Risk-Taking, Innovation, and Performance Management in the Next Millennium: “Process Assurance” versus “Results Insurance”

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Abstract

A considerable literature, both in the private and public sectors, has developed in recent years advocating the need for increased, but sensible, risk-taking and innovation in the federal public service. The rapid changes in the public services’ internal and external environments underline the need for flexibility and a strong focus on results as is increasingly being demanded by the public. They provide the possibility for, and put the spotlight on, innovation, sensible risk-taking and accountability as central elements of best practice. We discuss how managers might engage in appropriate risk-taking behavior now and in the future. We propose that performance measurement and reporting, as required by recent changes to the federal government’s expenditure management system, may be a vehicle to facilitate increased risk-taking in the federal government. Performance measurement is expected to focus on results, as well as processes, thereby enhancing governmental transparency and accountability to Parliament and the Canadian public. We submit that an increased emphasis should be placed on results insurance versus the more traditional reliance on process assurance.

INTRODUCTION

We begin by describing the concept of risk as employed by us here. Some have defined risk as a negative concept.¹ This has been the traditional conceptualization in the public service for a long time. This stems, perhaps, from the historical financial emphasis on accountability. Times have changed and we along with others, are proposing that the public service adopt a more forward-looking and positive attitude towards both risk and accountability. Such an attitude would demand an explicit acceptance of risk in the sense of it being a choice or opportunity, rather than a fate or something to be avoided. Seen in this light, sensible risk-taking becomes something that managers may anticipate and even look forward to as a means to get better results.

This positive conception of risk, however, needs some further qualification for it to be practical. First, it requires the complete support and "buy-in" from senior management and the entire organization. We acknowledge, of course, that such attitudinal changes are usually slow to be realized in traditional, control-oriented public service environments.

Second, once this "buy-in" with regard to a particular risk-based choice has been achieved, it must include the willingness to absolve managers from the responsibility of making decisions that end up being wrong, or that have a less than satisfactory outcome.

Third, our positive conception of risk must be combined with a heightened awareness of the external risk environment. In other words, managers must try to identify and understand the factors affecting their risk-based decisions that are outside of their control. This helps render their decisions sensible in terms of those aspects that they can or can not ultimately be accountable for.
Fourth, in addition to managers' attitudes, an organization's policies and procedures must reflect the acceptance of a risk-based operating philosophy. Logically, without flexible policies and procedures, a manager can not be expected to function in a risk-based decision-making mode.

Fifth, an organization's internal and external accountability mechanisms may need to be redefined so that they are increasingly more transparent and reality-based. We will speak to how performance measurement and reporting might facilitate this, later in this discussion.

We will discuss how both the external and internal public service environments have changed, thus putting pressure on Traditional Public Administration to change its longstanding focus which we have described as “process assurance”, towards a focus on “results insurance”.

From a manager’s perspective, we demonstrate why performance measurement and reporting should be used as a tool to manage sensible risk-taking in this new environment which increasingly relies on innovation and flexibility to function well. However, we recognize that there are important hurdles to be overcome in order for our proposal to be successful. The following discussion is based upon the logic of our model as illustrated in Figure 1.

Figure 1: Model of the Changing Public Service Accountability Environment
THE CHANGING EXTERNAL ENVIRONMENT

The external environment in which the Canadian public sector operates has undergone considerable change. In a series of publications from the Treasury Board Secretariat entitled Getting Government Right, they stated that “nowhere has change been more dramatic than in the public sector. This change was prompted by a shift in the external public sector environment”.

For example, in 1993-94, the public believed that the nation’s finances were out of control. The economy was still in the grips of a recession; low confidence levels among business leaders and workers were stifling consumer spending and investment, and thus, employment growth. Additionally, Canada’s deficit level and indebtedness were the second highest among the seven largest industrial (the G-7) countries. “Unfortunately, efforts to contain expenditures were not sustained and were often unfocused. They were marked by hesitancy to articulate priorities and to translate those priorities into real action. Continued fiscal drift was the result”.

PROCESS ASSURANCE

What we mean by this is the need for absolute certainty in traditional management practices and accountability systems. Here, managers seek to assure themselves that the processes and results of their programs are appropriate and are being complied with. This assurance is usually achieved by measuring direct program outputs such as how many telephone calls were answered or how many projects were funded. However, little emphasis has been placed on expected or achieved program outcomes such as the immediate or longer-term socio-economic impacts of program activities.

Some public administration researchers contend that the values of a traditional public administration culture have consisted of the following characteristics:

- Ministerial Responsibility
Whereby the head of a department or agency is ultimately responsible for the department’s results; and
• **Prudence and Stability**

Characterized by conservatism and relative inflexibility in decision-making and managerial change. vii

Consequently, such a culture has been embodied by hierarchical thinking and management by control in a compliance-focused, process-oriented system. Here, senior executives are often reluctant to relinquish program responsibility in terms of decision-making. Conversely, line managers are held accountable for program delivery without having the necessary operational flexibility.

Holding managers accountable for results encourages them to focus more on results. In the past, managers were primarily held accountable for the prudent use of the resources they were given, the authorities they used and the activities they carried out. The concern was to ensure that spending was within budgets and regulations. This did not encourage a focus on the results produced by these resources; rather, compliance dominated managers’ attention. viii

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**THE CHANGING PUBLIC SERVICE ENVIRONMENT**

Largely as a response to changing demands and needs in the public service’s external environment, the internal public service culture has begun to evolve. The Canadian Government emphasized the need to review departmental programs continually and deliver these services using available resources. The government set out a broad outline of its expenditure strategy in the 1994 Budget and the 1994-95 Main Estimates documents. Additionally, the Canadian Government introduced the Program Review process. Through this process, the federal government attempted to determine which activities it could continue to deliver or support within a reduced budget. vii As a result, some federal departments have introduced innovative and relatively flexible public service initiatives that are significantly altering the way in which government serves Canadians. Some examples of these initiatives are:

• **Alternative Service Delivery**, where the government considers a wider range of service delivery options to achieve program and policy objectives to eliminate overlap and duplication with other departments or governments.
• **Citizen Engagement**, which is the active pursuit of public input and involvement in governmental decision-making processes that affects citizens’ lives.

• **Partnering**, not only with other departments but also with other governments, the private sector and non-governmental organizations (NGO’s) to improve service delivery. and

• **Cost Recovery**, such as the introduction of user-charges or fees for service.

The Treasury Board Secretariat has recognized that to sustain its programs in the future, the government must develop a culture that supports continual change and provides managers with greater flexibility.\(^{viii}\)

On the other hand, Canadians require that federal and provincial governments be increasingly more accountable and transparent in the reporting of their performance outcomes. Consequently, the Treasury Board Secretariat is guiding a new performance measurement and reporting initiative in the federal government.

**PERFORMANCE MANAGEMENT: INCLUDES MEASUREMENT AND REPORTING**

To improve government accountability to Parliament, in 1997 the House of Commons passed a motion splitting the Part III Estimates into Reports on Plans and Priorities (submitted by Federal Departments and Agencies in the spring of each year) and Departmental Performance Reports (DPR), submitted in the fall.

The Performance commitments found in the Plans and Priorities are meant to be clearly stated, measurable and strategically targeted. They should allow readers, in conjunction with the DRPs, to assess whether or not an organization’s performance expectations have been met. Consequently, Performance information in the DPRs should describe departmental achievements and how these benefit Canadians. Additionally, the DPRs should identify performance shortfalls and the manner in which departments have addressed, or anticipate addressing, them. In the past, DPRs have reported predominantly on program performance in terms of processes, activities, and outputs. However, DPRs should always include a strong focus on reporting the outcomes, or social impacts of departmental programs.

Performance Reports are intended to provide a credible accountability mechanism to inform parliament and the Canadian public of the results achieved by the use of the public resources and authorities granted by Parliament to the government.
According to the Treasury Board Secretariat, Performance Reports, if prepared in accordance with the Treasury Board Secretariat’s Guidelines, should:

- Report on accomplishments relative to previous commitments.
- Provide an opportunity for Ministers to convey a performance message.
- Communicate performance accomplishments simply, accurately and clearly.\textsuperscript{ix}

A key aspect of performance measurement and reporting is that managers can use it as a tool for what we call results insurance.

**IMPROVED MANAGEMENT PRACTICES: RESULTS ASSURANCE**

We propose that improved public management practices should focus more on “results insurance”.

What we mean by results insurance, in opposition to process assurance, is the conscious acceptance of risk in management practices. That is, the identification of organizational priorities using a risk-based approach which is informed through performance measurement.

This is what the Canadian public sector should be striving for.

In contrast to traditional management practices, improved management practices should focus on:

- **Results**
  Meaning real, measurable impacts of government activities on society, such as measuring the effectiveness of a publicly funded program, and the impact it has on the Canadian public.

- **Risk-taking**
  Relationship building such as interagency partnering.

- **Innovative Thinking**
  Exemplified by practices such as alternative service delivery and cost-recovery.

- **Organizational Flexibility**
  Which is illustrated by managerial freedom. Because the public sector manager will be responsible for developing appropriate performance measurement and reporting approaches, it is necessary for the manager and the organization to be granted the
freedom to explore good practices and obtain the tools desired to successfully implement this initiative. Therefore, organizational flexibility will inspire innovative thinking and risk-taking, which will encourage results.

Probity and prudence are important elements of the government’s management framework, but more emphasis on accountability for results would allow the government to reduce unnecessary rules and regulations under which managers operate. This would give them greater flexibility to respond to their unique and changing circumstances.x

According to the Auditor General’s Report entitled Reporting Performance in the Expenditure Management System, information on performance is required for good management and effective governance. “Knowing how well programs and services are doing is increasingly essential to managing today’s public sector, as governments here and abroad face resource reductions and a citizenry that continues to want good value from its government”.xi Creditable information on results is needed to manage tax dollars better, to make better decisions, and to provide for better accountabilityxii.

However, how successful have these changes been? And what are some of the obstacles that the new performance measurement and reporting initiative faces?

As the Auditor General has noted in several reports over recent years, the performance measurement and reporting exercise in the public sector has, in many cases, not been very successful to date. Public sector organizations are still focusing more on processes as distinct from results – especially outcomes of social relevance to Canadians. Recently officials in most departments stated that although they are committed to better measurement of results, actual reporting is still oriented toward activities and outputsxiii. Thereby providing process assurance as opposed to results insurance.

Consequently, unless an organization truly embraces performance measurement and reporting as management and accountability tools, it will be difficult for that organization to appropriately manage risk. Accordingly, we have identified good practices for the public sector manager in this new environment.

GOOD PRACTICES AND THE LEARNING ORGANIZATION

The public sector organization must be a learning organization. That is, through the use of a transparent performance management system (measurement, reporting, and accountability), the organization may actively seek to monitor, change and learn from both its internal and external environments. Further, managing risk in tomorrow’s organizations means active, ongoing performance
monitoring. This helps provide managers with necessary information to improve their capacity and flexibility to respond to program or organizational risks in a timely fashion. It can lead to a more adaptive learning culture, improving an organization’s capability to mitigate risk – especially within a constrained resource environment.\textsuperscript{xiv}

According to the Treasury Board Secretariat, “Results-based management and continuous learning are mutually reinforcing. The measurement and reporting of results is meaningful only if there is a learning culture in the organization so that these activities can affect how a department performs.\textsuperscript{xv}”

We strongly recommend, therefore, that an organization benchmark themselves against a similar entity and compare their performance management experiences. For example the province of Alberta recently benchmarked their performance measurement and reporting initiative against three U.S. states.

Based on the experiences of Alberta and other jurisdictions, several common performance measurement system design principles or themes were corroborated as a result of the benchmarking exercise. For example, it was discovered that one of the most important of these principles necessary for the successful implementation of performance measurement and reporting was the need for overt political leadership and support. Top level political leaders championed each jurisdiction’s performance measurement process\textsuperscript{xvi}. Based on this finding we recognize that it may be difficult for performance measurement and reporting to be embraced throughout the Canadian federal government if it does not receive overt support from its respective political masters.

Another recent benchmarking study, published by the National Legislative Program Evaluation Society, compared performance measurement practices among the U.S. states Florida, Minnesota, and Texas. Many similarities among these states were comparative to those discovered in Alberta. For example, performance measurement efforts in each state where shaped by legislative directives. Legislative audit agencies played a key role in oversight of performance information developed in each state. In Florida, the Office of Program Policy Analysis and Governmental Accountability was established to review and interpret state agencies’ performance information, noting whether measures are valid and whether the agencies have ways to ensure the validity and reliability of their performance data. This report also determined that “Agency “buy-in” is an important component of successful performance-based budgeting.\textsuperscript{xvii}”

Both examples above support the conclusion that executive and legislative leadership is critical for performance measurement and reporting to be successful.

For effective performance-based budgeting, executive branch leaders must be able to articulate to staff (and foster agency decisions) about why performance budgeting is a useful part of management and decision making. Also, legislators need to be willing to devote time to reviewing agency performance information and to ask performance-related questions. When legislative committees and their staff take the time to
discuss agency performance information, it can encourage skeptical agencies to take performance measurement more seriously.xviii

Therefore, performance measurement is more likely to succeed in cases where performance measurement is viewed by agency leaders as central to the management of the agency and not just as a bureaucratic requirement.

It has also been recognized by many organizations who have been practicing various forms of performance management over several years, that true “corporate buy-in” of this exercise may take up to ten years. Consequently, aside from being a learning organization, the entity with a successful performance measurement and reporting system must be patient and committed before it can expect to have a full-fledged performance management system in place.xix

CULTURAL CHANGE: NECESSARY, NOT EVIL

The Treasury Board has recognized that “to sustain its programs in the future, the Canadian federal government must develop a culture that supports continual change and improvement. It is hoped that this new [departmental performance reporting] system will give departments greater managerial flexibility”xx

We emphasize that performance information is not an end in and of itself. Rather it provides a basis for improving program management and is critical to accountability. According to the Australian National Audit Office “Good performance information … allows the program manager to determine whether program resources are being directed towards the achievement of the desired outcomes in the most efficient and effective manner. If the performance information being collected does not assist with improving program performance and accountability then it becomes a costly exercise with no return”xxi

According to the Treasury Board of Canada, one of the key aspects to “Getting Government Right” is a cultural change in government. The Treasury Board of Canada submits that they have attempted to shift the focus of departmental accountability from a “rules environment to a results strategy that emphasizes building ‘results’ into planning; improving quality and use of performance information; and improving results reporting”.xxii Treasury Board also recognizes that they:
...cannot afford the costs of program delivery due to the old culture of total risk avoidance and rules-based systems. The new approach calls for management of risk, great attention to values, ethics and the public interest, and the need to focus on results.\textsuperscript{xviii}

At the provincial level, the existing accountability framework in Alberta has undergone significant changes. Alberta’s system is the oldest, followed by New Brunswick, Nova Scotia, and the federal government. In the past, the Alberta government tended to assign tasks rather than goals. Central agencies were used to enforce rules and control Provincial organizations. The Alberta Government is now focusing instead on results and empowering organizations to achieve results. Effective accountability is replacing the need for the more traditional bureaucratic control. Effective accountability also means that those individuals managing public resources must depend on sound information, not speculation, when determining the effectiveness of government programs.\textsuperscript{xix}

\section*{SUMMARY}

In our model of risk, innovation and performance management we have linked together all of the elements that we believe are vital to realizing an effective, useful, relevant and transparent accountability system. As you will have noted, once governments move away from traditional practices and towards further improving their performance management systems (especially in terms of measurement and reporting), they will have created an important tool for \textit{results insurance}. It is hoped that such improvements, including the increased ability to adopt good practices through continuous learning, will result in program managers championing these new practices.

By employing an explicit, risk-based approach to performance management, performance information will become increasingly more transparent, accurate, and thereby improve the federal government’s results-based accountability to Canadians. We submit that results information generated in this manner will provide a higher level of "insurance" with regard to social outcomes than the current, more traditional approach. Operationally, an unintended but positive consequence may be, that program evaluation activities can regain some of their lost "raison d’être", credibility and utility by being more strategically employed where and when more in-depth and robust program assessments are required.

In Summary, the public sector manager should be aware of the external and internal public service environments in which they operate. Public sector managers need to move away from traditional management practices and use performance measurement and reporting as a management tool. This exercise will be successful if the organization receives true buy-in of performance management; if they benchmark their experiences;
and if they are able to continuously learn. We believe that this will increase the levels of flexibility, innovation and sensible risk-taking in the Canadian public sector. The overall result will be a more balanced, transparent accountability system.

It is recognized that reporting performance in an effective and balanced manner is a challenge and will take time to accomplish. Performance reporting is an evolutionary process that may involve a certain amount of trial and error. In addition, managers or departments may be reluctant to candidly report on performance that has not met expectations. In these cases, they should be encouraged to explain what happened and to report the corrective actions they have taken as a result of what they have learned.\textsuperscript{xxv}

One simple truth seems to emerge from decades of federal public service accountability initiatives. Managers will continue to find it difficult to report accurately on their organization’s performance and to learn from their mistakes if they feel they will be punished for being the bearers of bad news. There is an old saying that goes “strange is the dog that carries the stick with which it will be beaten”. Hence, there is a need for a cultural change in the Canadian public sector where the responsibility of performance management rests on the shoulders of the entire organization.
Glossary

**Benchmarking.** The process of identifying and enhancing an understanding of best practices with the goal of adapting them to an organization. It is used for the purpose of improving efficiency and/or effectiveness.

**Performance Measurement.** The process of comparing the level of a government service provided against some standard to see whether it meets that standard or is at least improving. This exercise provides information for planning, control, and operation.

**Performance Management.** To achieve effective or improve performance in terms of the intended results being achieved by a program in relation to the costs incurred. To learn about the program, its performance and the outside factors to adapt the program in light of past performance and its changing environment.

**Process Assurance.** Measuring outputs to determine the impact of products and services produced through program activities.

**Results Insurance.** Determining real, measurable impacts of government activities on society.

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1 CICA, Learning About Risk: Choices, Connections, and Competencies