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Article: The Disclosure Of Key Performance Indicators In The Public Sector

Literature Review:

The paper examined to see whether KPI information is being disclosed and in the public sector in Ireland, more importantly, whether performance indicators are being linked to predetermined objectives and targets.

Public sector organizations are generally non-profit making and do not have to answer to shareholders who demand a return on their investment. They do, however, have a wide range of stakeholders not least among which are the taxpayers who, in most cases, are their major source of finance.

A dominant goal in most businesses is to earn a satisfactory profit, net income measures performance towards this goal. No such measure of performance exists in non-profit organizations. Many of them have several goals, and an organization's effectiveness in attaining its goals rarely can be measured by quantitative amounts. Furthermore, public sector organizations have always used resources to achieve mainly intangible outcomes. Any organization could come up with a large list of performance indicators the aim however, should rather be the identification of the KPIs or critical success factors. Parmenter (2001: 100) felt in order to do this, it was essential to first pinpoint the key results areas, which were those issues that determine the organizational health and vitality and in which good performance is necessary. KPIs therefore are the measures by which performance can be tracked within these key result areas.

The most important factor driving the selection of KPIs is that they must be linked to predetermined strategic objectives, which themselves must be linked to the organizations' mission and vision statements. Moreover, the KPIs must be matched against preset targets to see how the organization has performed over a period: without this, the whole exercise is meaningless, and the user is just left with a number of inconsequential statistics.

Performance measures, such as those used by the OECD member countries can be grouped under the following general categories:

- Measuring economy – obtaining inputs or resources of appropriate quality at least cost.
- Measuring efficiency – the relationship between outputs and the resources used to produce them. Measuring effectiveness – the achievement of preset objectives.
- Measuring service quality – the extent to which the nature of the output and its delivery meet requirements or are suitable to their purpose.
- Measuring financial performance – regardless of whether a department is revenue generating or not there are still requirements such as keeping within budgets or the payment of creditors that can be measured (OECD 1994: 37 – 8).

It can be seen from the above that in the public sector there have been two different models driving open government. Clark (1996: 23) identifies these as the managerial model and the legal model. The latter concerns legislation, while the former would be the internal disciplines that successive governments have placed upon the public sector in order to make it more efficient and effective in the delivery of public services, while at the same time complying with government policies and priorities. A third factor behind the increase in performance measurement has been the increased sophistication of information technology (IT). The availability of software packages that store and synthesize information has greatly facilitated the speedy production of statistics and the analysis of

data, moreover the use of Internet technology can lead to quick dissemination of knowledge, such as best practice, between public sector departments and organizations (McIvor et al. 2002: 171).

All of this has brought about a much greater emphasis on performance management and the disclosure of the outcomes of measuring performance, which forms part of the public sector's accountability to parliament and the taxpayer, as well as making their administration more transparent.

This article does not attempt to test the validity of the measurements, such as research on the co-ordination of mission, objectives and targets, but is trying to establish the extent and level of disclosure with regard to KPIs

These five information types consisted of:

1. No disclosure of any nature beyond normal financial indicators.
2. Some disclosure but focusing on one or two performance areas only.
3. Focusing on several performance areas, but not specifying strategic objectives or targets.
4. Focusing on several performance areas and linking these to strategic objectives, but not specifying targets.
5. Focusing on several performance areas and linking these to strategic objectives and preset specific targets.

Organizations needed to display a range of objectives and targets to fall into the final two categories, so for example an organization disclosing less than four sets of objectives and targets would either go in category two or three, depending on how many other performance areas were outlined. An objective that stated the organization concerned was aiming to be the leading service provider in its particular field was not included, as it may be reasonably assumed most organizations strive for such an outcome. Likewise, there had to be a clear linkage between the KPIs and objectives and targets. For example, in the Chairman's Statement of the Industrial Development Agency's (IDA) annual report (IDA 2001) it was announced that it was to build on its 'strategy of attracting projects in defined sectors to specific regions' then, further on, a series of statistics such as new jobs by sector and employment by region were presented alongside a narrative account of three-year targets that were never stated. Although tenuous connections could be made, the linkage was more implied than explicitly laid out for a user, and thus it was placed in category three. Finally the targets had to be specific with actual figures given, so for example '90 per cent of complaints to be dealt with in seven working days' would be treated as a target, whereas 'all customer complaints to be dealt with promptly' would be treated as an objective.

With the growing emphasis on the management and measurement of intangible assets that has taken place in the private sector it could be stated that the public sector is leading the way when it comes to the disclosure of non-financial data. In various parts of the world the whole nature of the annual report has changed with a greater emphasis on a more balanced presentation of performance information

The disclosure of KPIs by organizations that do not fall under the banner of either central or local government, yet which are still located within the public sector more generally defined, is not particularly thorough. Universities, for example, only produced figures that were not matched against targets; therefore the user was left with no real idea of how they were performing. Semi-state organizations provided the least amount of performance information; the majority only provided the occasional KPI and none of them made any attempt to link these indicators to any preset objectives.

This mirrors a similar trend over the past decade, whereby private sector and semi-state organizations have a large number of intangible assets yet choose not to disclose details of them in

their annual reports. It could be argued, therefore, that the public sector, by contrast, is leading the way in the field of providing extensive performance information and that the information they provide in their annual reports is far more comprehensive and balanced and gives the user a more complete picture of the organization's operations. In contrast with one of the key precepts of the public management perspective – that it is the 'private sector which is seen as having the managerial capacity, flexibility and competitive drive essential for the efficient and effective provision of many activities previously assumed to be the province of the public sector' (Minogue et al. 2000: 3) – the research has shown that this is a received wisdom that perhaps could justifiably be challenged; the public sector organizations whose actions most closely ape the private sector model – semi-state bodies – were found to offer the least amount of performance information with which the organization could be held to account and to make an informed judgement on how it and its resources were being managed.

Despite the multi- dimensional and complex nature of the outcome-based performance of public sector organizations (which, by extension, makes the indicators used to assess the adequacy of performance inherently more difficult to construct), public sector organizations were, nonetheless, seen to be offering an impressive amount of information which could be used to hold them to account. In short, despite some variability evidenced across the different sectors with regard to the thoroughness of the performance information presented, it is encouraging to note that the public sector organizations are responding to the substantial reforms aimed at making the public sector more accountable and transparent, which has been an international endeavor. As the OECD (1995) argues, public sector reform should be seen as a journey, rather than as a destination. Furthermore, the impact for greater accountability is shaping the way in which public services are being operated, a distinctive feature of public sector management (Hood 1996).