

Evaluation as the key tool of a self-correcting organisational system

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Abstract

Since the mid 1980's the Australasian Evaluation Society has been the leading professional organisation fighting to see evaluation as a routine part of good management practice. Today, many Federal Public Sector Agencies routinely evaluate their performance as part of 'business as usual'. Often such Agencies have developed an annual cycle of evaluation and research that is linked to their high-level business plan. This integrated approach ensures evaluation is aligned with the organisations' strategic intent and objectives and that evaluation assists organisational learning and growth.

This paper tracks the maturation of the evaluation industry since the 1980's. Case studies are presented from several Federal Public Sector Agencies where evaluation is used to continuously inform the strategic conversation within the agency. This paper discusses the importance of an integrated approach to evaluation and knowledge management and highlights that data, which leads to insight and wisdom, should be cherished as one of the most valuable commodities – both as intellectual working capital and as “real time” feedback on an Agency's performance. The paper provides tangible evidence of the advantage that can be gained through evaluation and research that creates the intellectual capital for a self-correcting and continuously changing organisation in the public sector.

Introduction

Like its overseas counterparts, since the mid-1980s the Australian public sector has been quality assured, restructured, re-engineered, downsized, continuously improved, de-layered, reinvented and performance managed through the balanced scorecard. In some cases these changes have been tokenistic, while in many they have been a source of frustration for public sector employees – exhausted from guru-driven management. However there have been many successes.

Evaluation has played a key role in the reinvention of the public sector in Australia

and the Australasian Evaluation Society (AES) has been the leading professional organisation fighting to see evaluation as a routine part of good management practice.

Much early public sector reform focused on progressive decentralisation of authority and financial powers to agencies, to allow managers greater autonomy in managing. This manifested as a program management and budgeting approach in the 1980s followed by the various outcomes and outputs frameworks introduced in the 1990s. Evaluation has played a central role throughout this reform, as agencies have increasingly been required to be accountable both to the government and the community and to demonstrate not just the efficiency but also the effectiveness of their programs, services and strategies.

Not surprisingly, a common feature of many successful agencies is the routine evaluation of performance as part of ‘business as usual’. Today many agencies have developed an annual cycle of evaluation and research that is linked to their high-level business plan. This integrated approach ensures evaluation is aligned with the organisations’ strategic intent and objectives and that evaluation assists organisational learning and growth.

This paper explores the maturation of the evaluation industry since the 1980s in light of key movements in public sector reform in Australia. The role of evaluation in a public sector environment with an increasing focus on accountability is explored and several case studies are presented from public sector agencies where evaluation is used to continuously inform the strategic conversation within the agency.

Key movements in public sector reform in Australia

The Australian public sector has experienced rapid and significant change over the last thirty years and a major force underlying this change has been the notion of accountability. The emergence of public sector reform in Australia can be traced to the Quality Assurance and Total Quality Management (TQM) movements. However, as with most public sector reform internationally, the reforms accelerated rapidly in the early 1990s with the publication of many definitive texts on repositioning and redefining the role of the public sector. The six significant movements in public sector reform in Australia since the mid-1970s are:

1. *Downsizing*: derived from the desire to reduce the “unnecessary” size of government-commenced in the mid-1970s with a taxpayer/political focus. Usually linked to California Proposition 13 which argued successfully for indexing property tax (rates) to market-based factors, thereby reducing income to local governments. Despite the development of “downsizing” into a divisive tool in some quarters, its origin was based on the emerging notion of accountability and the appropriate or “right” sizing of public sector organisations commensurate with their demonstrable, reasonable and relevant access to funds.

2. *Continuous improvement*: emerging from the quality movement – commenced in the mid-1980s largely influenced by the work of Dr. W. Edwards Deming. It was a grass-roots incrementalist approach to change and specifically process improvement. It involved decentralising power; team-based Total Quality Management (TQM and its many variants) and introduced the notion of cooperative process improvement (Walton, 1986).

3. *Re-engineering*: based on private sector notions of rebuilding organisational processes and structures, this trend commenced with the publication in 1994 of Michael Hammer and James Champy's book *Reengineering the Corporation*. In Hammer's words it involved "ripping the guts out of an organisation and reassembling them in the context of today's changing business world." It involved throwing away the current paradigms and current organisational model and structure, starting from scratch and focusing on the customer through fundamental and radical redesign (Hammer and Champy, 1994; Hammer, 1996).

4. *Re-invention*: based on entrepreneurial government/governance, commenced with the publication in 1993 of David Osborne and Ted Gaebler's book, *Reinventing Government* and formalised the move from input to outcome thinking and funding in the public sector. It also introduced the notion that the public sector could be entrepreneurial and use multiple methods of service delivery (Osborne and Gaebler, 1993).

5. *Delaying*: based on reducing the layers of management – commenced with the publication in 1993 of Doede Keuning and Wilfred Opheij's book *Delaying Organisations*. It was based on reducing information bottlenecks, reducing the distance between 'top and shop floor', accelerating decision-making by devolving it and created the conceptual underpinnings for matrix management and 'flat organisations' (Keuning and Opheij, 1993).

6. *Virtual integration*: based on the organisation as a networked web of relationships, commenced as a result of the impact of the previous five initiatives assisted by the significant opportunity provided through technology. It strengthened the move away from hierarchical to decentralised structures, pushed the concept of matrix management towards being a web or network of devolved decision-makers. The virtually integrated public sector organisation capitalised on the leverage available through e-commerce to become a "federation" of smaller "companies", "divisions" or "partnerships" that focused on client and/or market segments. The public sector was seen as more entrepreneurial and could "mix and match" multiple methods of service delivery, through its partnerships and alliances and through virtual integration (Hedberg, Dahlgren, Hansson and Nils-Goran, 1994; Tapscott, 1999).

A brief history of key Australian government reforms and the growth of evaluation as a tool for reform

Whilst these six international trends were placing significant external pressure on the Australian Public Service (APS), there were growing internal pressures for reform. By the 1970s the APS system was being questioned for its relevance as social changes undermined the foundation of what was seen as a distant and hierarchical bureaucracy (Verspaandonk, 2000). There were also concerns at the growing level of government expenditure placing pressure on governments to demonstrate that they used public resources wisely (Barrett, 2001). An early catalyst of reform was the Royal Commission into Australian Government Administration, chaired by H.C. 'Nuggett' Coombs (RCAGA, 1976), which highlighted the need to monitor and evaluate the performance of government programs.

The 1980s in the APS was a time of budget reforms, agency restructures and amalgamations, total quality management and the devolution of powers and responsibilities to managers. The objective of these reforms was improved efficiency

and effectiveness of government programs with a focus on ‘value for money’, responsiveness to client needs and the achievement of outcomes. The reforms included initiatives such as providing greater autonomy to managers, running-cost arrangements, program management and budgeting, user charges, contracting out and corporate planning.

In the late 1980s with the Australian government’s release of the Report of the Committee of Review of Standards, Accreditation and Quality Control and Assurance (known as the Foley report after its chairman Kevin Foley) there was also an increasing interest in quality management and assurance. Although aimed primarily at export industries, the Foley report highlighted a growing interest at government level in the notion of “quality” and accountability.

It was around this time that the Australian government Department of Finance (DoF) began a period of taking a much more active role in overseeing the performance of Government agencies. The Financial Management Improvement Program (FMIP), which allowed managers greater flexibility in deploying resources while at the same time requiring greater accountability for outcomes in program delivery (JCPA, 1995), and Program Management and Budgeting (PMB) were central to the financial reforms. Budgetary structures were reformed by the introduction of performance control and accountability rather than merely compliance (APSB, 1984). The 1984 Budget Reform paper (DoF, 1984) set out the Australian government's reform priorities as follows:

- a better means of identifying and setting budget priorities;
- more emphasis on the goals and objectives of programs;
- improved performance and efficiency; and
- effective review mechanisms.

Logically any performance-based control relies on a formal evaluation of outcomes. Consequently in tandem with these financial and budgetary reforms the Government developed and introduced a public sector wide evaluation strategy in 1988. DoF played a central role in the development of this strategy and in the development of program evaluation guidelines. The department also assisted agencies to build their capability to conduct these evaluations. The evaluation strategy sought the development of “reliable indicators of performance which can be used for ongoing monitoring” (Linard, 1987) and had four formal requirements:

1. programs were subject to evaluation every three to five years;
2. portfolio departments were to prepare an annual Portfolio Evaluation Plan (PEP) for evaluations with substantial resource or policy implications;
3. new policy proposals were to include a statement of proposed arrangements for future evaluations; and
4. completed evaluation reports should normally be publicly released.

An evaluation culture was embraced by the APS, with many agencies setting up evaluation units, and over 530 evaluation reports being published between 1993 and 1997 (Mackay, 2003). Since the mid 1980’s the AES championed the cause – fighting to have evaluation recognised as a tool that informed decision-making and priority setting and contributing to continuous improvement and improved accountability.

The Australian government's evaluation requirements were relaxed in the late 1990s as DoF and other APS agencies felt that the evaluation and reporting requirements often led to a predominantly process oriented approach. The new approach, which removed the standard requirement to conduct evaluations¹, was designed to ensure that evaluation became an integral part of a broader performance management framework across the APS (ANAO, 1997-98). The intention was to encourage a more strategic approach to evaluation that focused on priorities identified in the business plan and complemented routine performance management activities.

Several other recent Australian government reforms have had significant implications for evaluation, including the introduction of an accruals-based outcomes and outputs reporting framework in 1999-2000. The outcomes and outputs budgeting framework focuses on performance targets and expected departmental outputs, the resources being consumed, outcomes and costs (incorporating a full accrual-based financial measure). The role of evaluation is highlighted in the requirement that agencies specify the performance information required to monitor, manage and account for output delivery and the achievement of actual outcomes and report on performance accordingly (DoFA, 1998).

Evaluation also had a fundamental role to play in addressing issues of corporate governance. As outlined in a 1993 MAB/MIAC report "Accountability is fundamental to good governance in modern, open societies. Indeed, public acceptance of government and the roles of officials depends upon trust and confidence founded upon the administration being held accountable for its actions." This view is also reflected in a 1997 ANAO report that stated "evaluation assists in providing credible accountability information to assure the Chief Executive Officer (CEO) on internal control and management of the organisation, the planning and review of its operation and progress, and ensures consultation and constructive feedback on its program activities."

Towards a self correcting organisational system

Whilst the Australian government has put in place various reforms that have elevated the role of evaluation and firmly established it as a critical tool in public sector management, many agencies do not have a fully integrated evaluation strategy in place. In a recent report the Australian National Audit Office (ANAO) (2003) noted that agencies continue to experience difficulty in measuring the quality of their outputs and their effectiveness or impact. Many agencies conduct evaluation infrequently, and to address particular issues on a selective basis rather than conducting evaluation regularly and systematically (Mackay, 2003). Andrew Podger (the Australian Public Service Commissioner) neatly summed up these issues when he stated, "We will continue to face the challenges of seeking to strike the right balance between the devolved management and strengthened accountability that underpin the frameworks now operating in the APS." (Podger, 2002).

An integrated approach to evaluation is one where the evaluation framework is aligned with the agency's direction and objectives, is built into the annual planning

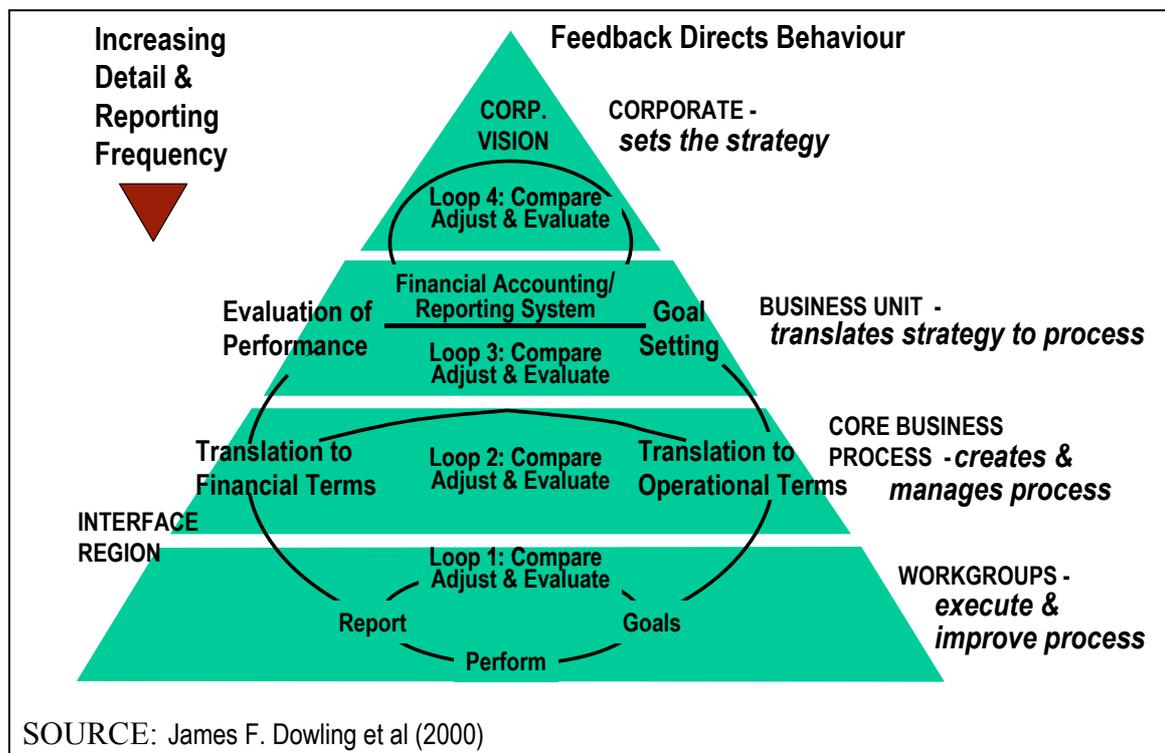
¹ Cabinet still instructs for evaluations to be done sometimes and 'lapsing' programs still must be 'reviewed' before funding can continue.

and review cycle, complements other performance information and cascades down through the agency to provide managers at all levels with the information they need for good decision making. It recognises the value of and assists in creating the intellectual capital for a self-correcting organisational system.

The difficulties with the most recent reforms of the Australian government’s approach to evaluation have been the linking of evaluation to financial indicator frameworks. Financial indicators are by definition “lag” indicators whereas the self-correcting organisational system operates most effectively when it has in place and responds to an integrated system of “lead” indicators. Lead indicators are “upstream” measures (usually non-financial, customer or staff issues, climate or societal, leadership, communication, organisational learning and growth or internal process measures), which flag the likelihood of performance changes in the “lag” indicators (usually financial, productivity, output or outcome measures). Correcting a system “after the fact” is the least efficient method of management.

There are many diagrammatic examples of a self-correcting organisational system. Figure 1 is a typical example. It suggests that there are four internal feedback loops in a self-correcting organisational system each providing companies with a “business reporting architecture that ensures that the right information is provided at the right time” (Dowling et al, 2000).

Figure 1: One version of the theoretical basis of the self-correcting organisational system



Examples of self-correcting systems

There are many examples of successful evaluation activity within the public sector. The following case studies are drawn from a wide portfolio of research undertaken for

six of the signature Australian government agencies in Australia.

Case Study 1: The integrated use of evaluation in developing and improving service quality

This agency was established in 1988 and immediately instigated a market driven approach to its management and service delivery. The agency manages in excess of 24,000 facilities around Australia and within five years had established its own internal evaluation capability including the automated production, distribution and scanning of optically-read client surveys. The client survey results are used to improve the quality of new facilities, inform future acquisition decisions, provide real time feedback on building maintenance and to benchmark service quality across its regional offices. The agency also introduced the routine surveying of staff opinions in 1991 to evaluate its human resource strategies and this internal research and the external client evaluation have now been part of routine business management for sixteen years.

Case Study 2: The role of evaluation in the due diligence process for the sale or outsourcing of Government functions

This agency was charged in 1996 with the sale or privatisation of six government functions. As part of the due diligence process the agency commissioned client and staff research to measure the value of each of the government assets in terms of the corporate health of the staff and the loyalty of the existing client base. All six functions were successfully transferred to the private sector and they are regarded as one of the most successful examples of government privatisation of selected functions. In addition, the agency built into the contract for sale a provision that the level of service provided after the sale should be comparable to, or better than, the standard as measured prior to the sale. This ongoing monitoring was built into the contract and has been an integral part of the success of the transfer of these functions.

Case Study 3: The role of evaluation in developing service standards and improving staff professionalism

This agency has some 20,000 staff and 21 different shop front offices around Australia. For the past ten years it has commissioned extensive evaluation with the objective of improving the relationship with its clients, re-engineering internal processes and promoting the changing nature of government service delivery.

In 2001 the agency introduced the concept of linking client feedback to staff remuneration. The agency has established a theoretical model of professionalism and this has been used to train staff as well as monitor their performance in the eyes of clients (see Figure 2). Every six months staff professionalism is measured and the results of this research are linked to staff pay increases under a collectively bargained agency agreement.

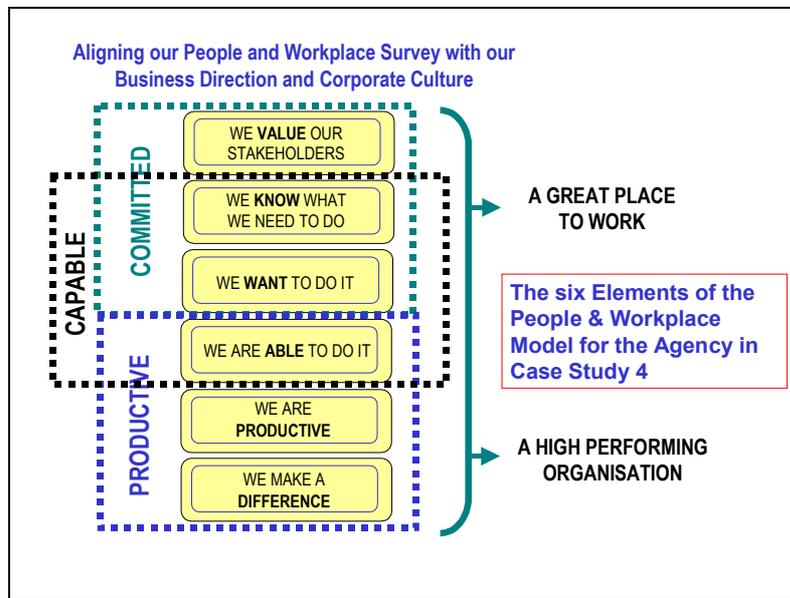
Figure 2: Model of Staff Professionalism used to evaluate staff performance



Case Study 4: The role of evaluation in cultural change and improving staff morale

This agency is responsible for a sensitive portfolio that is close to government and often in the public eye. They have developed an integrated performance management system – loosely based on the balanced scorecard (see Kaplan and Norton, 1996) – which is linked to their strategic plan. Like all agencies described in this paper, the use of evaluation has moved away from being an *ad hoc* process to a fully integrated component of a business management strategy. The agency developed a routine staff survey as a performance indicator against their human resource (HR) strategy. However, the survey also fulfilled the role of modeling, measuring and monitoring cultural change. The development of the survey included a new model written in layperson’s language describing the organisation and the key principles it was trying to establish (see figure 3). This model and the terminology within it is part of the organisational culture and are routinely monitored.

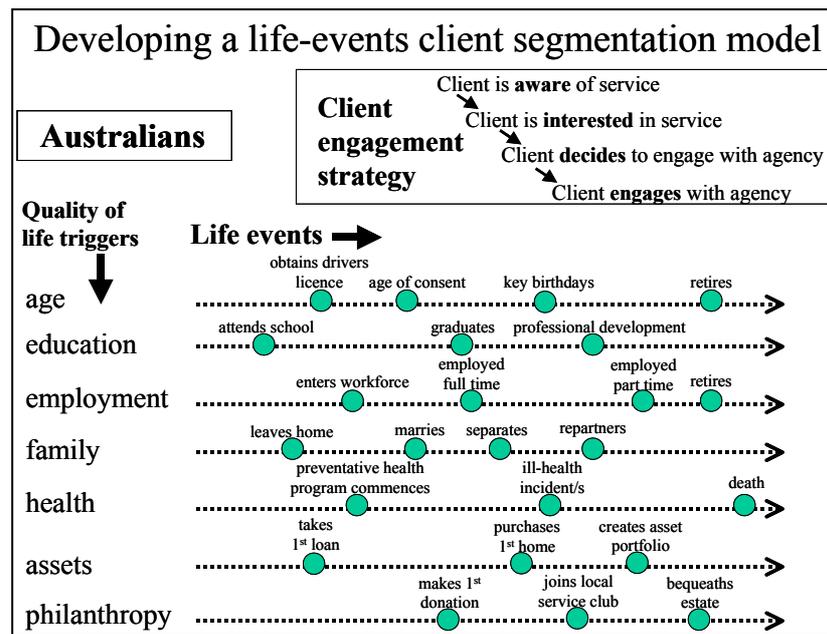
Figure 3: How one agency has modeled its human resource strategy with a view to developing routine measurement and monitoring of its performance



Case Study 5: The role of evaluation in client segmentation and improved service delivery

The agency has developed an annual cycle of market and client research that is linked to its high-level business plan. This market research continuously informs the strategic conversation within the agency about how to gain and implement better insights into its clients and its market. The agency routinely adapts its approach to service delivery based on the knowledge developed from its evaluation programs. A series of citizen insights were gained through evaluation and have resulted in new ways of thinking about the agency’s relationship with its clients. The result has been the development of a life-events approach to service provision and intervention (see figure 4).

Figure 4: A life events approach to client segmentation



Case Study 6: A fully integrated evaluation strategy

This agency has 1.4 million clients and 3,000 staff in 37 locations around Australia. The agency adopted a new strategic framework in 1996 that has been used as a basis for fundamentally transforming every aspect of its business. This transformation has drawn heavily on insights gained from a comprehensive evaluation strategy that routinely measures performance and assists in the development of tailored and appropriate products and services and improved service delivery. The evaluation strategy is fully integrated with agency planning and reporting systems, from the strategic vision through to operational activities, and feeds into the annual reporting cycle. For example, the agency conducts regular staff surveys to evaluate its HR strategies and these measures are linked to Senior Managers' performance agreements to provide a level of accountability for improvements to be made, and are also included as a key performance indicator in external reporting.

Conclusion

Since the mid-1980s the Australian public sector has made a giant leap forward in the use of evaluation research to measure, monitor and improve their performance. There is now a key and well-established role for the evaluation research industry in providing the information and the intelligence required by the new Australian public sector. Although the local industry is responding in a sporadic and uncoordinated manner, the market trend is forcing the emergence of a united industry approach.

The evaluation industry is increasingly being asked by the Australian public sector to move up the value chain and develop better integration and strategic use of feedback (see Bycroft and Vasiliauskas, 1998). The Australian public sector has established clear leadership in the introduction of many new business management initiatives including the comprehensive and integrated use of evaluation and market research.

An integrated approach to evaluation and knowledge management is central to an agency's ability to continuously evolve and adapt in response to a changing environment and changing client and stakeholders needs. Data which leads to insight and wisdom should be cherished as one of the most valuable commodities – both as intellectual working capital and “real time” feedback on an agency's performance. A structured, integrated and well-directed evaluation program that is aligned with the agency's performance management framework has the capacity to create the intellectual capital required for a self-correcting organisation in the public sector.

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