

ROLE OF PERFORMANCE INDICATORS IN POLICY DEVELOPMENT

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Abstract. More than ten years ago, the system of performance indicators was established in Latvia. During this time the policy makers noticed that they lack a clear approach and guidelines for defining indicators. The idea to bind together performance indicators and public budgeting also failed. Therefore, it is important to see general progress regarding the application of performance indicators for policy development. The aim of the article is to provide an in-depth analysis of problems related to performance indicators and their application in policy development in Latvia. By analysing 46 white papers¹ being into force since December 1, 2014, the author identified major tendencies regarding performance measurement in Latvia. The selected white papers were researched in the following aspects – whether they apply composite index, the established performance measurement system is followed, and if the regional dimension is included in the white papers. The author concludes that the current white papers do not reflect the use of indicators for selecting policy strategies or monitoring policies. Instead, the current white papers are mostly designed to resolve narrow and very specific policy problems; and white papers also lack cross-sectorial coordination, both within one policy field as well as in a wider perspective.

Key words: policy, indicators, performance measurement, public administration

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Introduction

More than ten years ago, the system of performance indicators was established in Latvia; it was inspired by ideas of the New Public Management (further on – NPM) advocating economy, effectiveness and efficiency as the key public sector values. During this time the policy makers noticed that they lack clear approach and guidelines for defining indicators. Each ministry tried to set up indicators based on their understanding, available capacity and their own vision of policy development. However, instead of complex indicators reflecting long term changes in

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¹ In this article translation „a white paper” is used for the Latvian term „pamatnostādnes”. In some sources, „pamatnostādnes” is being translated as „guidelines”. The white papers are mid-term policy documents.

policy, civil servants preferred to use simple output measures. The idea to bind together performance indicators and public budgeting also failed. Therefore, it is important to see general progress regarding the application of performance indicators for policy development.

The aim of the article is to provide an in-depth analysis of problems related to performance indicators and application in policy development in Latvia. Since there is a large number of policy documents designed in Latvia, the author will analyse only white papers being into force since December 1, 2014. The analysis will cover 46 white papers in 18 policy fields. The main criteria for qualitative analyses of the white papers was, first of all, whether the respective white papers follow the general system of performance indicators established in Latvia. There was a special white paper designed for establishing the general system of performance measures in 2008 (*Rezultātu un rezultatīvo rādītāju sistēmas pamatnostādnes, 2008*). Secondly, do any indexes, as a complex set of indicators, are applied in the white papers to measure policy progress? The key issues are to find out how policy makers measure the achieved progress over a particular period of time. This is very important, since there was an idea to use performance indicators in both: evaluating policies and policy actions as well as the budgetary allocation to keep off incremental budgeting process. Finally, the third criteria – is the regional dimension included in the white papers and how policy makers perceive the projection of certain national problems in the regional perspective or vice versa.

Research results and discussion

Benefits of indicators

Public sector performance, reporting and accountability have been widely applied and debated over the last two decades as a part of NPM inspired administrative reforms striving to change the public sector (Barzelay, 2001, Hood et al., 2004). Van Thiels and Leeuw (Van Thiels et al., 2002) argued measurement of outputs and outcomes are on the top of the priority list for NPM, assuming that the indicators provide relevant information for policy implementation. However, NPM gradually transformed into more detailed theoretical concepts as New Public Governance, putting public service approach in the first place (Osborne et al., 2013). Osborne, Radnor and Nasi (Osborne et al. 2013, p.141-142) pointed out that public service delivery, in the environment with multiple stakeholders, is providing shift in the inter-organisational cooperation, where the organisational structure, budgeting and performance management of public sector organisations should be looked upon as a part of strategic orientation. Therefore, performance measurements with simple indicators transform into a complex system of measurements where indicators should provide both: direction for development as well as basis for monitoring and accounting.

At the same time, Galera and Bolivar (2011, p.611) claimed that NPM ideas in transitional economies would certainly be perceived differently as it was in Western Europe during the 1990s. The differences in perceptions are related to such issues as accountability and efficiency. These are not just normative values to be included in the laws. These are core

values for the public sector, recognised by Max Weber (1958). Verheijen and Dobrolyubova (Verheijen et al., 2007) debated that the success of performance management system is based on openness where its reports contain indicators on policy, and organisational evaluation is available for public scrutiny. In fact, performance management and indicators is the way to ensure effectiveness of public spending, thus, providing added value for taxpayers' money. Therefore, performance measurement is a modernised version of Weber's ideas of efficiency. Walker (2008) pointed out that governments have a tendency to focus on short term problems, thus, indicators help to identify long-term problems, avoid extra spending and unnecessary regulations.

Gurria discussed (2008) that those countries having a reliable system of performance indicators have more information on their resources, limitations, their directions and actions necessary for achieving objectives. Thus, according to Gurria (2008) measuring progress is a key instrument for policy process. The Organisation of Economic Cooperation and Development (further on - OECD)(OECD, 2012) claimed that the development of indicators requires substantial institutional capacity and resources. At the same time, the indicators for one policy field could not be developed in isolation from other policy fields, since there are no strict borders among policies. On the contrary, policies are in constant conditions of joint interactions. Thus, stakeholders might be interested in understanding the relationship among progress in different policy fields (OECD, 2012).

Policy monitoring provides cross-sectorial coordination and inter-dependability of policies (OECD, 2012). Indicators not only show implementation deviations, but also an extent to which policy objectives have been achieved. Thus, information provided by indicators and system of performance measurement becomes an important aspect of multi-level governance to ensure the stakeholders' interaction, joint efforts and evidence for decision making. At the same, performance management with a core idea of measuring policy progress is still facing many problems in practice, leading to unintended consequences or even a negative impact of performance (Van Thiels et al, 2002).

Performance indicators are necessary to provide information for stakeholders in the complex multi-governance and networking system where multiple stakeholders might be involved in different policies as well as in different stages of a policy cycle. At the same time, the OECD had pointed out two challenges dealing with indicators. According to the OECD (2009) the first challenge is related to the vertical dimension where agents of different levels should receive identical information for decision making. Therefore, indicators help to reduce information gaps among actors at a local, regional and national level. This will ensure that stakeholders operate with the same information, therefore they are able to coordinate their actions in a multi-level governance. The second challenge deals with the horizontal perspective. Based on the OECD (2009) at the horizontal level, there are networks of actors, thus indicators provide information for the members of networks on policy objectives and their progress. The horizontal level also includes interaction among policies.

In the interval, performance indicators will be analysed in the context of the policy cycle or certain steps on how problems are transformed into policies and policy actions. So, Dunn (2007) proposes seven steps in the policy cycle where it starts with agenda setting. The agenda setting stage (the first stage) is characterised by multiple issues competing for the attention of the government and society. However, not all of them are able to go through filters where multiple issues are competing even harder. Issue filtration (the second stage) separates them in many streams by various factors where the most popular are government capacity to cope with an issue, electoral preferences, pressure of interest groups, and expected events (Dunn, 2004). All these factors make some sort of range for issues to be resolved in short run, long term or never. The third stage sets alternatives designed as a solution for the problem. In fact, this stage is very important, since the collection of data to understand the problems, solution, and prior analyses provide background for decisions. All kind of information and indicators collected during this stage are relevant for all stakeholders and help to overcome the first challenges mentioned by the OECD. Information and data collect on alternatives are crucial to make an ex-ante evaluation (the fifth stage) and to choose the most appropriate alternative. Once the decisions (the sixth stage) are made, indicators and all kind of data play a vital role in the implementation of monitoring to see whether the actions are tailored to achieve objectives and if there will be some deviations. Finally, after a certain period of time, ex-post evaluation (the final, seventh stage of the policy cycle) is compulsory to make an overall view on the progress in the policy fields and to see whether the actions taken have improved the conditions in comparison to those before a particular policy programme (Dunn, 2004).

However, one can structure all benefits, produced by the indicators, in several groups. First of all, these indicators help to select policy strategies (OECD, 2009). Indicators and all kind of data related to policy provide evaluation of the designed and selected alternatives. Therefore, before making decisions, policy makers can provide ex-ante evaluation in order to choose an alternative that fits the criteria of efficiency, effectiveness and public expenditures (Christensen et al, 2003). To put it in a simple way – good information substantially decreases the proportionality of quick, politically-driven decisions. Secondly, indicators provide information for monitoring policy results and identification of policy deviations. Finally, indicators provide essential information for setting an accountability system for results achieved (OECD, 2009).

Performance indicators in Latvia

Latvia started its way for performance management more than 10 years ago by approving the regulation at the government. More in details, the system of performance indicators was defined in the White Paper on Development of Policy Planning System (further on – the White Paper on Planning System). In fact, the White paper has two functions – to describe the policy planning cycle and provide some sort of formula on how to take into account the complex

external and internal factors for developing policies. At the same time, the White Paper on Planning System also stated the main problems inherited in the public administration. These problems are related to a lack of indicators to measure policy progress. The White paper on planning system (*Politikas plānošanas sistēmas attīstības pamatnostādnes, 2006, p.11*) expressed: *there is no unified system of indicators and criteria integrated into statistical programmes and providing evidence-based and updated information on development of policy sectors and the country in general.* Therefore, policy makers recognised (*Politikas plānošanas sistēmas attīstības pamatnostādnes, 2006*) that all policy fields apply their own unique approach for measuring progress, if applied at all. Since policy sectors use different indicators and approaches, it is almost impossible to measure progress in the cross-sectorial perspectives. To conclude, policy makers have either limited or no information at all to answer the main question: "What are the tendencies for development in our particular field?"

At the same time, another white paper was developed – the White Paper on System of Performance Measures 2008-2013 (further on – the White Paper on Performance Measures). This White Paper helped to recognise that application of performance indicators in Latvian public administration was complicated, chaotic and challenging (*Rezultātu un rezultatīvo rādītāju sistēmas pamatnostādnes, 2008, p. 6*). In addition, the White Paper on Performance Measures emphasised that there are different approaches define indicators even within frameworks of one ministry. Thus, the indicators defined could not be combined into complex indexes nor one generic system showing progress of the particular policy field. The next relevant problem reflected in the White Paper on Performance Measures deals with the complexity of selected indicators which require public agencies to establish a sophisticated approach for data gathering and analysis (*Rezultātu un rezultatīvo rādītāju sistēmas pamatnostādnes, 2008., p.7*). In reality, public agencies are not ready to invest resources for maintaining complex and composite indicators. Instead, public agencies prefer to have it simple, - easy-to-acquire and easy-to-analyse indicators, expressing more outputs of public agencies, not policy outcomes (*Rezultātu un rezultatīvo rādītāju sistēmas pamatnostādnes, 2008., p.7-8*).

How the ideal performance measurement system of Latvia should look like? The Law on Development Planning requires each development document to be designed according to the certain criteria. These criteria are as follows: the objectives and the results for the policy field will be defined; the problems shall be described along with alternatives proposed; the main actions will be determined (*Attīstības plānošanas sistēmas likums, 2008, Article 4*). In addition, the law requires to use statistical and qualitative data, to describe the volume of the problem, and the major trends in the policy field. The achieved results will be directly linked to the problems identified in the policy sector. Therefore, indicators become very important to measure whether the chosen directions had been right in terms of overcoming the problem.

The ideal system of performance indicators was set as follows. The White Paper on Performance Measures defines the main principles to be applied. These principles are –

indicators have to be precise, general in application, and easy to understand for wider public. They also have to evaluate the cost, benefits, and have to be applied for the measurement of progress (Rezultātu un rezultātīvo rādītāju sistēmas pamatnostādnes, 2008, p.7-8). In the process of developing the indicators, the public agencies are advised to follow a simple model where the first step is to define the objective, activities and financial resources necessary to achieve the objective. The next steps are: to define performance indicators, to achieve those indicators and to measure progress. At the same time, public agencies are obliged to accumulate and analyse data which is a part of monitoring over performance indicators. Finally, public agencies are obliged to re-evaluate indicators and correct them, if necessary. It is worth noting that the White Paper on Performance Measures clearly states that public administration bodies measure outputs more than outcomes. The particular white paper also developed different levels and types of indicators such as output quantity indicators and output quality indicators, policy outcome and efficiency indicators. Such approach follows all the ideas inherited in NPM. In practice, however, it required performance incentives which Latvia could not offer.

However, in reality, to make the whole system of performance indicators work, the public administration shall ensure consistency among different indicators set in the government declaration, policy planning documents and organisational strategies. Thus, the system covers incredible amount of documents. The data base (available at: www.polsis.mk.gov.lv) on policy planning documents includes 2458 documents as it was on December 23, 2014. Many of those documents have lost their force, but some have just been approved. For example, there are 138 action plans, 103 white papers, and 114 programmes in the data base. Such amount of documents requires considerable resources and capacity to follow internal correspondence of indicators, actions and policy outcomes.

Results of the analysis

The analysis covered 46 white papers in 18 policy fields. Indexes were included and applied only to 16 white papers. Accordingly, only in one third of all white papers measurement of progress was foreseen by some composite indicators. The most popular measures mentioned in the white paper were: Latvia's place in the "Doing Business" rating, the World Bank government effectiveness index, consumer price index, the Global Competitiveness index, at risk of poverty rate. There are also a list of measures applied only for certain policies such as: Dow Jones index, Herfindahl index, the Heritage Foundation Index of Economic Freedom, Environmental performance index, Body mass index, Tourism Competitiveness Index, and Territory development index. The rest of the white papers have simple output indicators reflecting only actions and efforts of particular organisational units.

The cross-sectorial connections and coordination foreseen in the white papers are also an issue for research. However, the policy makers prefer to mention policy field, which the particular white paper may impact, but do not discover details in scope and volume of the

impact. In addition, there are policies that have more than one white paper. For example, public administration policy includes three white papers. The White Paper on Planning System and the White Paper on Development of Information Society assume that the World Bank government effectiveness index would be an excellent measure for improvements in these two fields. At the same time, the White Paper on Performance Measures do not have any composite measure: so there is an open question – how to measure the progress achieved regarding the use and application of measures and indicators. The policy makers assumed: if 50% of all policy documents by 2013 will have indicators for measuring outcomes, then it would be a successfully implemented policy (Rezultātu un rezultatīvo rādītāju sistēmas pamatnostādnes, 2008, p. 30). The author found out that 85% of all white papers being into force (out of 46) have set indicators per se including the composite indexes mentioned above. According to the White Paper on Performance Measures, the more indicators policy documents would have, the more informational support would be provided for decision making (Rezultātu un rezultatīvo rādītāju sistēmas pamatnostādnes, 2008, p. 30). However, there is a need to conduct an additional research in order to see to what extent these indicators really provide support in the policy process.

By analysing the white papers, the author discovered a strong tendency – each white paper reflects issues very narrowly, only from the perspective of the respective policy. Even several white papers designed within one policy might have used statistical data in a very narrow focus. There is lack of coordination among different policy makers regarding the incentives in the particular policy. Thus, very narrow focus, specific problems, and lack of cross-sectorial approach results into fragmented policy making process where it is hard to both coordinate incentives to achieve some wider objective and measure progress. This approved the finding stated in the White paper on performance indicators that policy makers lack understanding of the role of performance indicators in policy process (Rezultātu un rezultatīvo rādītāju sistēmas pamatnostādnes, 2008, p.7).

Finally, the author analysed regional dimension included in the white papers – to what extent national and regional level of governance has been perceived as a part of unified system. Data revealed that 65% (or 30) of analysed white papers have either tasks to be implemented at the regional level or data reflecting some problems from regional perspective. eleven of the thirty white papers had defined only tasks and detailed activities to be implemented at the regional level, while sixteen have included data and some activities. However, amount of details regarding data and activities differs. There are white papers with extended and detailed analysis of the policy fields from the perspective of all regions including comparisons among them (e.g. the White paper on Transport Development or the White Paper on Development of Social Services). There are also white papers that have narrow and very specific data regarding regional dimensions in one perspective only. There is also an interesting tendency – there are white papers with regional dimension and also without regional dimension within one policy field. Since ministries are the main authors of all white

papers, this leads to conclusion that even within one ministry civil servants have different level of understanding the necessity of indicators for policy development. Finally, some of the white papers were bureaucratic in their approach to regions by stating that all issues regarding regional policy can be found in the White Paper on Regional Policy.

Jones (2000, p.24) pointed out the main shortcoming related to performance management such as problems in measurement and attribution as well as lack of balance among different types of indicators. These problems can be identified in Latvia as well. Public agencies prefer to state outputs more than outcomes or any other indicator. For example, number of training, number of trainees, and number of letters are quite popular outputs. However, letters or training might differ in their lengths and substance, but bureaucratic logic say to state more letters/training courses, not the changes expressed in those actions that would be more important. Public agencies often define indicators without critical evaluation to what extent these indicators can be attribute to the particular agency, policy or a problem. For example, information campaign is important policy tool, but it could not substitute impact assessment of amendments to laws and changes in citizens behaviour related to corruption or public health issues.

Conclusions

The article was aimed to analyse role of performance indicators in policy development in Latvia. The number of white papers (46) and number of policies (18) included in the analysis show the general tendency – the current white papers are mostly designed to resolve isolated, narrow and very specific policy problems, and there is lack of cross-sectorial coordination among white papers of one policy as well as in wider perspective. In the long term, such approach does not provide the necessary background and capacity for developing “government-as-whole” policies. Therefore, fragmented policy development still continues administrative traditions where each ministry fights for budgetary increase, while, in general, public sector is overspending as it was noticed by Sir R.Mountfield in Latvia (Mountfield, 2000).

The general tendency on the white papers shows that all ministries try to follow the system of performance measurement by developing policy documents. However, white papers do not reflect the use of indicators for selecting policy strategies or monitoring policies. Ministries prefer to apply either internationally recognised and complex indexes or simple performance indicators which reflect the outputs achieved by institutional units, thus, avoiding reveal policy outcomes. Achieving policy outcomes require many organisational units to coordinate efforts, and sometimes it is even difficult to distinguish, which organisation invested more and which less. While outputs can be achieved within one organisation, it is easy to create a link between budget allocations and outputs. At the same time, it is necessary to set performance criteria for each particular organisation (Pastuszkova et al., 2011).

The white papers do not reflect the use of indicators for selecting policy strategies or monitoring policies. Moreover, white papers reveal overconfidence of policy makers assuming

that written policy documents automatically will ensure almost perfect policy implementation (Hood et al., 2004, p. 277). The Latvian case is not an exception. At the same time the government has expressed its will to measure progress by developing system of indicators, while implementation is still pending due to many factors where institutional capacity remains the relevant one.

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