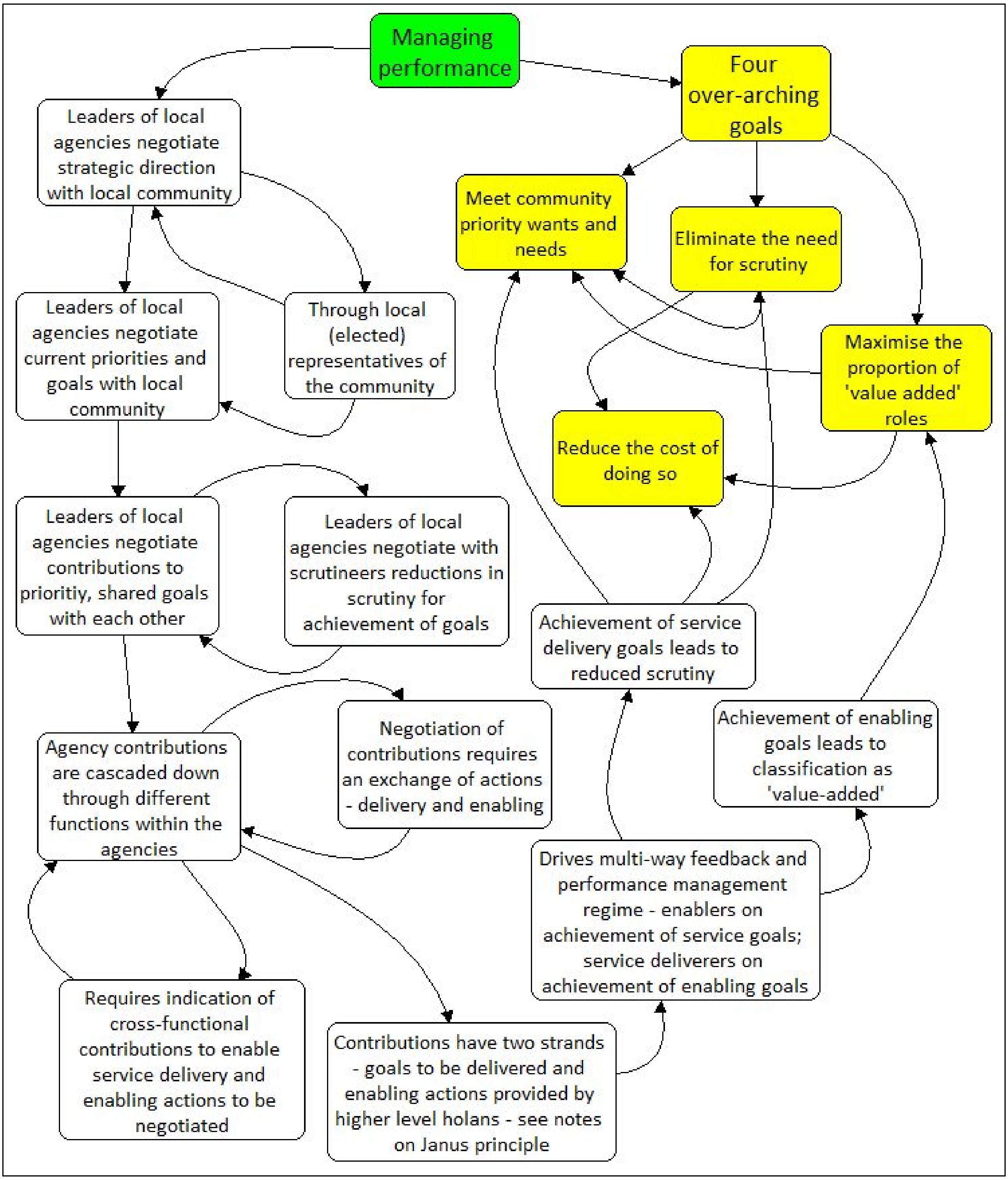
- **Strategic direction.** The whole regime of performance management must be driven by strategic direction, and that must be expressed by a unique set of high level, 'Golden 6' performance indicators.

- **The role of politicians.** There is an underlying assumption in this about who sets the strategic direction, and hence who influences what the desired goals are to be. In public service, it is ultimately the community that must define the services to be delivered and the standards to be achieved in their delivery. Parallel with this is the question of the budgets allocated to various services. It is the community, directly or indirectly, that pays for the services, and it is the community that must, therefore, define what is and what is not acceptable. It is an open question about how this should be done, and no doubt there will be different solutions in different circumstances. As a generality, it is assumed that communities will speak through their elected representatives, at local, regional and national levels.

## 5 A new approach

The diagram below outlines the performance management regime itself. The diagram as presented is 'messy' - this reflects the reality of all complex performance management regimes.

Most of what is contained in the diagram is an expression of the various guiding principles noted above. There are, however, some explanations needed for the short entries in some of the boxes in the diagram. These are in the paragraphs that follow the diagram.



**Local long term goals**

There are four over-arching goals - in yellow in the diagram.  These are:

- The first is the need to delivery local services that lead to outcomes that meet the needs and wants of the local community.
- The second is the need to reduce the cost of achieving the first.  The next two over-arching goals are the means to the end of achieving the first two goals.
- The third is to maximise the proportion of people in 'value-added' roles in the organisation - see notes below.
- The fourth is expressed simply as the need to eliminate scrutiny.

This last 'negative' goal actually has two key positive elements to its achievement.  The first point is simply a reduction in the need to assign resources to handle the work-load imposed by the scrutiny regime.  Resources freed up in this way can be re-assigned to service delivery, at no additional cost to the agency involved - they become 'value-added' resources - see notes below.  The second point is that being less circumscribed by the need to respond to a scrutiny regime means greater management freedom to focus on tackling local issues more effectively.  In passing, it might be noted that there is at least the possibility that scrutiny can operate against the interests of inter-agency collaboration.  As noted above, any sort of high downward pressure on any aspect of immediate or short-term performance (or compliance) can help to create silo thinking.

Shared goals, negotiated by multiple local organisations with local communities, and the successes that are being achieved by the local agencies collaborating to achieve them are not subject to normal scrutiny.  The (central) agencies that do this work almost always focus on compliance issues within one, individual agency.

**The future of Inspection**

The comments on eliminating scrutiny might be interpreted as suggesting the elimination of all inspection functions.  It is only the scrutiny element of the work of these agencies that should be eliminated – in other words, that component that is concerned with compliance and not performance.  There is a continuing role for the Inspection function, providing only that it is adding value to performance - as an enabling function.  If the function involves spreading learning; supporting experiential learning; researching new approaches and developing new problem-solving and service delivery techniques, then that is to be applauded and supported.  'Inspection' would be making its own contribution to goal-achievement.

A simple test might be the degree to which service delivery agencies invite inspections of their structures and processes in the expectation of learning and development.  Another way of expressing this test is concerned with the degree to which the inspection function is actually adding value to service delivery and being seen to do so.  Perhaps it would be sensible to include inspection functions within the general performance management regime.  Otherwise there will be no one inspecting the inspectors, and ensuring that they are also adding value.  The best people to inspect the inspectors are the service delivery functions that are the subject of their inspection, since no other function can confirm or deny that value is being added.

**The key issue of resources**

There is little evidence to suggest that simply increasing the resources assigned to a particular activity or goal will, of itself, automatically produce an improvement in results. There is some evidence that, in some circumstances at least, additional resources assigned to an activity can actually degrade performance. In any case, there are few organisations that have the luxury of being able to throw generous resources at performance challenges. In fact, for many the opposite is true – costs are being reduced and, with them, the overall level of resources available. The management of resources is critical at any time – when they are limited it is even more crucial that resource assignment is well-managed. There are three key dimensions to this.

- The first is achieving a good balance between resources assigned to service delivery and those that are not. This is explored in the next section.

- The second is how to get the most from whatever resources are assigned to service delivery. 'Resource optimisation' is a good way to go.

- The third dimension is about the nature of the value that is being added. No large organisation can assign 100% of its resources to service delivery. Inevitably there are administration and finance functions, for example, that are required for good management but that are not part of service delivery.

The requirement is a simple one – value must be added, directly or indirectly to service delivery. As noted above, (and explored below), only operational people deliver performance. All non-service delivery people need to add value to the delivery of services. As a generalisation, ensuring compliance is not enough. The aim must be to develop an organisation where compliance is a given, and not something that needs policing against detailed prescriptive rules. That would be just a form of internal scrutiny that needs to go the same way as external scrutiny.

The same need for value to be added applies to organisations.

**Organisations that add value**

(For the purpose of these notes, the 'core agencies' for delivery of local services are regarded as Local Authorities [including education]; Police; Crown Prosecution Service; Social Services; NHS Trusts, Probation Service; and the Prison Service).

Part of the challenge facing leaders in local Government agencies is the proliferation of other organisations that operate in many functional and geographical areas[5]. These agencies will be labelled here as 'non-core' agencies. They can consume resources – their own and those of the agencies from whom they demand attention. They can also confuse and diffuse accountability for outcomes. This is not to suggest that they are, by definition, inappropriate and need to be discarded. It is to suggest that there are risks associated with their existence, and that these risks need to be managed out in the design of a new performance management regime.

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5 A recent check revealed that there were 563 Government agencies in the UK. Not all of these operate locally, but many do. And then there are the 529, or is it 790, or maybe 834 according to the Cabinet Office, or 1.163 according to the Guardian / Taxpayers Alliance non-Government agencies (quangos) , costing anything up to £101bn, the figure depending on who you believe. Then there are various other local organisations, including universities, institutes, task forces, associations and charities - more than 5,300 according to the Public Administration Select Committee. There were 168,000 charities on-line in the UK. In passing, there are several different types of local council with differing accountabilities. The list includes Borough Councils; City Councils; County Councils; District Councils; English Unitary Councils; London Borough Councils; Metropolitan Councils; Northern Ireland Local Government; Scottish Unitary Councils; Welsh Unitary Councils; Town Councils.

 

There are two things that are critical, if non-core agencies are to add value to the achievement of local goals.  The first is to clarify which individual, core agency is accountable for the achievement of which goals.  The second is to agree the contribution that all other agencies, including non-core agencies, are required to make to the achievement of those goals.  These contributions would need to be negotiated in exactly the same way as shared goals and contributions are negotiated between core local agencies.

Once those contributions are agreed, then their achievement should be subject to the same performance management regime as is applied to the lead (core), accountable agency.

In times of financial stringency, there is no room for any programmes that do not add value to the achievement of key goals[6].  If there is no agreed contribution that non-core agencies can make to the achievement of local priority goals, then there is little justification for their continuing existence.  At the very least, there is no justification for any demand they might try to make on the resources of other local agencies that are either accountable for goal achievement, or accountable for making measurable contributions to the achievement of those goals.

**Resources that add value**

In any private sector organisation, the concept of 'earners and spenders' is easy to explain. 'Earners' are those people whose activities generate revenues for the company.  It does not matter whether those activities involve customer contact or not.  People working on a production line that converts raw material into finished products that can then be sold to the customer are classified as 'earners'.  People working on the production of statutory accounts are classified as 'spenders' – their activity does not generate revenues to the company.

This is not intended to suggest that 'spenders' are not important people.  They are, and their activities might well be essential to the survival of the business.  Having said that, a position in which 'spenders' start to outnumber 'earners' can be threatening to businesses, particularly if their costs are high.  In simple terms, if the total cost of all 'spenders' taken together is greater than the margin between the company's revenue and the total cost of all 'earners', then the business is in deep trouble.

Management has a responsibility for ensuring that the total cost of 'spenders' does not get out of control, and that there is a sensible balance between 'earners' and 'spenders'.  One of the challenges that many organisations face, in tackling this issue of balance, is that the power to make decisions about resource acquisition, allocation and disposal sits mainly with 'spenders'.  The same condition is likely to exist in the public sector.

In the public sector, the use of the labels 'earners' and 'spenders' is a little tricky, since for many Government agencies there are no revenues as such.  For the purpose of this paper, a new pair of terms will be used.  These are 'value added' and 'non-value added'.  'Value added' are those resources that add value to service delivery.  'Non-value added' resources are those that do not.

So 'value added' resources are people who deliver the organisation's services.  Everyone else is 'non-value added'.  To illustrate, in a hospital all doctors, nurses, other ward staff who look after patients, and all technicians and other staff who look after patients in operating theatres are 'value

6 "... to ensure that lower priority programmes are reduced or eliminated and that the Government's diminished resources are directed to the highest priority requirements".  Canadian Budget of February 1994 ~ related to the Programme Review that was part of the process of regaining Canada's fiscal sovereignty ~ quoted in the September 2009 report by the Institute for Government 'Program Review'

added'. (There are many others who are not listed here, for example in A & E and various clinics). Managers, HR people, risk-assessment managers and accountants are all 'non-value added'.

The stated goal, therefore, is to have a balance between the two types of roles, with an increasing proportion being classed as 'value added'. In performance management terms, for a 'non-value added' person to become classed as 'value added', the role must add value to the delivery of services and the achievement of desired outcomes. These are the enabling actions that have been described above.

This fits exactly with the performance management concept outlined above. In this, both parties agree goals and review results, in a two-way dialogue, where the two have different collective contributions to shared goals and shared accountability for results.

It is recognised that a reduction in scrutiny is one local goal that cannot be achieved quickly. Hence the expression 'over time'. Much the same is true for changes to the balance of 'value added' and 'non-value added' roles.

If, however, Government in its broadest sense is to deliver more to the taxpayer with a reduction in the cost of doing so, then the two, complementary goals can operate as constants in a changing world. Strategic direction can, therefore, remain constant, while allowing a very great variety in the tactical moves designed to move local services in the desired direction.

**First steps**

Managing performance is a 'wicked problem'[7], as with so many other aspects of the management of public services. As such, there is no simple prescription that could be offered, that would have any hope of real, generally applicable validity. Developing and operating a value-added system of performance management is going to be an emergent process. All that is offered here is a few, first steps that will kick start the development process.

- Review the roles (purpose), goals and contributions of all departments within the organisation, and ensure that they are well known and accepted. Check also that there is a good fit with the priority goals of the organisation and its contribution to the local community.

- Do an audit of value-added, potentially enabling and non-value-added roles, department by department. It is suggested that, initially, the only roles that are classified as value-added are those directly involved in the provision of services to the local community. These are 'operational people'.

- Check the percentages out of the total head count. If value-added roles are outnumbered by the other two varieties, get ready for some major development work.

- For each 'potentially enabling' role, check with the people in service delivery, (value-added) roles whether or not their work is being enabled by people in potentially enabling roles. Where there is an agreed, positive description of that enabling action, including the results being achieved, re-classify the roles as enabling, and agree new contributions and deliverables to enhance the enabling support they are providing. Agree a programme of developmental action by the people in enabling roles, complete with deliverables and time frames, and monitoring and feedback points. Agree the contribution of service delivery people in the monitoring and feedback process.

7 See the companion paper to this one entitled Cross-cutting problems - a new take

 

- Where there is no such agreement from service delivery people on current enabling support, identify the contributions, actions and results needed that would be regarded as enabling by the service delivery people involved. Agree a programme of developmental action by the people in potentially enabling roles, complete with deliverables and time frames, and monitoring and feedback points. Agree the contribution of service delivery people in the monitoring and feedback process.

- Agree the new contributions, deliverables and standards that people in service delivery roles should be able to achieve with enhanced enabling support. Agree time frames and monitoring points. Agree the contribution of enabling people in the monitoring and feedback process.

- Note that this is kick-starting a new performance management regime, and ensure that everyone involved understands that this will become a new norm for managing performance.

- Where there is no potentially enabling contributions that can be envisaged for people on potentially enabling roles, consider what structural or process redesign options are available that could be applied to remedy this position.

- For people in non-added-value roles, where there is no possibility of moving them to enabling roles, consider what structural options are available that could be applied to reduce the total cost of their employment.

- In the case of both of the last two groups, consider what programmes could be terminated. It may be possible to identify those activities that are statutory requirements or those that are required for some other mandatory reason. This does not include those systems and activities that have become institutionalised, where there was probably a good reason for starting them, but where there is no longer any reason for continuing them.

- This would include, for example, all analysis and reporting against KPIs that do not relate to core aspects of the organisation's business and services. It would also include all activities that are concerned with compliance or conformance, where better ways of achieving the required standards are available - for example, treating them as 'givens' and providing broad guidelines instead of detailed prescriptions.

- Also excluded are activities and processes for which there is no ultimate customer, and certainly where there is no ultimate customer who is in a value-added role, or a key enabling role.

- To check the current realities in this respect, do a paper-chase. To do this, take any process and begin at source - the first step in the process. Find out what action is taken, and who the immediate customers are for the output of that step. Go to those customers and repeat the collection of data. Keep repeating data collection until the last step in the process is found. If there is no value-added action being take, scrap the process and reassign the resources currently being consumed.

- Prepare for the inevitable identification of a possible reduction in head count in non-value-added roles. This may be addressed by reassignment, restructuring or a cessation of recruitment combined with the first two actions. Early retirement is another option. Sadly it may also mean that there will be some redundancies in employment, hopefully that can mainly be handled on a voluntary basis.

 

- At the end of the first round of actions, do another audit of roles that are value-added, enabling and non-value-added.  Check that the percentages are improved.  Check also that service delivery performance has also improved.  Agree new targets for both aspects of performance - inputs, outputs and outcomes.

 