Good Practice Guide on Public Sector Governance

APEC Economic Committee

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Contents

1. Executive Summary

The Good Practice Guide on Public Sector Governance was prepared by the Economic Committee and will assist member economies to design and improve their own public sector governance frameworks. The guidance provided applies to all public sector entities, including domestic governments, regional governments (e.g., state, provincial, territorial), local governments (e.g., city, town), related government entities (e.g., agencies, boards, commissions) and state-owned enterprises. It is not intended to point ultimately to one particular framework as being ideal, rather it suggests the sort of frameworks that make sense given varying circumstances within and across economies – that is, the use of control versus performance management systems, and the use of more or less e-government.

The pursuit of good public sector governance is essential in all economies. By using resources more efficiently and effectively, fiscal room is freed up to lower taxes, or increase program spending, or lower public debt, which can put downward pressure on interest rates. Such benefits not only improve the living standards of citizens, they help to make an economy more competitive. Global investors consider factors such as relative tax burdens, quality of infrastructure, low corruption, quality of government services, and relative public debt burdens in respect of their foreign direct investment decisions. Thus good public sector governance is good economic and social policy.

The Guide's five main chapters provide an overview of key aspects of good public sector governance.

Overview of public sector governance

This chapter provides a definition of public sector governance, its objective and main requirements of public sector entities. It concludes with six guiding principles for good public sector governance, which are the most-frequently-mentioned in the international literature: rule of law; transparency/openness; accountability; public sector ethics and probity; stewardship; and leadership.

Good public sector governance framework, process and practices

This chapter outlines how the six principles of good public sector governance can be put into practice, specifying the key organizational and process elements that organizations should have in place. These elements, which were specified by the Australian National Audit Office in 2003, include:

- organizational culture committed to good public sector governance,
- stakeholder relationships (internal and external),
- external compliance and accountability,
- internal compliance and accountability,

- planning and performance monitoring,
- risk management,
- information and decision support, and
- review and evaluation of governance arrangements.

Some of these processes and practices had been previously treated as principles by APEC.

Performance management

This chapter delves into the practice of planning and performance monitoring more thoroughly. It describes the evolution in public administration from control systems to performance management systems, how the two systems are distinct, how a focus on efficiency and effectiveness requires performance measurement, and how the results should be used to continually improve performance in public administration. The chapter concludes with a glimpse into how performance management is being adopted in APEC economies.

The chapter incorporates new research findings of the NS6 (New Synthesis of Public Administration), a multi-national project team led by the Honourable Jocelyne Bourgon of Canada, including, inter alia, APEC economies Australia, Canada and Singapore. NS6's research is generally favourable towards the evolution to performance management systems, whereby an organization measures its results, uses these results to improve its decision making, with the goal of enhancing the net public value of those results and promoting innovation. However, a traditional control system is considered appropriate for organizations experiencing problems of poor financial management and/or corruption. Recognizing that good governance requires both conformance and performance, NS6's research, at the same time, cautions against entangling a performance management system with a control system, since it leads to a control system that is too over-reaching, or a performance system that is too binding. Such hybrid systems have a tendency of not achieving their intended goals.

Challenges with performance measurement

This chapter considers some of the challenges specific to performance measurement, which can potentially hinder the effectiveness of a performance management system. Essentially, performance measures must be used selectively since not everything can be measured and there are limitations of costs, capacity and time. They are but one source of information on past performance and are not necessarily indicative of future performance. Measuring of outcomes – which has a strong appeal for both the public and politicians – continues to be the biggest struggle; hence it needs to be augmented by the measuring of outputs. Another important challenge is setting performance targets such that they are not too low or too high, and there are not too few or too many.

E-government

The final chapter examines how governments can use information and communication technology (ICT) to improve public sector administration; including assessing the viability of e-government projects and approaches to maximize success. The chapter concludes with an overview of the e-government readiness of APEC economies.

The chapter incorporates new OECD research that underscores a chronic problem of governments – both in advanced and developing economies – over-estimating the benefits of e-government projects, owing to an over-estimation of user take-up. For developing economies, the problem tends to lie in low Internet penetration, whereas for advanced economies it lies in an absence of a user-centered approach. Consequently, e-government projects need to undergo a rigorous a priori assessment of the estimated costs and benefits like they would normal projects. Such assessments can identify where benefits may be enhanced or costs/risks reduced in order to potentially make the project viable. For developing economies, the rate of growth in Internet penetration is often particularly important in terms of a project's potential viability.

2. Overview of public sector governance

The public sector plays a major role in virtually all economies. Hence, a properly governed public sector can contribute immensely towards both improving the lives of its citizens and using resources more efficiently. Therefore governments' pursuit of effective public sector governance is of critical importance.

There has been considerable research into improving public administration in the post-war period, however the term 'public sector governance' is a rather recent one, having been notably employed by the Australian National Audit Office (ANAO) in its authoritative Public Sector Governance, Volumes 1&2, Better Practice Guide of 2003.

Definition

Of the various definitions of public sector governance, the most comprehensive one is that by the Institute of Internal Auditors (U.S.):

"Public sector governance encompasses the policies and procedures used to direct an organization's activities to provide reasonable assurance that objectives are met and that operations are carried out in an ethical and accountable manner. In the public sector, governance relates to the means by which goals are established and accomplished. It also includes activities that ensure a government's credibility, establish equitable provision of services, and assure appropriate behaviour of government officials — reducing the risk of public corruption."[1]

Objective

According to the ANAO, "public sector governance aims to ensure that an organization achieves its overall outcomes in such a way as to enhance confidence in the organization, its decisions and its actions."[2]

Good governance generally focuses on two main requirements of the public sector entities:

- Performance – the effective and efficient delivery of goods, services or programs.
- Conformance – adherence to the law, regulations, published standards, and community expectations of probity, accountability and openness.[3]

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[1] Institute of Internal Auditors, "The Role of Auditing in Public Sector Governance", (Florida USA: 2006), p. 3.
[2] Australian National Audit Office, Public Sector Governance, Volume 1: Better Practice Guide, (Canberra: 2003), p. 6.
[3] Ibid. Note: the term "compliance" can interchangeably be used with "conformance'".

Of these two requirements, performance is highly *desirable* for good governance, while conformance is *mandatory*.

Six principles of good public sector governance

Although public sector governance frameworks, processes and practices may vary among organizations (as discussed later), certain common principles of good public sector governance apply to them, irrespective if the controlling body is elected or appointed. The following six principles have gained the widest acceptance by international organizations and governments as being essential to good public sector governance: rule of law; transparency; accountability; public sector ethics and probity; stewardship and leadership.[4]

(i)   Rule of law

A cornerstone principle of good governance is the rule of law. Under the rule of law, individuals and government submit to, obey and are regulated by law, and not arbitrary action by an individual or a group of individuals.[5] Thus the rule of law means that the law is above everyone and is applied fairly to everyone, whether governor or governed.

The 'rule of law' can be contrasted with the 'rule of man'. A government where its officials have little discretion has a high level of rule of law, whereas a government where its officials have a great deal of discretion has a high degree of rule of man.[6] The rule of law is therefore somewhat in conflict with flexibility, even though flexibility may be preferable.[7]

The rule of law entails fair legal frameworks, enforced impartially by an independent judiciary and an incorruptible police force.[8] It provides the checks and balances to minimize the opportunities for the abuse of power by government officials in order to promote their own interests and those of their friends at the expense of the public interest through arbitrary acts and

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[4] The six principles are fewer than the nine which appeared in the APEC Economic Committee's 2007 APEC Economic Policy Report. The latter principles were based on key findings of a seminar that was held alongside the ECII 2006 meeting in Da Nang, Viet Nam. Those principles that remain the same are: rule of law, transparency, accountability, and public sector ethics and probity. Those principles added include: stewardship and leadership. Those principles now treated instead as organizational and process elements of a good public sector framework include: managing for performance of public sector agencies, responsiveness to stakeholders, political and bureaucratic structures, good policy and institutions, and risk management.
[5] See: http://duhaime.org/LegalDictionary/R/RuleofLaw.aspx.
[6] Matthew Stephenson, "Rule of Law as a Goal of Development Policy", (Washington: World Bank Research, 2008).
[7] Ibid.
[8] United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), "What is Good Governance", at http://www.unescap.org/huset/gg/governance.htm (Thailand).

corruption.[9]

A note of caution in embracing the rule of law: its effectiveness is only as good as the justness of the individual laws themselves.

The World Bank's Worldwide Governance Indicators project has developed aggregate measurements for the rule of law in more than 200 countries.[10] The indicators show a strong correlation between an economy's degree of rule of law and its domestic wealth as measured by per capita income.

(ii)   Transparency/Openness

The principle of transparency or 'openness' in government responds to the citizens' right to have access to information about what the government is doing and how decisions have been reached.[11] In this regard, government officials should be as open as possible about their decisions, actions and transactions, providing reasons for them. Appropriate disclosure of key information requires that readily-understood public documents either be disseminated or made available on request. Information should be restricted only in certain instances such as those relating to domestic security, criminal investigations, or the proprietary information of a private company (which it would be entitled to have guarded).

Published information about the government's performance and operations – such as regular financial reports validated for accuracy by an independent auditor – allows the public to make its own assessment and evaluation of the government.

The principle of transparency is related to that of the rule of law since it allows citizens to judge if government decisions, actions and transactions follow rules and regulations.

Openness at all levels within government to effective public scrutiny and oversight helps to ensure a well-functioning public sector and engender public confidence in the government.

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[9] Elia Armstrong, "Combating Corruption for Development: The Rule of Law, Transparency and Accountability" (Background Paper for the United Nations Public Administration Programme's 4th Global Forum on Reinventing Government held in Marrakech, Morocco), at http://unpan1.un.org/intradoc/groups/public/documents/un/unpan005786.pdf. (New York: 2002), p. 7

[10] Daniel Kaufman et al., "Government matters VI: Governance indicators for 1996-2006" (World Bank Policy Research Paper No. 4280), (Washington: 2007). (See: http://info.worldbank.org/governance/wgi/index.asp for the most recent statistical update.) The rule of law is measured as the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, the police, the courts, as well as the likelihood of crime and violence.

[11] Armstrong, p. 8.

(iii)   Accountability

The principle of accountability is perhaps best defined by the International Federation of Accountants (IFAC) as follows:

"Accountability (in the public sector) is the process whereby public sector entities, and the individuals within them, take responsibility for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure. In effect, accountability is the obligation to answer for responsibility conferred."[12]

The principle of accountability is related to that of the rule of law since it implies imposing penalties or sanctions against those who have misapplied the resources for purposes other than intended.[13] Accountability cannot be enforced without transparency and the rule of law.[14]

Government accountability is facilitated by approaches, mechanisms, and practices to ensure that its activities and outputs meet the intended goals and standards.[15]

(iv)   Public sector ethics and probity

The principle of public sector ethics and probity calls for public officials to adhere to a set of moral principles, standards or values that govern their conduct, and to act with complete honesty and integrity. Whereas the rule of law provides an external control system (i.e., general legal framework) to govern the behavior of public officials, ethical principles provide an internal control system to address public perceptions of appropriate conduct. In this regard, the decisions and actions made by public officials should be undertaken in such a way that they will be perceived as correct by the general public. The general litmus test for a public sector official in considering a decision or action is: will it hold up to public scrutiny should it appear on the front of the next day's newspaper?[16] Hence, the public trust in a government can be equally undermined by a *perception* that it or its officials are unethical, dishonest and lacking integrity as it is by the reality of a breach of conduct. Lack of public confidence in a government can, in turn, negatively affect its ability to govern.

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[12] IFAC Public Sector Committee, Governance in the Public Sector: A Governing Body Perspective (Study 13), (New York: 2001), Fig .3.1.
[13] Institute of Internal Auditors, p. 7.
[14] UNESCAP.
[15] Armstrong, p. 9.
[16] W. J. Michael Cody & Richardson R. Lynn, Honest government: An Ethics Guide for Public Service, (Westport, CT, USA: 1992), p. 3.

Public sector ethics have among their core values other principles of good public sector governance such as those listed in this document as well as others such as objectivity/impartiality, professionalism, reliability, and courtesy.

Public sector probity concerns core standards of behaviour of selflessness, honesty and integrity. Public officials should be selfless, acting solely in terms of the public interest, and not gaining financial or other benefits for themselves, their family or their friends. They should be honest, declaring any private interests relating to their public duties and to take steps to resolve any conflicts of interest. They should act with integrity, not placing themselves under any financial or other obligation to outside individuals or organizations that might seek to influence them in the performance of their official duties.

Applying the principle of public sector ethics and probity to non-elected public officials is especially important considering that they cannot be voted out in response to poor performance. Its application requires clearly articulated ethics, objectives, and strategies; proper tone at the top; and internal control.[17] Furthermore, policies and procedures should be aligned to encourage behavior consistent with the organization's values and ethics. Clear lines of accountability should be established to hold oublic servants responsible for doing the right thing.

(v)   Stewardship

The principle of stewardship in the public sector refers to government officials carefully managing the power and resources entrusted to them in a manner that is consistent with the public interest. In this regard, public officials must act as "stewards" instead of "masters" and treat the resources to which they have been entrusted as those of the public and not their own. They must also act prudently so as not to misuse government power and waste government resources. Evidence-based strategies should be used to ensure the best use of resources. Careful attention should be given to ensure fiscal sustainability. Observing the principle of stewardship is essential in maintaining public trust.

(vi)   Leadership

The principle of leadership in the public sector refers to setting the "tone at the top", whereby leaders within the public service promote and support the principles of good public sector governance by leadership and example. Such leadership is critical to achieving an organization-wide commitment to good governance.

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[17] Institute of Internal Auditors, p. 6.

References and further information

1) Armstrong, Elia. "Combating Corruption for Development: The Rule of Law, Transparency and Accountability" (Background Paper for the United Nations Public Administration Programme's 4th Global Forum on Reinventing Government held in Marrakech, Morocco), at http://unpan1.un.org/intradoc/groups/public/documents/un/unpan005786.pdf. USA: October 2002.

2) Asia-Pacific Economic Cooperation (APEC) Economic Committee. 2007 APEC Economic Policy Report. Singapore: 2007, Chapter 1. The Economic Committee (EC) established 9 General Principles of Good Public Sector Governance based on key findings of a seminar that was held alongside the ECII 2006 meeting in Da Nang, Viet Nam. The principles include: rule of law, transparency, accountability, managing for performance of public sector agencies, public sector ethics and probity, responsiveness to stakeholders, political and bureaucratic structures, good policy and institutions, and risk management.

3) Australian National Audit Office. Public Sector Governance, Volume 1: Better Practice Guide. Canberra: July 2003, p. 8. The ANAO established 6 principles of good public sector governance, including accountability, transparency/openness, integrity, stewardship, leadership and efficiency.

4) Committee on Standards in Public Life (Nolan Committee). "Seven Principles of Public Life", at http://www.public-standards.gov.uk/About/The_7_Principles.html. London, UK: May 1995. The Committee determined that seven principles should apply to all in the public service, including selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

5) Institute of Internal Auditors. "The Role of Auditing in Public Sector Governance", Florida USA: November 2006, p. 6-9. The Institute outlined 5 principles of governance, including setting direction, instilling ethics and integrity, overseeing results, accountability reporting, and correcting course. Furthermore, it lists 4 critical public sector governance principles, including accountability, transparency, probity and equity.

6) International Federation of Accountants (IFAC) Public Sector Committee. Governance in the Public Sector: A Governing Body Perspective (Study 13). New York: August 2001, Figure 3.1. The Federation established 3 principles of governance in the public sector context, including openness, integrity and accountability.

7) Kaufman, Daniel et al. "Government matters VI: Governance indicators for 1996-2006", Washington: World Bank Policy Research Paper No. 4280, July 2007. (See: http://info.worldbank.org/governance/wgi/index.asp for the most recent statistical update.) The paper and the statistical update measure six dimensions of governance, including voice and accountability (i.e., ability of citizens to participate in selecting their government), political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.

8) Office of the Auditor General of British Columbia. "Public Sector Governance – A Guide to the Principles of Good Practice" at http://www.bcauditor.com/online/pubs/406/407. British Columbia: May 2009. The guide reiterates the principles established by the ANAO (in #4 above) but more succinctly.

9) Stephenson, Matthew. "Rule of Law as a Goal of Development Policy" at http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTLAWJUSTINST/0,,contentMDK:20763583~menuPK:1989584~pagePK:210058~piPK:210062~theSitePK:1974062,00.html. Washington: World Bank Research, 2008.

10) United Nations Economic and Social Commission for Asia and the Pacific. "What is Good Governance", http://www.unescap.org/huset/gg/governance.htm. (Thailand). UNESCAP outlined 8 characteristics of good governance, including participation, rule of law, transparency, responsiveness, consensus oriented, equity and inclusiveness, effectiveness and efficiency, and accountability.

3. Good public sector governance processes and practices

This chapter outlines how the six principles of good public sector governance can be put into practice, specifying the key organizational and process elements that organizations should have in place.

1) Organizational culture committed to good public sector governance

At the core of good public sector governance is an organizational culture committed to it. This begins with its leaders embracing the aforementioned principles of good public sector governance as core values to guide their judgment and behaviour. This approach will set an example for the employees within the organization to do the same.

A useful instrument to help put these principles and values into effect is a written formal ethics code and code of conduct for public servants. An ethics code sets out the general principles and values that define the professional role of the public service. A code of conduct typically deals with conflict of interest situations such as the use of official information and public resources, receiving gifts or benefits, working outside the public service and post public employment. The following is a selection of general ethics codes and codes of conduct for public servants found within APEC economies.

Australia: Australian Public Service Values and Code of Conduct
http://www.apsc.gov.au/values/conductguidelines.htm

Canada: Values and Ethics Code for the Public Service:
http://www.tbs-sct.gc.ca/pubs_pol/hrpubs/tb_851/vec-cve-eng.asp

New Zealand: Public Service Code of Conduct
http://www.ssc.govt.nz/upload/downloadable_files/codeofconduct2001.pdf

United States: Standards of Ethical Conduct for Employees in the Executive Branch
http://www.usoge.gov/laws_regs/regulations/5cfr2635.aspx

In addition to general standards set for all public servants, supplementary codes may be established to guide individual departments and agencies, or specific professions.

Similarly, leaders can communicate to staff the objectives of the organization, as well as expected results, in order to assist performance.

Feedback mechanisms are important in reinforcing ethical behaviour. Internal to the organization, performance appraisals provide an opportunity to inform each employee the extent to which he or she has carried out organizational objectives consistent with its values and ethics. Likewise, staff surveys can provide an opportunity for upward feedback. External to the organization, reviews undertaken by a government central agency or an independent auditor can provide useful feedback for the organization as a whole.

It is essential that leaders and their employees be informed by individual feedback and make any necessary adjustments in order to conform to the values and ethics of the organization and improve performance. Likewise, the organization as a whole must be informed by collective feedback in order to adjust governance structures and processes as required.

2) Stakeholder relationships (internal and external)

Most public sector organizations have a range of stakeholders with an interest in their operations. On one hand, there are internal stakeholders that are responsible for delivering the goods or services; on the other hand, there are external stakeholders that are impacted by them.

Internal stakeholders may include:

- the cabinet of Ministers, who are politically accountable for their collective decisions,
- the Minister (or equivalent), who is politically accountable for the operation of his department,
- the board of directors, who are accountable for their collective decisions, in respect of their agency or state-owned enterprise, and
- the providers of the goods and services and their partners (i.e., management and staff of the organization, contractors, other government entities, and volunteers).

External stakeholders may include:

- politicians not in the government,
- users of the goods or services (e.g., individuals and businesses),
- interest groups,
- external analysts,
- the media, and
- the wider community.

Good public sector governance entails effective communication with stakeholders. Stakeholders can provide invaluable information in respect of policy and program development and feedback on the quality and effectiveness of the public sector organization's goods or services. They also have the right to

know the organization's intentions, timeframe for delivery, and outcome. For its part, the organization must reach out to stakeholders during periods of policy and program development, and have the appropriate structures and processes in place to review quality and effectiveness of its goods, services and programs. It also needs to communicate clearly to stakeholders its mission, role, objectives, strategies, and performance. It should ensure that its communication is balanced, understandable, transparent and timely.

So that it is made aware of stakeholders' views, it is essential that an organization have governance arrangements in place.

For internal stakeholders, committees or boards may be established within the organization, with representation drawn from each area involved with the delivery of the good or service. If outside partners are involved, then governance arrangements such as interdepartmental committees or public-private sector boards may be established.

For external stakeholders, policy and program development may be assisted by either on-going or ad hoc independent advisory committees that can provide an outside-of-government view through independent analysis and consultation with the external stakeholders. To be accountable to stakeholders and the public in general, information on the members of the committees should be made readily available and the reason for their appointment adequately explained. With respect to on-going feedback on the quality and effectiveness of the organization's goods or services, this can be accomplished by establishing procedures to handle enquiries and complaints – either from individuals or organizations representing a collective interest – within a reasonable timeframe.

3) External compliance and accountability

A measure of success for a public sector organization is if it is able to meet the accountabilities of external accountability institutions for their performance and/or compliance with regulatory requirements External accountability institutions may include: a political legislative body, an external auditor (who is responsible to the political legislative body for conducting both financial and performance audits), an ombudsman who has the power to investigate complaints, a privacy commissioner who has the power to investigate privacy-specific complaints, and other legal bodies. Added to this list are central agencies such as the Finance or Treasury department and the Leader's department, which maintain an oversight role.

The governance arrangements that can help to ensure an organization's external compliance and accountability include: annual reporting (including financial statements) to the political legislative body in accordance with standardized guidelines; communicating with stakeholders electronically through a comprehensive and user-friendly website; an audit of the organization's accounts

by the external auditor; and specific inquiries undertaken by external accountability institutions.

The IFAC provides guidance on the preparation of an organization's annual report.[18] The organization's Minister or board of directors should publish the report within a reasonable time of the end of the financial year. The report should include:

- audited financial statements and the auditor's report;
- a statement of aims and objectives of the organization along with performance measures against which future year's performance will be judged and a comparison of the actual performance achieved in the year covered by the financial report;
- (in the case of an agency or state-owned enterprise) a statement about how members of board of directors are appointed and the terms of their appointment; and
- a statement which presents an objective, balanced and understandable commentary on the organization's financial performance and position, its non-financial performance, and on its future ability to meet liabilities and commitments.

4) Internal compliance and accountability

An efficient and well-governed public sector organization will closely align its internal accountability arrangements with external requirements. Thus, its internal audit function will be coordinated with the requirements and plans of the external auditor.

An effective internal audit function is established as part of a framework of control, which ensures that the organization is managed to achieve its objectives and is complying with appropriate legislation, policies and procedures, and is performing efficiently and effectively.[19] The internal audit function should follow acceptable standards in respect of independence from the organization's management, professional proficiency, scope of work and performance of work. The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* is a useful reference in this regard. Also, the Minister or board of directors, management and the audit committee need to give it their respect and co-operation.

The IFAC recommends that the public sector organization establish an audit committee, comprising non-executive members, with the responsibility for independent review of the framework of control and of the external audit process.[20]

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[18] IFAC Public Sector Committee, pp. 51-52.

[19] Ibid., p. 42.

[20] Ibid., pp. 43-44.

An organization with effective internal accountability arrangements will have management and staff who understand clearly their own roles, responsibilities and powers and how they relate to others in the organization.[21] Every public sector organization needs to be headed by an effective Minister or board of directors to lead and control the entity and monitor the executive management.[22] The Minister or Chairperson of the board of directors needs to have his role formally defined in writing to include responsibility for providing effective strategic leadership and to ensure he successfully discharges the overall responsibility for the organization's activities.

Within an organization's executive management are three particularly sensitive positions: the Chief Executive, the financial officer, and the compliance officer. The Chief Executive – the Deputy Minister (or equivalent) in a department and the President in an agency or state-owned enterprise – has line responsibility for all aspects of executive management and is accountable to the Minister or board of directors for implementing policy established at the level of the Minister or board of directors as well as for the organization's performance. While the President in an agency or state-owned enterprise may be part of the board of directors, he should not be the Chairperson. The financial officer – normally a qualified accountant and a member of a recognized accountancy body – is responsible for ensuring that appropriate advice is given to the Minister or board of directors on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control. The compliance officer is responsible to the Minister or board of directors for ensuring that the procedures established at the level of the Minister or board of directors are followed and that all applicable statutes and regulations and other relevant statements of best practice are complied with.

5) Planning and performance monitoring

As mentioned in Chapter 2, good governance is not only about conformance – as outlined in the processes and practices indicated in sections 1 to 4 above – but performance as well. Successful public sector organizations are above all concerned with meeting their policy and operational objectives as best as they can. Hence governance processes and practices should not focus unduly on conformance at the expense of performance.[23]

A public sector organization that fosters better planning and performance monitoring is more effective and relevant. In this regard, the following processes and practices should be adopted by the organization:

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[21] Australian National Audit Office, p. 23.
[22] IFAC Public Sector Committee, pp. 16-17.
[23] Australian National Audit Office, p. 23.

- A clear statement of the organization's purpose that is communicated to all staff.
- A plan that describes the organization's strategic priorities and objectives, consistent with the organization's purpose, which is updated annually.
- The systematic monitoring of financial and non-financial performance against the organization's plan.
- The information generated from performance monitoring be used both for external reporting requirements and internal planning purposes.

Performance management is elaborated on in Chapter 4 and the challenges with performance measurement in Chapter 5.

6) Risk management

Every government organization faces risks, including the probability or threat of damage, injury, liability, loss or other occurrence, which can prevent the achievement of organizational objectives.[24] Therefore a framework of control must include an effective system of risk management.[25]

Effective risk management includes a number of elements:

- understanding the organizational objectives;
- identifying the internal and external risks associated with achieving the objectives on an on-going basis;
- assessing the risks, including the likelihood and potential impact of specific risks;
- developing and implementing programs/procedures to address identified risks so that the organization may react in an appropriate and timely manner; and
- monitoring and evaluating risks and the programs/procedures in place to address risks.[26]

Communication is a key aspect of risk management. The Minister or board of directors needs to: ensure that staff are aware of what risks are acceptable, and, in turn, understand what risks are acceptable to the organization's other stakeholders.

Risk management should be employed to achieve both performance and conformance objectives. Integrating systems of risk management into the control environment provides reasonable assurance that the organization will achieve its objectives with an acceptable degree of risk.[27]

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[24] Treasury Board of Canada Secretariat, Risk Management Policy, at http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=12253&section=text#cha2, (Canada: 2001), preface.

[25] IFAC Public Sector Committee, p. 41. A framework of control includes: risk management and internal audit.

[26] Ibid.

[27] Australian National Audit Office, p. 6.

7) Information and decision support

Information is critical to satisfy both performance and conformance requirements. It therefore behooves public sector organizations to put in place robust record-keeping and file management systems and to leverage new technologies to bolster information management.

The basic requirements for information and decision support include:

- standards for the creation and retention of public records, usually established by legislation;
- procedures within organizations to ensure the standards are met;
- quality data, information and analysis – to the extent possible – in order to inform decisions taken by government boards and committees
- the keeping of records of decisions established by government boards and committees, including the points considered or discussed in reaching those decisions.

Management has the duty to provide the Minister or board of directors with appropriate and timely information to enable the discharging of duties. However, the Minister or board of directors may periodically seek independent views, such as those from external consultants, in order to ensure that it receives unbiased information, analysis and recommendations. A case in point might be a review of internal operations, where management may not be able to provide a sufficiently-objective assessment of its performance.

Information and decision support is enhanced by e-government initiatives, including:

- the use of the internet to gather information and stakeholder opinions; and
- the use of intranet and email within an organization to disseminate information as well as gather views and information.

E-government initiatives have proven valuable by permitting government decision-making to take into account the views from a wider range of stakeholders – both individuals and groups.

E-government is elaborated on in Chapter 6.

8) Review and evaluation of governance arrangements

The review and evaluation of organizational performance and operations is an important part of what a Minister or board of directors and their executive management should do. Periodically, it is also important to evaluate governance arrangements, including roles and performance. This can lead to improvements and necessary adjustments to changed circumstances.

The ANAO provides guidance on the factors that should be considered in reviewing and evaluating governance arrangements:[28]

- Ideally, governance arrangements should be reviewed in detail every year or two, particularly when there is a significant event affecting or potentially affecting those arrangements such as a major legislative change or recommendations from a government committee or an external auditor.
- An internal review led by the Minister or board of directors and/or executive management would normally suffice. Occasionally, where an organization could benefit from outside objectivity and expertise, a formal, externally-facilitated review should be conducted.
- The scope of the review may extend across the full range of the organization's activities or else be confined to a performance assessment of the Minister or board of directors and/or executive management. In either instance, both the fulfilment of both performance and conformance objectives should be evaluated.
- Smaller and/or less complex organizations need not review their governance arrangements as frequently or in as much depth as larger and more complex organizations.
- Organizations with significant policy or operational risk need to review their governance practices more frequently and more thoroughly.
- Results from the reviews of governance arrangement should be acted upon in a reasonable timeframe.

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2) Gilmon, Stuart C. "Ethics codes and codes of conduct as tools for promoting an ethical and professional public service: Comparative Successes and Lessons". Washington: World Bank, Winter 2005.

3) International Federation of Accountants (IFAC) Public Sector Committee. <u>Governance in the Public Sector: A Governing Body Perspective (Study 13).</u> New York: August 2001. The more in-depth chapters are Chapter 5 (standards of behaviour), Chapter 6 (organizational structures and processes), Chapter 7 (control), and Chapter 8 (external reporting). These chapters focus ostensibly on public sector organizations led by a board of directors, however much of the guidance is transferable to government departments led by a Minister. Chapter 9 (application of governance

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[28] Ibid., p. 26.

recommendations to central governments) specifically deals with the unique circumstances of government departments.

4) Office of the Auditor General of British Columbia. "Public Sector Governance – A Guide to the Principles of Good Practice", at http://www.bcauditor.com/online/pubs/406/407. British Columbia: May 2009. The guide follows the framework established by the ANAO (in #1 above).

4. Performance management

From Control to Performance Management Systems

The traditional model of public administration dating back to the 19th century may be described as a control system, whereby central controls are used to ensure performance and accountability.[29] During the 1980s and 1990s, with governments seeking to better manage public funds and assets, a wave of public sector reforms known as New Public Management were introduced. The common denominator was a continued reliance on ex ante controls and the addition of ex post performance measurement as the basis for value-for-money audits and related scientific evaluations.[30] However, New Public Management made public administration ever more bureaucratic with its combination of centralized controls and new performance measurement requirements, yet the performance indicators established were seldom used by elected officials in their public policy decisions,[31] Hence, under New Public Management, there was a focus on performance measurement instead of performance management. In response to these problems, governments began introducing a new model by the early 1990s known as the performance management system, alternatively known as results-based management. This system sought to convert performance measurement into performance management, thereby improving decision making, achieving better results, and enhancing the net public value of those results.[32]

Control systems aim to reduce the risk of mismanagement and misappropriation, ensuring that the rule of law prevails, due process is followed and public servants are accountable for their actions. A key aspect of most control systems is the regularized audit function, which ensures that expenditures are in compliance with constitutional and legal requirements.[33] By contrast, performance management systems aim to achieve continually improving results for the public through better-informed decision-making. A good performance management system will deepen the understanding of why there were successes and failures, help identify and remove impediments to better results, and support innovation. The differences between control systems and performance management systems are summarized in Table 1.

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[29] From keynote address by the Honourable Jocelyne Bourgon at the APEC Economic Committee's *Workshop on Government Performance and Results Management* in Chinese Taipei in March 26-28, 2008.

[30] NS6 (A New Synthesis of Public Administration project team led by the Hon. Jocelyne Bourgon), "Disentangling Performance Management Systems from Control Systems". Canada: March 2010, p. 4.

[31] Bourgon, 2008.

[32] Ibid.

[33] Bourgon, 2010, p. 3.

Table 1:
Distinctions Between Control Systems and
Performance Management Systems[34]

	Control Systems	**Performance Management Systems**
Purpose:	Reduce the risk of mismanagement to ensure full compliance with rules	Improve decision-making to achieve better public results
Means:	Checks and balances, assurance systems, inspections, audits, compliance and enforcement, deterrence (incl. disciplinary measures and legal recourse)	Information and learning systems, monitoring and feedback, performance measurement, evaluation, experimentation and innovation, incentive system
Characteristics:	Objective	Subjective
	Stable	Dynamic
	Rule-based	Decision-maker-based
	Enforceable	Usable
	Evidence-based	Information-based
	Factual	Meaningful

Choosing between control and performance management systems

As mentioned in Chapter 3, good governance requires both conformance and performance, which supports the need for both control systems and performance management systems in a public service organization. However, while the two systems can be mutually reinforcing, they serve different purposes and should have distinct identities.[35]

Control systems ensure that public servants comply with the laws, regulations and management policies that govern their decisions and actions, whereas performance management systems ensure that public servants have the information, knowledge and tools they need to continually improve their decisions in order to achieve better results.[36] Maintaining a control system makes sense for organizations experiencing problems of poor financial management and/or corruption.[37] On the other hand, a performance management system is the antidote for organizations experiencing problems of inflexibility and lack of

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[34] NS6, p. 2.

[35] Ibid., p. 16.

[36] Ibid., p. 2.

[37] Teresa Curristine, "Government Performance: Lessons and Challenges" in <u>OECD Journal on Budgeting</u>, Vol. 1, No. 1, 2005, p. 141.

adaptation. In this case, adding flexibility is important for the bureaucracy to remain adaptable in a modern society with more complex and customized services.

Depending on circumstances, governments may find that a control system is more appropriate for a given public service organization within its authority, whereas a performance management system may be more suitable for another. In this regard, a performance management system can help inform the need for controls.[38]

Simultaneously pursing a control system with a performance management system within the same organization is not recommended however, owing to the conceptual, motivational and technical conflicts that reduce the value of both systems.[39] Such entanglement can lead to a hybrid system that might be described as a control system that is too over-reaching, or a performance system that is too binding. As an example, public sector organizations and their relevant officers might be expected to be in compliance with their performance targets as opposed to be expected to learn from their performance and adjust accordingly.[40] By turning performance targets into an instrument of control, the organization is motivated to make performance targets much less ambitious in order to reduce the political risk.

Indeed, there is mounting evidence that the increased use of performance management for control and compliance purposes in public sector organizations, already burdened by many controls and rules, is promoting risk aversion, thwarting innovation, and inhibiting organizations from learning and improving from their results.[41] For such organizations to improve their performance, they need to consider disentangling their control and performance management systems by reducing their ex ante controls, and facilitating learning, risk taking and innovation.

A new focus on efficiency and effectiveness

Apart from reasons of disentanglement, governments have come under considerable pressure to improve operations and deliver their goods, services and programs more efficiently, minimizing the cost to taxpayers.[42] Like private sector organizations, governments too are seeking improvements in productivity and effectiveness, striving to achieve better results and provide better value for money.[43]

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[38] Bourgon, 2008.
[39] NS6, p. 16.
[40] Ibid., p. 9.
[41] Ibid., p. 1.
[42] IFAC Public Sector Committee, p. 53.
[43] Curristine, p. 127.

A performance management system can help deliver on this goal because making more efficient and effective resource allocations requires information on: appropriations/costs (inputs), deliverables (outputs), and achievements (outcomes). By contrast, control systems provide good information only on inputs.

Economies can use a variety of mechanisms to assess the efficiency and effectiveness of programs and agencies, including performance measures, benchmarking and evaluations.[44] Performance measurement is essential to performance management and is described more thoroughly below. Benchmarking is the process of comparing performance measures of an entity with other entities anywhere in the world. Evaluations consist of such activities as program reviews, cost effectiveness evaluations, ad hoc sectoral reviews or spending reviews.

Performance measurement

Performance management systems utilize performance measurement as a formalized tool to track progress towards established goals, which include:

- responding to accountability requirements;
- improving service delivery; and
- reducing costs while maximizing output and increasing productivity.[45]

Typically, performance indicators – reflecting both quantity and quality – are chosen, targets within a time constraint are set, and a comparison is performed between the actual value and the target once the time constraint has been reached and the data determined. The comparison allows for an assessment to be made as to whether targets were met, exceeded, or not met. Further comparisons can be made with previous years and similar entities (i.e., benchmarking).[46]

Typically, performance measures at the lower end of the organization are specific and technical, in contrast with the higher end where they focus on strategic issues, measuring the most important outcomes.[47]

For both private and public sector entities, inputs can usually be measured in monetary terms. It is often the case for outputs as well. However, a large difference exists with respect to outcomes: the objective of a private sector entity is typically to maximize profits, whereas a public sector entity often has multiple, non-financial objectives, requiring non-monetary performance measures.[48]

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[44] Ibid., p. 130.
[45] IFAC Public Sector Committee, p. 53.
[46] Ibid., p. 54.
[47] Ibid.
[48] Ibid., pp. 53-54.

To assess efficiency (productivity), it is important that the organization measure outputs on the same basis as inputs.[49] If comparisons over time are made then a consistent basis of measurement should be used.[50]

Effective performance measures take time to design, implement and refine to ensure they are relevant, understandable, reliable, complete, objective, timely and comparable.[51] A performance management system systematically evaluates its performance measures before setting new targets, making any necessary adjustments. The credibility of the performance measures is enhanced if they are: pre-determined so that they were not chosen deliberately to put the entity's performance in a favorable light; and subject to external verification such as by a performance audit undertaken by the external auditor.

The IFAC identifies four types of performance measures:

- economy – the acquisition of the appropriate quality and quantity of financial, human and physical resources at the appropriate time and place, and at the lowest possible cost;
- efficiency – the use of resources so that output is maximized for any given set of resource inputs, or input is minimized for any given quantity and quality of output provided;
- effectiveness – the extent of the achievement of pre-determined outcomes, objectives or other intended effects of programs, operations, activities or processes; and
- appropriateness – whether the objectives or outcomes of programs, operations, activities or processes address the real needs of clients.[52]

Converting performance measurement into performance management

The key to a performance management system is to convert performance measurement into performance management. Performance measurement is not an end in itself, rather a means to support better decision-making based on previous performance that will improve performance and/or accountability and ultimately lead to better outcomes for society that can be communicated to stakeholders.[53] As a powerful decision-making tool, performance measurement can either provide objective justification for organizational and management decisions or else inform management as to the changes required, thereby clarifying and hastening the decision-making process.[54]

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[49] Ibid., p. 54.
[50] Ibid.
[51] Ibid.
[52] Ibid., pp. 54-55.
[53] Curristine, p. 128.
[54] IFAC Public Sector Committee, p. 53.

Performance information, including both performance measures and evaluation, is important in assessing and improving policies in several key areas of public administration:

- managerial analysis, direction and control of public services;
- budgetary analysis;
- parliamentary oversight of the executive; and
- public accountability.[55]

Therefore, performance measures are useful management and accountability tools for users both internal and external to a public service organization:

- internal users use the additional information on outputs and outcomes to make efficiency and quality improvements; and
- external users can utilize the results to assess whether the entity has achieved its objectives effectively and used available resources efficiently.[56]

In this way, the entity is held accountable not only for the money entrusted to it, but also for the results achieved.[57]

While a performance management system may operate in different ways, a holistic approach would take the form of a management cycle as follows:

- program performance objectives and targets are determined;
- managers have flexibility to achieve them;
- actual performance is measured and reported; and
- this information feeds into decisions about program funding, design, operations and rewards and penalties.[58]

For the performance management system to function properly, public officials – both politicians and bureaucrats – must transform their behaviour so that they use performance information and engender a performance culture adapted to domestic circumstances.[59]

Performance management within APEC economies

APEC economies are at different stages of introduction of performance management systems. As Table 2 shows, Canada, New Zealand, Papua New Guinea and the United States were the first economies to begin to adopt an on-going performance management system, which occurred by the early 1990s. Most other APEC economies have followed since then. As of 2008, economies

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[55] Curristine, p. 129.
[56] IFAC Public Sector Committee, pp. 53-54.
[57] Ibid., p. 53.
[58] Curristine, p. 131.
[59] Ibid., p. 128

with the highest percentage of expenditures linked to performance goals (81-100%) include: Canada, Korea, New Zealand, the Philippines, Russia, Chinese Taipei and Thailand. Most economies' performance against targets is made available to the public. Regardless of the development stage they are at, the adoption of performance management remains a work in progress for all of these APEC economies.

Table 2:
APEC Economies' Progress in Implementing
Performance Management Systems

	Year in which government-wide performance measures began	Percentage of expenditures linked to performance goals	Performance against targets made available to public
Australia	1999		Yes
Brunei Darussalam			
Canada	Mid-1970s	81-100	Yes
Chile	1998		Yes
China			
Hong Kong, China	Pre-1970	0	
Indonesia	2005	0-20	No
Japan	2002	0	Yes
Korea	2004	81-100	Yes
Malaysia			
Mexico	2002	0-20	Yes
New Zealand	1994	81-100	Yes
Papua New Guinea	1990	61-80	Yes
Peru	2007		No
Philippines	2006	81-100	Yes
Russia	2004	81-100	Yes
Singapore			
Chinese Taipei	2002	81-100	Yes
Thailand		81-100	
United States	1993	0-20	Yes
Viet Nam			Yes

Source: OECD/World Bank Budget Practices and Procedures Survey, 2008 (see: http://webnet4.oecd.org/budgeting/Budgeting.aspx).
Note: Brunei Darussalam, China, Malaysia and Singapore did not participate in this survey; other blanks reflect missing information.

According to the OECD, economies have adopted performance management systems to satisfy any one of four broad objectives:

- Managing the efficiency and effectiveness of agencies and ministries and/or the internal control and accountability within individual ministries.

- Improving decision making in the budget process, and/or in the allocation of resources and accountability of ministries to the Ministry of Finance.
- Improving external transparency and accountability to parliament and the public and clarifying the roles and responsibilities of politicians and civil servants.
- Achieving savings.[60]

Economies such as Australia, New Zealand and the United States have taken a comprehensive approach, embracing all four objectives with application to nearly all ministries and agencies.[61]

Implementation has occurred in various forms.[62] Australia and New Zealand took a top-down, total-system approach to implementation, as opposed to a bottom-up approach where departments and agencies are given the freedom to develop their own method. The United States adopted an incremental approach, beginning with a four-year pilot phase before the government-wide implementation of the Government Performance and Results Act (1993).

On-going approaches themselves vary. In the United States, departments have been given the latitude to develop their own strategic and performance plans that include performance targets.[63] By contrast, Australia has asserted more central agency control, by establishing resource agreements between the Department of Finance and Administration and the relevant departments and agencies. New Zealand has asserted more political oversight by putting in place output plans between the Minister and the most senior public servant of the relevant department – that is, the Chief Executive – setting out the agreed outputs. It also initiated a letter of expectations and formal performance agreements between the Chief Executive of each department and the State Services Commissioner – that is, the public servant who is the legal employer of the Chief Executives. As part of the development of the letter of expectations and performance agreement, the State Services Commissioner will consult the Minister of the relevant department.

There are also large differences in the relaxation of central input controls. Australia has undergone the most extensive relaxation and New Zealand has made substantial moves in this direction; on the other hand, the United States does not appear to have pursued such relaxation.[64]

APEC economies generally recognize that performance management is fundamental to sound public sector governance. At the APEC Economic Committee's *Workshop on Government Performance and Results Management* in Chinese Taipei in March 26-28, 2008, the main conclusion was that

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[60] Ibid., p. 132.
[61] Ibid.
[62] Ibid., p. 133.
[63] Ibid.
[64] Ibid., p. 137.

performance management is increasingly recognized as a central component of an effective public sector. At the APEC Economic Committee's policy discussion on Public Sector Governance, held on February 26, 2008 in Lima, Peru, which focused on performance management systems, economies viewed such systems as a tool to balance accountability and innovation through clear reporting, an emphasis on outcomes, continual assessment and course correction, intelligent assessment of risks, and, at its core, allowing managers to manage.

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2) International Federation of Accountants (IFAC) Public Sector Committee. Governance in the Public Sector: A Governing Body Perspective (Study 13). New York: August 2001. Chapter 8 (external reporting) contains a section entitled "Performance Measures".

3) NS6 (A New Synthesis of Public Administration project team led by the Hon. Jocelyne Bourgon). "Disentangling Performance Management Systems from Control Systems". Canada: March 2010. The NS6 project aims to propose a "new synthesis" in public administration, drawing on the experience and insights of senior public officials, researchers and experts in six countries – Australia, Brazil, Canada, the Netherlands, Singapore and the United Kingdom – to coalesce key traditions and conventions, existing theories and practices, and emerging ideas into an up-to-date frame of reference that public administrators can use to guide their work.

4) OECD Directorate for Public Governance and Territorial Development. "OECD International Budget Practices and Procedures Database" at http://www.oecd.org/document/3/0,3343,en_2649_34119_2494461_1_1_1_1, 00.html). France: 2009.

5. Challenges with performance measurement

This chapter considers some of the challenges specific to performance measurement, which can potentially hinder the effectiveness of a performance management system.

Performance measures are only one source of information on performance

Performance measures provide a snapshot of past performance over a period of time. They are not necessarily indicative of future performance nor do they explain any variance from the performance target.[65] Therefore they must be considered as only one source of information on performance, to be augmented with other formal and informal sources of information. Evaluations are still required to explain the results and determine the changes required to programs and performance indicators and targets in order to continually improve performance.

While performance measures introduce an element of objectivity in the performance management system, the selection of indicators and targets and the interpretation of results are subjective. Public officials need to be mindful of this and not attempt to construe performance results as otherwise.

Not everything can be measured

Public sector entities require non-monetary performance measures covering a diverse spectrum of government programs. The OECD distinguishes three types of programs: tangible and non-tangible individually-tailored services, and non-tangible ideal services.[66] Tangible individually-tailored services lend themselves to the creation of reliable unit cost measures, although this is easier with services with observable outputs such as the issuance of passports or drivers licenses than it is for the provision of education and health care. Non-tangible services such as the provision of policy advice do not easily lend themselves to the application of performance measures. Performance measures are not an appropriate option where neither outputs nor outcomes are observable.

Therefore, in measuring performance, governments need to take a flexible approach to reflect the diversity of their programs, understanding that not everything can be measured and, consequently, different accountability and performance evaluation methods should be sought.

Limitations of costs, capacity and time

Collecting public sector performance information is often complex and expensive.

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[65] Ibid., p. 144.
[66] Ibid., p. 145.

There are also limits on how much information decision makers can use before it can hinder their decision making, overwhelming them with complexity and slowing them down.[67] For these reasons, performance measurement must be highly selective. Furthermore, performance measurement systems need to be monitored to ensure there is not a disproportionate cost of compliance compared to expected benefits, which is a potential problem of such systems.[68] The challenge is to find the optimal balance between minimizing the cost of compliance and maximizing the net public value of public services.

Challenges in measuring outcomes

Even for economies that have been pursuing performance measurement the longest, the measurement of outcomes continues to be the biggest struggle.[69] The challenge has been to obtain good quality information that is valid, reliable and timely. Further challenges include the setting of clear objectives, finding accurate measures of performance, and having good systems of data collection.

In setting clear objectives, the task can be complicated by factors such as diverse missions or overlapping programs.

In finding accurate measures of performance, the difficulty is determining measures for specific activities and then relating what a public sector organization or program actually did to achieve the outcome. It is for this reason that most countries measure both output and outcomes. For all their difficulty, outcomes still have a strong appeal for both the public and politicians and, for a performance management system to be embraced by them, their views on what constitutes a successful outcome should be incorporated.[70]

In establishing and maintaining good systems of data collection, there must be a process to verify and validate the data collected. Even with numerical information, there are questions about quality and accuracy, and whether the public and interest groups are willing to accept a government's presentation of its performance results.[71] Having performance information audited externally helps to assure the public of its quality and accuracy, thereby providing some legitimacy for the reported results.[72] Such systems can be both complex and costly to set up and maintain, however. Auditing performance information is different from auditing financial information, requiring specially-trained auditors.[73]

Challenges with setting performance targets

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[67] Ibid.
[68] Bourgon, 2008.
[69] Curristine, p. 146.
[70] Bourgon, 2008.
[71] Curristine, p. 138.
[72] Ibid., p. 146.
[73] Ibid., p. 139.

Economies continue to grapple with the setting of performance targets that are either too low or too high.[74] When targets are set too low, organizations are not sufficiently challenged. When targets are set too high, organizations may be motivated by them but unrealistic expectations are created and the end result is destined to be one of failure. Therefore, organizations need to be informed by performance data in order to set challenging but realistic targets.

Another issue concerns the number of targets to have. Too few can provide insufficient information to motivate and inform the organization, whereas too many can create information overload and problems for priority-setting.[75]

Organizations must take care to ensure that the setting of specific performance targets does not compromise the overall objectives of the program. For example, a tangible, individually-tailored service designed for a specific client group could be broadened to serve a wider clientele, and therefore distorted, by a performance target designed to indiscriminately maximize client take-up. Distortions may also occur through an inordinate emphasis on the most achievable or saleable targets, which may come at the expense of the most worthwhile targets.

Difficulties with using the budget process to improve performance

Countries continue to struggle with the notion of rewarding good performance with new resources and/or financial rewards and punishing poor performance by removing resources and/or financial penalties. However, rewarding success in this way can lead to excess resources flowing to a government service that is not a priority. Conversely, punishing failure in this way does not address the underlying causes of poor performance and, if the failure was owing to a lack of funding, may even exacerbate the poor performance.

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[74] Ibid., p. 146-147.
[75] Ibid., p. 147.

6. E-government

Since the mid-1990s, governments have been looking at how best to use information and communication technology (ICT) to improve the performance of public sector administration.[76] The delivery of government information and services to citizens, businesses and other government agencies – users outside the organization – via the Internet and other digital means is referred to as e-government or electronic government.[77] E-government is to be contrasted from e-governance, which refers to use of ICT by government officials to carry out management and administration inside the organization.[78] E-government and e-governance approaches have enabled governments to automate many internal function and processes, making it possible to reduce costs, enhance productivity and improve service delivery.

E-government delivery models

The primary delivery models can be divided into four broad categories on the basis of the primary client group served.[79]

1) Government to Citizen (G2C)

In the G2C delivery model, the government provides on-line access to information and services to citizens. In some cases, such as with Hong Kong, China's Online Services site (http://www.gov.hk/en/residents/onlineservices/), a one-stop shopping approach is used. Hong Kong, China's Online Services site allows its citizens to:

- view government news and press releases
- search, reserve and renew library materials
- obtain tourism and recreation information
- enroll in certain training courses
- search for employment opportunities
- apply for environmental permits and licenses
- file various forms of complaints to the government
- pay government bills
- register to vote
- obtain health and medical information
- apply for a passport

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[76] OECD e-Government Studies, Rethinking e-Government Services: User-Centred Approaches (Paris: October 2009), p.11.

[77] Shailendra C. Jain Palvia and Sushil S. Sharma, "E-Government and E-Governance: Definitions/Domain Framework and Status around the World", at http://www.iceg.net/2007/books/1/1_369.pdf) (Delhi: International Congress of E-Government, 2007), p. 1.

[78] Ibid., pp 1 and 3.

[79] Ibid., pp 4-6.

- download forms
- pay taxes and file income tax returns, and
- renew a driver's license or vehicle license.

2) Government to Business (G2B)

In the G2B delivery model, the government deals with businesses such as suppliers through technologies such as the Internet. Interactions and transactions can be two-way: government-to-business and business-to-government (which may be referred to as a B2G delivery model). Therefore, a government may sell products and services to business and vice-versa.

In a G2B transaction, the government sells surplus items such as used equipment, seized goods or foreclosed real estate at an on-line auction site (similar to the very successful eBay site) . It has the advantage of usually obtaining higher prices in comparison with traditional auctions and standing offers with selected buyers.[80] An example of an online auction site is the US government's GovSales site (http://www.govsales.gov/html/index.htm).

In a B2G transaction, the government buys products and services using electronic means such as an on-line reverse auction site. This delivery model has the potential to make the procurement process more efficient since there is no need for manual shopping. The Singapore government's Government Electronic Business System - GeBIZ (http://www.gebiz.gov.sg/) is an integrated service-wide system for Singapore public officers to conduct procurement activities. It is a one-stop portal for local and foreign suppliers to view business opportunities and transact with government agencies.

The benefits of e-procurement may be enhanced if government entities act collectively, using their combined, and more considerable, market power to obtain greater discounts.

3) Government to Government (G2G)

In the G2G delivery model, government organizations interact with other government organizations in non-commercial activities. An example of such a delivery model is the Canadian Institute for Health Information (CIHI), an independent not-for-profit organization funded by the federal, provincial and territorial governments, which, inter alia, creates and maintains a broad range of health databases, measurements and standards using data obtained from hospitals, regional health authorities, medical practitioners and governments. The information and analyses produced by the CIHI are made publicly-available

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[80] Deen Beeby, "Canadian government to take auctions online", at http://www.theglobeandmail.com/news/technology/article656521.ece (Toronto: Globe and Mail, March 23, 2009).

to stakeholders in the health system – both governmental and non-governmental.[81]

4) Government to Constituents (E-democracy)

E-democracy refers to the use of ICT in political and governance processes, with the aim of broadening and making more active citizen participation. E-democracy involves e-engagement (engaging citizens in the public policy process via electronic networks), and e-consultation (the interaction between public servants and the citizenry and interest groups).[82] More recently it has begun to include e-voting, with fully computerized balloting that is less susceptible to error, manipulation and fraud than manual voting. This latest development has just started to appear in APEC economies like Australia, Canada, the Philippines and the US.

Benefits of e-government

Some of the potential benefits of e-government for clients include:

- more convenient access to government information and services, requiring less need to visit government offices – a time and cost benefit for all, but especially great for persons in remote areas and persons with disabilities and conditions that hinder their mobility
- better access to government information and services, which can be done on a self-service basis 24 hours per day and 7 days per week – not only during government office hours
- standardized information and service – all citizens (rich and poor) and businesses (large and small) receive the same information, service and opportunities to do business with the government in the e-government environment
- more information made available and easier to find than ever before
- greater transparency and clarity to be able to view information online
- less need to deal with government officials face-to-face reduces human error and corruption, leading generally to improved user satisfaction
- greater citizen and business participation in public policy by the increased communication opportunities offered by the Internet such as e-mail, e-surveys, e-discussions, and blogging, which enhances democracy.

Some of the potential benefits of e-government for government include:

- reduced cost of disseminating information and delivering government service – in terms of manpower, paper and office space – relative to output (in other words, it provides greater efficiency)

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[81] The Canadian Health Information Institute's interactive tools/databases and downloadable content can be found at: http://www.cihi.ca/cihi-ext-portal/internet/en/home/home/cihi000001.
[82] Palvia and Sharma, p. 6.

- greater take-up of information and service, thus better promotion of public policy objectives
- improved collection of government revenue owing to increased compliance
- greater ability to cope with increasing transaction volumes
- greater ability to cope with customer complaints thereby leading to better coordinated understanding of problems and responses
- an improved image (owing to reduced human error and corruption and improved service).

Costs and risks of e-government

Some of the possible costs and risks of e-government for clients include:

- people not digitally connected to e-government services cannot access such services and are at a disadvantage relative to people with access, creating a cost in terms of inequity, which is particularly a problem for people who cannot afford to be connected (i.e., buy computers and pay for Internet service) and people in remote areas where Internet service is unavailable
- loss of face-to-face human interaction and a paper trail can make it more difficult to sort out problems, leading in such cases to potentially worse outcomes in terms of time and cost
- technology risks – extended system crashes can delay the delivery of service
- risks to privacy – concerns exist in respect of the government using the new technology to build up too much information on its citizens and businesses, even spying on them (e.g., using readable chips in passports, recognition technology in car license plates, biometric identity checks, surveillance cameras at traffic intersections, electronic eavesdropping).

Some of the possible costs and risks of e-government for government include:

- infrastructure development and costs of building the e-government portal – hardware, software, design and creation of website, data digitization (transferring paper records to computer databases), personnel training and recruitment (with a focus on information technology skills), organizational restructuring[83]
- portal administration and maintenance costs – maintenance and support for the hardware and software used for the website, frequent updating, modernizing and upgrades (e.g., adding bandwidths), security features to resist hacker activity, marketing and advertising, education of the population[84]
- user take-up risk – poor acceptance and usage of e-government services by citizens and businesses would require the government to continue providing

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[83] Sorin Kertesz, "Cost-Benefit Analysis of e-Government Investments", at: http://ro-gateway.ro/node/185805/comfile/download/Cost-Benefit.pdf (Cambridge Massachusetts: Harvard University JF Kennedy School of Government, May 2003), p.4-5.
[84] Ibid., p. 5-6.

its service using traditional formats (e.g., regular mail, telephone, face-to-face contact, etc.) more than it anticipated, potentially making the conversion to e-government a poor economic proposition[85]

- technology risk – problems like server malfunctions and even worse – cyber attacks – can shut down systems, throwing government administration into chaos.

Assessing the viability of e-government and approaches to maximize success

Governments have been drawn to the benefits offered by e-government, hoping, inter alia, to attain efficiency and productivity gains. Successes by some governments have motivated others to follow suit, even launching into e-government projects without undertaking a rigorous a priori assessment of the estimated costs and benefits like they would normal projects.[86] What they all-too-frequently discovered was low user take-up of e-government services and this still remains a problem.[87] As a result, there have been many instances of expensive failures, even in some of the most advanced economies in the world.[88]

This track record makes it all-the-more essential that e-government projects, like any other major project, undergo a proper economic assessment, weighing the costs and benefits.[89] On the cost side, e-government projects are typified by very expensive up-front sunk costs in infrastructure development and potentially the building of the e-government portal, depending on how sophisticated it is. On the benefits side, there has been a chronic problem of over-estimating the user take-up, which is often constrained by insufficient electronic infrastructure in the public domain that consequently affects the accessibility by clients.[90]

Understanding the costs and benefits of an e-government project is important not only to identify whether it is viable but also to assess where benefits may be enhanced or costs/risks reduced in order to potentially make it viable.[91] For economies with low Internet penetration, expansion of computer and Internet usage is a pre-requisite if e-government is to be a success; for economies with a slow rate of growth in terms of Internet penetration, e-government would best be

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[85] To some extent, traditional formats of delivery of government service will need to be retained, particularly for the benefit of the digitally unconnected (which tends to be citizens much more than businesses), after the introduction of an e-government format of delivery. Therefore an e-government approach does not completely replace a traditional approach.

[86] Kertesz, p. 2.

[87] OECD e-Government Studies, p. 11.

[88] The Economist, "The Good, Bad and the Inevitable: The Pros and Cons of e-Government", at http://www.economist.com/node/10638105?STORY_ID=10638105 (The Economist Group, February 14, 2008).

[89] Kertesz, p. 12. The paper recommends that projects be assessed using a Net Present Value (NPV) method, which is described in detail.

[90] OECD e-Government Studies, p.15. Citizens and businesses are particularly affected.

[91] Kertesz, p. 14 provides a list of suggestions to reduce costs and extend benefits. Also OECD e-Government Studies, Chapter 3, provides country approaches to increasing user take-up.

confined to G2G and/or G2B delivery models before attempting G2C and e-democracy delivery models. For economies with high Internet penetration, challenges remain for government to sway users into using their e-government service; in this regard, governments should abandon their bureaucrat-centered approach and instead adopt a citizen-centered perspective or business-centered perspective, as the case may be, in order to maximize usage.[92] Measurement frameworks that evaluate user take up and satisfaction may be used to develop a deeper understanding about the users.[93]

Table 3 shows Internet penetration in 2010 as a percentage of population among APEC economies, along with percentage growth from 2000 to 2010. About half of all APEC economies have high Internet penetration rates, exceeding 50% of the population, and most of the others are on the fast track towards getting there.

Table 3:
APEC Economies Internet Usage in 2010 and 2000-2010 Growth

	% of Population (Penetration)	2000-2010 User % Growth
Australia	80	158
Brunei Darussalam	81	963
Canada	78	107
Chile	50	376
China	32	1767
Hong Kong, China	69	114
Indonesia	12	1400
Japan	78	111
Korea	81	107
Malaysia	65	357
Mexico	27	1028
New Zealand	85	334
Papua New Guinea	2	-7
Peru	27	223
Philippines	30	1385
Russia	43	1826
Singapore	78	205
Chinese Taipei	70	158
Thailand	26	660
United States	77	152
Viet Nam	27	12035

Source: http://www.internetworldstats.com/stats.htm. Figures have been rounded to nearest whole number.

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[92] The Economist. Also OECD e-Government Studies, p.13, indicates that a user-centred approach to public sector delivery was the key message of OECD e-leaders at their meeting of 6-7 March 2008 in The Hague, Netherlands.

[93] OECD e-Government Studies, p. 20. Measurement frameworks have been implemented in many advanced economies since 2006.

An alternate, frequently-cited guide to e-government maturity is the United Nation's e-Government Readiness Index, whose 2010 results and world rankings are shown for APEC economies in Table 4. Consistent with Table 3, about half of all APEC economies have an index rating of 0.5 or better, placing them among the top 60 nations in the world in terms of e-Government readiness. The two guides to e-government maturity are generally consistent, with high Internet penetration rates usually translating into high e-Government readiness. Exceptions within APEC include: Brunei Darussalam, which has high Internet penetration yet relatively low e-Government readiness; and, conversely Mexico, which has low Internet penetration yet relatively high e-Government readiness.

Table 4:
APEC Economies' World Ranking on
United Nations' 2010 e-Government Readiness Index

	Index	World Rank
Australia	0.7863	8
Brunei Darussalam	0.4796	68
Canada	0.8448	3
Chile	0.6014	34
China	0.4700	72
Hong Kong, China		
Indonesia	0.4026	109
Japan	0.7152	17
Korea	0.8785	1
Malaysia	0.6101	32
Mexico	0.5150	56
New Zealand	0.7311	14
Papua New Guinea	0.2043	171
Peru	0.4923	63
Philippines	0.4637	78
Russia	0.5136	59
Singapore	0.7476	11
Chinese Taipei		
Thailand	0.4653	76
United States	0.8510	2
Viet Nam	0.4454	90

Source: United Nations Department of Economic and Social Affairs, "United Nations E-Government Survey 2010", Statistical Annex (see: http://www2.unpan.org/egovkb/documents/2010/E_Gov_2010_Complete.pdf).
Note: Hong Kong, China and Chinese Taipei, as non-members of the United Nations, do not appear in the Index.

Special attention needs to be given e-democracy: it has the potential for increasing social inclusion; however, unless Internet penetration is high, it can have the direct opposite effect.

Given that e-governance is internal to government, it is not surprising that APEC economies are further ahead in this area relative to e-government. At the APEC Economic Committee's *Workshop on e-Governance*, held on February 27, 2008 in Lima, Peru, it was established that the majority of APEC economies have implemented e-administration, even though some have yet to create a legal framework. Most APEC economies are also well on their way to digitizing their records.

In conclusion, as governments consider e-government projects, they need to "think globally and act locally" as opposed to taking a "follow the leader" approach.[94] They also need to guard against "dangerous enthusiasm" for technological quick fixes that distract from the need to undertake real reforms to ensure that public services are running properly.[95] At the same time, e-government should be used as an opportunity to transform government, invoking a whole-of-government approach and thereby making it more organized through such innovations as a one-stop shopping site for all citizen-related government services, possibly even including services from sub-national levels of government.

References and further information

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3) Beeby, Deen. "Canadian government to take auctions online", at http://www.theglobeandmail.com/news/technology/article656521.ece. Toronto: Globe and Mail, March 23, 2009.

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[94] Kertesz, p 2.

[95] The Economist.