Module 1 – Why measure performance?

Overview

This module explains why performance measurement is critical within the State sector, and what can be gained from effective measurement. It helps you define ‘the results that matter most’ to performance, and scope out a monitoring framework and sets of measures to track progress.

Measurement is a core activity for any agency or sector that is focused on delivering results for New Zealanders. Performance is measured primarily to allow you to maximise the results that are meaningful to your organisation by adjusting what you produce, using the capabilities and funding available.

Transparent reporting to Parliament is a statutory obligation. You also have obligations to report transparently to Ministers and stakeholder groups. To fulfil these obligations, agencies usually use a sub-set of the detailed information they need to run their business well. It is good practice, therefore, to build performance measures into regular planning and decision-making as well as using them to report to Ministers and Parliament.

Performance measurement as an iterative process

Performance measurement is an iterative process that must be repeated on an ongoing basis. Figure 1 outlines the iterative steps in the performance measurement cycle. As understanding grows, measures and reporting improve, and are used to improve the quality and reach of the services provided. Improved services, in turn, will provide greater impact and value-for-money. It is important to remember that all steps in the iterative process outlined in Figure 1 must be completed to measure performance well.

Figure 1: The performance measurement cycle
The three major goals of performance measurement

Delivered well, performance measurement supports Ministers and State sector leaders in at least three ways:

- **Informing strategy and policy development.** Performance measurement is used to inform overall strategic planning and direction-setting as well as the ongoing development and implementation of policy and plans. Evidence gained about the difference your agency made through the services it provided, and the interventions chosen can be used to make informed, targeted changes to policies and plans.

- **Informing capability and service development.** Performance measures are used to identify areas where capabilities and services need to be developed to enhance core outcomes. For instance, your agency should use performance measurement information to inform workforce planning, recruitment, HR development and organisational planning, which all contribute to enhancing the design, delivery and impact of core services.

- **Reporting achievements.** Performance measurement should also be used by agencies to report coherently and concisely on their achievements. If you follow the performance measurement process your agency will be able to produce clear, coherent performance stories around the ministerial priorities it is aiming to achieve. These stories can clearly explain how your agency is progressing towards achieving its outcomes.

The three levels of performance measurement

State sector performance should be assessed and measured at three levels as illustrated in Figure 2. The three levels are outcomes, intermediate outcomes or impacts, and outputs. Information is typically required to be collected at each level on an ongoing basis in order to track progress and monitor trends over time. At all three levels, results must be linked back to resources (funding and capabilities) so that internal and external decision-makers can assess value-for-money.

Figure 2: The three levels of measurement
Outcomes
Outcomes set out the broad goals your agency is seeking to achieve. They are measured to confirm aggregate results and enhance decision-making. Outcomes flow directly from ministerial requirements and priorities.

The first step in developing an outcome-based decision-making system is to identify the ‘vital few’ outcomes that are priorities for your agency or sector. These should be the outcomes that your agency has the most direct influence in achieving. Outcomes are firmed up through strategic planning and direction setting. Outcomes set out your long run priorities by addressing the question: “What are our goals for New Zealand and New Zealanders?”

Outcomes are typically tracked using outcome indicators. These are used as proxy measures of your agency’s performance because high level outcomes are seldom directly attributable to the activities of one specific agency alone. External factors frequently drive changes in outcome indicators. Multiple agencies may also affect the same outcome. For instance, border security is shared between Customs, Labour (immigration), and Agriculture and Forestry.

Intermediate outcomes or impacts
Your agency must focus on this crucial middle-layer of the performance measurement framework, because it allows you to articulate the effect that your agency’s services and interventions are having on New Zealanders. This level is called ‘intermediate outcomes’ or ‘impacts’. Understanding it will allow your agency to determine what difference it is making through the services it is providing with its outputs, and to discern progress towards the achievement of its outcomes. Ultimately, it will enable your agency to interpret what impact its policies are having. In other words it will help you answer: “What difference are we making for New Zealanders?”

Intermediate outcomes/impacts can be measured through the use of impact measures or indicators. These measures of intermediate outcomes are crucial to the performance measurement process because they underpin performance-based management. Specifically, they:

• represent near-term results expected from the goods and services you deliver;
• can often be measured soon after delivery, promoting timely decisions;
• often reveal specific ways in which managers can remedy performance shortfalls;
• are cheap to produce, especially when using administrative records; and therefore
• are of immediate interest to decision-makers at all levels of your agency and sector.

Outputs
In the State sector, boards and chief executives (and their managers and staff) control the means of production and are accountable for producing outputs. Outputs represent the means your agency (or sector) uses to create impact. Outputs are the services your agency or sector delivers through their interventions, such as implementing policy, running regulatory or

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10 Such as public attitudes, social and behavioural evolution, alternative providers (such as NGOs), and markets.
control systems, and delivering core services in defence, education, health, housing, justice, welfare and so on. Output measures address questions such as: “What service was provided?”; “Who got it?”; and “Was delivery efficient and effective?”

**Linking measurement to resources, planning and delivery**

Figure 3 shows how the resources your agency has will be used to deliver outputs, which will flow into impacts and outcomes. It also shows how outcomes form the basis of your agency’s planning, and how impacts and outputs flow from defining outcomes. In terms of delivery, the process works from the bottom up: your agency delivers outputs to New Zealanders; these outputs will have impact; over time, these impacts will contribute towards the achievement of outcomes. Figure 3 illustrates how resources link to the three other levels by using a simple land transport sector example.

**Figure 3: Linking the levels of measurement to planning and delivery**

**Showing progress and results**

Progress achieved at the three levels of the framework can be gauged through assessing results. ‘Results’ refer to what has been achieved at the intermediate outcome/impact and outcome levels. However, they can also cover what has been achieved through the delivery of outputs. Results should be directly attributable to what the agency has undertaken. This is in contrast with outcome indicators, which may not be so directly attributable to what your agency does.

Table 1 presents results, impacts and indicators for outputs, intermediate outcomes and outcomes using the same land transport sector example as in Figure 3.
Table 1: Outputs, intermediate outcomes, outcomes, results and relevant indicators

<table>
<thead>
<tr>
<th>Results</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outputs: Engineering, enforcement and education</td>
<td>Number of offenders detected and sanctioned.</td>
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<tr>
<td>• Significant proportion of offenders detected and sanctioned.</td>
<td>• Proportion of fines collected within 12 months.</td>
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<tr>
<td>• High risk groups remember key road safety messages.</td>
<td>• Retention of advertising messages by target groups.</td>
</tr>
<tr>
<td>Intermediate Outcomes: Reduced speed, reduced drink-driving and increased safety belt use</td>
<td>• Number and causes of accidents on roads over the year.</td>
</tr>
<tr>
<td>• Reduction in target driving offences and behaviours.</td>
<td>• Percent cars exceeding speed limits.</td>
</tr>
<tr>
<td>• Increased compliance in target areas and driver groups.</td>
<td>• Percent positive breath tests (etc).</td>
</tr>
<tr>
<td>• Attitudes encourage safe driving, particularly in ‘at risk’ and ‘risky’ demographic groups.</td>
<td>• Reduced fatalities in targeted geographic areas.</td>
</tr>
<tr>
<td>Outcome: Less deaths on New Zealand roads</td>
<td>• Results of opinion surveys.</td>
</tr>
<tr>
<td>• Road users perceive roads to be tangibly safer, without undue impact on transit times / costs.</td>
<td>• Decrease in number of serious injuries and fatalities over the year.</td>
</tr>
<tr>
<td>• Lower social and economic costs of death and injury on the road.</td>
<td>• Reduced social and economic costs of road travel.</td>
</tr>
</tbody>
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There are many ways of showing impact. All try to reduce the chance that changes in outcome indicators are due to something other than the outputs you delivered. Common ways of showing attribution to your outputs\(^\text{11}\) include:

- demonstrating key linkages within your intervention logic;
- simple comparison of groups that did and did not receive outputs (e.g. ‘before and after’);
- methodologies that match output to outcome, and eliminate external factors.

**The building block approach**

Focusing on developing measures at the three levels (outcome, intermediate outcome/impact and output) permits a building block approach to performance measurement. At each level, your agency needs to measure its performance in a constructive and auditable fashion, and to map progress back to the capability and funding you have invested in the area. Having got some progress, your agency can then link its resources and interventions to the impact they are having and then to changes in core outcomes. This allows management to make decisions based on an assessment of the value-for-money provided.

One word of caution: multiple outputs often contribute to a given intermediate outcome or outcome, as represented by the multiple arrows in Figure 3. If this is the case, the timing of funding increases can still be contrasted with changes in intermediate outcome or outcome. If real\[^{12}\] increases in funding do not improve outcomes, value-for-money should be questioned.

Every agency operates in a unique environment with differing services, priorities, budgets and stakeholder relationships. Therefore, each agency needs to adapt this framework to suit its own contexts, but retain the overall approach of demonstrating the links between resources, outputs, intermediate outcomes and outcomes. The ultimate product sought through your measurement framework is a clear, evidence-based ‘performance story’ that links resources and outputs to positive results.

**Developing a performance measurement process**

Before performance measurement can begin, your agency must establish a process by which it will measure performance, and agree resourcing and deliverables. To do this, key issues to resolve include:

- who leads the performance measurement process, and who is responsible for what;
- who needs to be involved, and how;
- what resources are available, including resourcing for long run improvements to data;
- what data/information is available, who owns it, and whether there are any limitations on access or use;
- what is the broad shape and purpose of final information products (reports, etc);
- how products will be used to inform what policy, planning and external reporting; and
- when in the annual reporting cycle products must be delivered to inform key decisions.

**Developing a performance measurement approach: the example of the Ministry of Agriculture and Forestry (MAF)**

Figure 4 illustrates MAF’s performance measurement roadmap. The roadmap presents the eight-step process that MAF will follow to develop a comprehensive performance measurement framework. Figure 5 illustrates how MAF links its resources to the three major outcomes it seeks to achieve, and what types of indicators it will use to measure its performance.\[^{13}\]

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\[^{12}\] i.e. after allowing for inflation, by adjusting nominal prices using an appropriate price index.

\[^{13}\] You may also need to consider the coverage (or targeting) of outputs.
Performance measurement

MAF's performance system is a suite of tools and measures that allow for an assessment of whether MAF is meeting its strategic objectives. The system operates at both a cross-MAF level and within individual Business Groups.

The role of the Performance and Evaluation team is to facilitate the development and operation of the cross-MAF performance system for which SPG is currently responsible. This includes:

Performance measurement
Developing performance monitoring systems by collating information and creating indicators.

Evaluation
Developing a strategic framework for evaluative activities within MAF.

External perceptions
Gathering the views of external stakeholders on MAF's performance.

Project objectives

(1) Outcome Performance Monitoring Framework
To develop a MAF-wide outcome performance monitoring framework that identifies performance measures for MAF’s end and intermediate outcomes.

(2) Performance Data
To develop a business intelligence solution that supports the ongoing production of outcome measures for the Outcome Performance Monitoring Framework.

(3) Service Performance Measures
To review MAF’s service performance measures and develop proposals for change.

(4) Management Reporting
To undertake a stocktake of MAF’s current management reporting and associated processes to identify potential improvements.

(5) Evaluation Strategy
To develop an Evaluation Strategy that allows SLT to co-ordinate and prioritise evaluative activity across MAF.

(6) Cost-effectiveness Measures
To develop a series of cost-effectiveness measures for MAF’s core outcomes.

(7) Outside-in Reviews
To collate external views on facets of MAF’s performance.

(8) Dimensions of Performance
To identify the key dimensions of organisational performance to guide the development for MAF.
Figure 5: Linking MAF’s objectives with its expected outcomes

Linking MAF’s objectives with its expected outcomes

MAF’s Mission
Enhancing New Zealand's natural advantage

MAF’s Purpose
Leading the protection and the sustainable development of our biological resources for all New Zealanders

Goals and objectives
Sustainable economic growth and prosperity for New Zealanders
Healthy New Zealanders and a vibrant rural community
Maintained and enhanced economic and social benefits for New Zealanders from the natural environment

End outcomes
Sustainable economic growth and prosperity for New Zealanders
Healthy New Zealanders and a vibrant rural community
Maintained and enhanced economic and social benefits for New Zealanders from the natural environment

External factors impacting on MAF outcomes

Raison d’être
What does MAF exist?
What aspects of MAF’s mission for sustainable economic growth and prosperity do MAF’s activities influence?
Is MAF’s mission a reflection of its expected outcomes?

Attribution and control
What aspects of MAF’s ‘reason for being’ can it reasonably be expected to control and/or influence?
Where is MAF going to focus its resources?
How is MAF going to structure its activities to achieve its objectives?

Evaluation Implementation
Monitoring of service delivery performance
What is MAF doing to achieve its objectives?

Evaluation Full effectiveness and efficiency in achieving expected outcomes
What are the results or effects associated with MAF’s activities over time?

Resources
Inputs
Intermediate Outcomes
Outputs
Economy
Cost effectiveness/Value for money
Efficiency
Effectiveness

Source: Ministry of Agriculture and Forestry