MANAGING OUTCOMES WHILE ACCOUNTING FOR OUTPUTS

Redefining "Public Value" in New Zealand's Performance Management System

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ABSTRACT: *After 15 years of extreme focus on outputs, the New Zealand government's performance management system now expects public servants to "manage for outcomes" while continuing to be accountable for outputs. This shift in emphasis is analyzed using employment services as an example. The change is a result of outputs' becoming narrowly focused on the easily measurable and doable, and the new system potentially offers a way of combining bottom-line accountability with the motivating power of less measurable outcomes.*

KEYWORDS: *accrual accounting, government performance, long-term sustainable jobs, outputs, public value*

In the late 1980s, after a reorganization prompted by a loss of trust in its effectiveness, the New Zealand Employment Service focused on meeting a single target: job placements. Employers were identified as the primary clients for the agency, and the output for employment staff was clearly defined as presenting employers with work-ready candidates. Under the leadership of a general manager with experience of marketing in the car industry, the Employment Service advertised widely, acknowledged staff achievements at award ceremonies, and surprised its critics by increasing the numbers of job placements from fewer than 40,000 in 1988 to nearly 120,000 in 1992. It also created concern among privately owned employment agencies about unfair competition, concern that more disadvantaged job seekers were being left behind, and concern about the short-term nature of many job placements.[1]

The role of the service was to deliver outputs that the government wanted to "purchase" from the publicly owned organization and, at a time of 11 percent

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unemployment, job placements responded well to political priorities, resulting in the service's being singled out in 1993 by the Minister of State Services as a shining example of new-style public service.

In 2006, employment staff, now working alongside specialists in benefit payments at the Work and Income Service of the Ministry of Social Development, were expected to manage for outcomes, defined as long-term sustainable jobs. Staff were expected to work with other government organizations to tackle housing, health, or child care issues that might affect job seekers' prospects for gaining and retaining long-term work in an economy with 3.6 percent unemployment.

In the first performance system, employment placement was treated as a contract function, "concerned not with some nebulous public good but with meeting performance indicators set out in an agency agreement" (Davis, 1997, p. 226). The Employment Service was accountable for results defined by central agencies and policy advisers and subject to the pressure of potential competition. The focus on efficient delivery of outputs exemplified the methods of new public management (NPM) (Hood, 1991) that New Zealand had adopted in a rapid and textbooklike fashion in the late 1980s.[2]

The transition of the employment service from being a shining example of output delivery to the more complex challenge of managing for outcomes illustrates a dilemma of using outputs and outcomes to define *public value* (Moore, 1995). Too much emphasis on outputs can produce dysfunctional results, as an episode from the New Zealand Employment Service illustrates.

In 1999, after employment services had been merged with benefit administration to form the Work and Income Department, the new agency became a lightning rod for concerns about the use of business techniques within the public service. A new chief executive focused even more strongly on output targets than the employment service had 10 years earlier and exhorted staff to match private sector services in their responsiveness to clients (beneficiaries). When it emerged that the department had chartered a plane to take managers to a motivational conference at a tourist resort, the then-opposition Labour Party used this as a symbol of extravagance and loss of public service ethics. Within two years of the election of a Labour-led coalition government in late 1999, the chief executive of the department, Christine Rankin, was dropped from her role and the Department of Work and Income changed from a stand-alone, outputs-focused agency to a division of the Ministry of Social Development in which policy and delivery issues were combined.

A service that for 12 years exemplified a wholehearted pursuit of clearly defined and contracted targets now focuses on the more complicated task of delivering outcomes, a shift illustrated in changes to its performance measures (see Appendix). The transition of the employment service is one of the most visible and extreme examples of a systemwide change in thinking about how to define public value within New Zealand's central government.

Table 1. Strengths and Weaknesses of Outputs and Outcomes

	Outputs	*Outcomes*
Strengths	Clear, measurable statements of results, defined by quality, quantity, and timeliness indicators. They can be clearly linked to the ability of a particular organization and chief executive to achieve and provide a "no excuses" approach to accountability for results rather than inputs.	Purpose-oriented descriptions of results, which take a broad and long-term perspective. They are potentially inspirational and motivational and sufficiently broad to incorporate contributions from a number of organizations.
Weaknesses	The focus of measurement can shift toward that which can be measured and easily audited. The output can become the goal in the process of goal displacement, at the expense of longer-term and more meaningful achievements.	Outcomes can become so broad that they can mean all things to all people, with achievement being very difficult, if not impossible, to measure. Outcome statements can become window dressing that prevent outsiders from assessing how well an organization is doing.

The use of outputs as almost the only definition of public value, coupled with severe employment consequences for chief executives whose agencies failed to deliver on output indicators, resulted in varying degrees of goal displacement (Blau, 1963; Merton, 1957). The Work and Income Department's single-minded pursuit of indicators—functioning as if the organization were a private sector bank, operating independently of other public sector agencies—resulted in a political backlash.

For designers of public sector performance systems, the dilemma is that both outputs and outcomes provide useful and important definitions of public value, and overemphasis on either can produce dysfunctional results. The strengths and weaknesses of each are summarized in Table 1. Too strong an emphasis on either outputs or outcomes risks setting in motion a cycle common to public administration reforms, identified by Kaufman (1956, p. 1057). Exclusive emphasis on one value can create difficulties, which then prompt calls for further change. Kaufman analyzed values of representativeness, neutral competence, and executive leadership, but the same cycle can be observed in the use of performance systems.

The current challenge of the New Zealand performance system is to reconcile the dilemma created by the contrasting values of outputs and outcomes. Hampden-Turner (1990) contended that a creative reconciling of dilemmas can lead to superior performance. Simons (1995) presented performance management as a craft of balancing yin and yang elements (see Figure 1). The dark yin represents externally imposed controls such as measurable outputs and constraints on man-

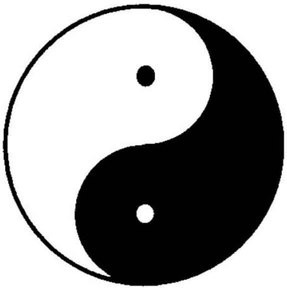

Figure 1. Yin and Yang Symbol

agement action, and the lightness of the yang symbolizes the motivating power of self-driven initiative, such as that sought by outcomes.

Performance management in New Zealand in the late 1980s was driven by the pressure of a fiscal crisis, focused first on externally imposed controls. Since 2003, the planning and reporting processes have been changed to give agencies a mandate to manage for outcomes while still being accountable to deliver outputs. This article describes the challenges involved in reconciling the outputs/outcomes dilemma by reviewing the history of the New Zealand performance system and reasons for recent change.

Outputs as Hard-Edged Accountability

During the past 20 years, the terms *outputs* and *outcomes* have changed from being analytical devices for accountants and economists (e.g., Ramanathan, 1985) to become everyday language for public officials. The outputs–outcomes distinction was adopted in New Zealand in 1989 as the central mechanism for forcing accountability and responsiveness on a public service system, which was seen by political leaders to respond too slowly to a fiscal crisis. The New Zealand experiment attracted international interest as a comprehensive example of NPM ideas. As a remote island nation of 4 million people, 2,000 kilometers from its nearest large neighbor, Australia, New Zealand was able to implement change more rapidly than other countries. The resulting public management model was variously seen as an example worth studying (Aucoin, 1995), a radical outlier (Ferlie, Ashburner, Fitzgerald, & Pettigrew, 1996, p. 250), an experiment not to be recommended for most developing countries (Schick, 1998), a system that is “getting better but feeling worse” (Gregory, 2000, p. 107), and the “world’s most advanced performance system” (Kettl, 2000, p. 7).

The major changes were initiated by a small group of politicians and Treasury officials, core members of the “authorizing environment” who were frustrated by “unresponsive and territorial behavior by many senior public servants, especially in the commercial activities of government” and the impression from the public service that its response to a serious fiscal problem "was business as usual" (Scott, 2001, p. 173).

One politician, Simon Upton,[3] who made extensive use of the outputs framework as a Cabinet minister in the (conservative) National Party governments during the 1990s, recalled his first select committee meeting with the Department of Scientific and Industrial Research as a new opposition spokesman in 1985, noting that the department's annual report provided "acres of information on the resources deployed . . . but no comprehensive account of exactly what research was being conducted with what end in view. That was assumed to be so self-evident that no elaboration was required" (Upton, 1995, p. 2). Simon Upton wrote that he would never forget the "avuncular smile" with which the director general greeted his request for such information, responding "we don't gather information in that way":

> And yet what could have been of greater interest to someone concerned with making the case for publicly funded science? If politicians couldn't tell taxpayers what research their funds were supporting, why should taxpayers continue to support all that effort? (Upton, 1995, p. 2)

Drawing on concepts from new institutional economics (Boston, Martin, Pallot, & Walsh, 1996), the designers of the New Zealand management system conceived of government as an owner of assets and as a purchaser of services. As an owner, government would want to ensure the value of its organizational assets was maintained; whereas as a purchaser, government would want efficient, effective services delivered as cheaply as possible. The concept of outputs was developed as the central device for implementing this model of government, with appropriation based on outputs rather than organizational inputs. Comprehensive reforms between 1988 and 1992 reshaped institution-based funding into more than 500 outputs, each specified in terms of quality, quantity, and timing and assessed through corporate plans, annual reports, and by the auditor general. Each output was defined sufficiently tightly so an individual chief executive could not use a claim of "factors beyond my control" as a reason for nonperformance. Private sector accrual accounting was adopted so the cost of outputs would include the use of capital and be comparable with potential private or nonprofit sector alternatives (Norman, 1997).

The hard-edged nature of accountability for outputs was expressed in a technique used by Treasury officials engaged in changing the system, who posed this question to departments: "Imagine your department is not here any more. It's gone. The government wants to buy those services in the private sector. What should they contract for? How would you write the contract?" (Norman, 1997, p. 9).

By 1992, all departments were gathering information in the way that Upton had sought, with accounting systems developed to allocate all departmental costs against the 500 outputs. A system of government as chief contractor, advised by policy ministries independent of delivery responsibilities, was established during the same period. As Scott noted:

> [The aim was to create a] degree of detachment from the legacy of what has been done in the past. It creates incentives for departments to produce services arising from an analysis of present and future policy requirements, rather than assuming that the past services will still be required. It promotes questioning about what is being produced and what it costs. Rather than ministers or central agencies having to argue that a service does not add value, from a position of less information than the department has, the burden of proof shifts towards the department. (2001, pp. 170–171)

Output specifications were the bottom line for government performance, and failure to deliver could be expected to result in restructuring or outsourcing overseen by policy ministries and central agencies. Buttressing the new accountability for delivering results, heads of government departments and ministries lost their job security as permanent heads and, instead, were placed on performance based-contracts that were usually for no more than eight years.

Outcomes as Wish Lists

Outcomes featured little in the late 1980s redesign of the New Zealand public sector. The Treasury head Graham Scott[4] had a deep skepticism of outcomes as a performance device, based on experience on program budgeting, which he believed had degenerated into an easy solution of budgeting for organizations that used codes for unspecified "administration." Budgeting for outcomes in his view provided "a rich opportunity for plausible excuses," offering the same risk as program definitions of descending into "a debate about evidence, causality and degree of control" (Scott, 2001, pp. 175–176). Although definitions of outputs might at times be arbitrary, the technique was "more reliable than would be any attempt to attribute input or output costs to outcomes" (Scott, 2001, p. 176).

In contrast to the major effort involved in specifying outputs and creating cost systems to track them, outcomes were left as the responsibility of politicians to articulate. National Party–led governments of the 1990s grappled with defining government outcomes as *strategic results areas* (SRAs) such as reducing crime or reducing income inequality.[5] The aim was to guide ministers in developing their desired outcomes and assist agencies in thinking about what outputs might be relevant. The term *key results areas* (KRAs) was used to describe the contributions made by agencies to the SRAs and to encourage chief executives to collaborate across ministry and agency boundaries. National Party–led coalition governments between 1994 and 1999 sought to make strategic priorities explicit through this framework and held strategic planning retreats for Cabinet ministers at which cross-portfolio issues could be debated.

A major flaw in this approach proved to be a profusion of KRAs from public service organizations, each claiming to be indispensable for achieving SRAs. The strategy process became overloaded with information, leading to a disillusion with the SRA/KRA approach, which predated a change of government in 1999.

In an assessment of government planning processes, Petrie concluded that information provided about outcomes was “so general as to be virtually meaningless” (2001, p. 16). Disillusion with the strategy-setting process and increasing concerns about a lack of balance from the focus on outputs combined with a change of government to create the environment for change.

Overemphasizing Outputs

The performance model developed in the late 1980s defined public value through the use of two dichotomies: government as purchaser and owner and public sector results as outputs and outcomes. Schick (1996), in a major review of the system, concluded that the purchase interest had driven out the ownership interest.

As a central agency control device, outputs achieved the important result of creating an “electric fence”[6] against overspending. Although budget blowouts were a regular feature of the pre-1988 system, they have since become a rarity, as chief executives on performance contracts have been held accountable for staying within fixed output budgets. Such fiscal discipline has helped achieve a consistent run of budget surpluses since 1994.

Concerns about the impact of a single-minded focus on outputs accumulated during the 1990s. Schick (1996) thought the reliance on contracts led to a checklist mentality in which managers delivered only those things that were specified in the formal performance system. Stace and Norman (1997) and Norman (2001) found that public sector managers were increasingly uneasy about the extent of emphasis placed on results that were easy to measure and auditable.

Effectively, the focus on outputs benefited those public services that Wilson (1989) and Gregory (1995) categorized as production tasks, in which the final output is also an outcome. Functions such as tax administration, passports, land titles, employment placements, and company registration were able to use the reporting frameworks to demonstrate considerable gains in productivity, particularly through the use of information technology. Meanwhile, public services in areas such as health, social welfare, and education tasks struggled to demonstrate progress. Their work tends to involve coping, or craft, tasks, to use Wilson’s (1989) typology. Coping tasks involve persuasion and behavior change with often-reluctant clients, such as those in the care of social workers or probation officers. Craft tasks have observable long-term outcomes such as educated children, but the outputs by which outcomes are achieved are much less visible professional processes.[7]

Concerns about the effect of the purchase and output model as a definition of public value prompted the 1999 Labour-led government to review the public management systems, with one of the terms of reference focusing on ”whether the division of the state sector into a large number of departments and agencies, including the division between policy and delivery, is leading to an excessively narrow focus by managers and a loss of co-ordination across the public sector" (State Services Commission, 2001, p. 29).

The effect of the dichotomy between outputs and outcomes was well captured for the author in an interview with a senior manager in 2000. The manager spoke of "a disjuncture between committing psychologically to produce outcomes, but limiting formal paper contracting to outputs." Outcomes were "what we are really doing, what our heart is in and we are responsible for," but the accountability system required specification in terms of measurable outputs. That observation neatly captured the horns of the dilemma of outputs and outcomes: In an outputs system, the manager who veers too far from the auditable and measurable can lose reputation and risk his or her job, even though outcome-oriented work is proceeding and in the longer term may be leading to more effective public value.

New Efforts to Focus on Outcomes

Efforts to strengthen outcomes as a focus for public service work have been incremental in contrast to the rapid and revolutionary changes of the late 1980s. After a series of pilot projects, the systemwide planning and reporting cycle was changed in 2003 to place more emphasis on outcomes, strategic intent, and organizational capability. By 2006 all public agencies had completed a full cycle of the new planning and reporting framework.

After nearly 15 years as deliverers of specified outputs, contributing to politically expressed outcomes, in 2003, chief executives and public sector organizations gained formal responsibility to manage for outcomes, while also being held accountable for efficiency measures related to outputs.

The significance of managing for outcomes was highlighted in the official briefing for the new system: "Outcomes are influenced by many factors. Some are in our control: others are not. Because of this chief executives are not accountable for achieving outcomes but are held accountable for 'managing for outcomes'" (State Services Commission, 2005, p. 1). Good information on results would help to decide what to start, what to stop, and what to continue or expand.

The Parlimentary Briefing for the new planning format noted that the previous system had showed a "strong bias toward financial matters and outputs, with little or no reference to other important aspects of performance, such as outcomes or organizational capability," and there had been an "almost exclusive focus on short-term (annual) intentions and results" (State Services Commission, 2003, p. 10).

Managing for outcomes is envisaged as a cycle of continuous improvement, a self-assessment tool, not an accountability mechanism:

- Direction setting: What do we intend to achieve over the next three to five years and why?

- Planning: What is the best way to achieve this, and have we got the required capability?
- Implementation and delivery: Are we implementing and delivering as planned and managing our capability and risks effectively?
- Review: What impact have our interventions had, and what improvements can we make?

The statement of intent (SOI) is a public document tabled with the budget and provides a description of the department's goals over 3 to 5 years. It is expected to support the appropriation requests in the estimates and provide a base for reporting against in the annual report. The SOI describes the main outcomes sought, the outputs to be supplied, and plans for managing capability. Outcomes are expected to show how the environment has been analyzed and why the proposed outputs have been chosen from a range of alternatives. Outcome goals are expected to be matched with information from audit, evaluation, research, or reviews to support the claims (State Services Commission, 2005).

Budget guidelines (The Treasury, 2006) now explicitly state that the role of a ministry or agency is to provide advice to ministers about outcomes they might want the ministry/agency to pursue, their relative priorities, and whether the existing outputs are the most efficient and effective ones to achieve these outcomes.

The transition to outcomes is not straightforward, in the view of a focus group established by the researcher.[8] Budget specialists participating in the focus group thought that in the first two years of the new system, outcomes were more of an overlay on outputs, rather than a fundamental change. In their view, outputs and fiscal control routines remained the essence of the performance budgeting and reporting system. Outcomes, in the view of the focus group, were taking an inordinately long time to reach maturity. Agencies were on a spectrum in terms of the level of development and the robustness of outcomes and their measurement.

The focus group agreed that requiring new budget bids to be clearly linked to outcomes was pushing the pace of change, but gathering appropriate data to prove links between outputs and outcomes was very difficult. The system required a high degree of understanding causality, which was difficult because in most public services a number of agencies had an impact on any single outcome.

The newness of the outcomes initiative in New Zealand means this planning and reporting system is still largely untested rhetoric. It remains to be seen how effectively the "manage for outcomes" distinction will result in a balance between the motivational power of outcomes and clear accountability of well-specified outputs.

Reconciling Outputs and Outcomes

The perspective of the current chief executive of the ministry now responsible for employment services illustrates the significance of the shift in approach from the late 1980s. Peter Hughes, chief executive of the Ministry of Social Development, which delivers employment and benefit services, has identified a way in which outputs and outcomes might be reconciled so the benefits of both can be retained. According to Hughes, outputs are the equivalent of bottom line accountabilities in the private sector, with outcomes being the top line (personal communication, December 15, 2005). Outcomes can only be tackled effectively once the core business, as defined by outputs, is under control. Achievement of outcomes relies on effective delivery of outputs and the maintenance processes of equity, consistency, and integrity, features of traditional bureaucracies. Outcomes are at the top of a staircase.

Although accountability for outputs is the bottom line of public sector management, the real gains are to be made from focusing on the top line of outcomes. Such a change in approach is hard, according to Hughes, for people "socialised in the 1990s straight-line accountability ideas" when the paradigm was "you can only get performance if you can get accountability" (personal communication, December 15, 2005).

Outcomes are a more organic form of management that requires building relationships, rather than cascading performance agreements. According to Hughes, outcomes can work because "most people are intrinsically motivated. . . . What we should focus on is the top line which is the territory of outcomes" (personal communication, December 15, 2005). The struggle should be with achievement of outcomes, not accountabilities, which should be just the bottom line, or the floor for the system.

In Hughes's view, outcomes make immediate sense for frontline staff. Speaking about outcomes to field staff is like talking commonsense. "The client is in front of you. You know what the right thing to do is" (personal communication, December 15, 2005). Resistance was more likely to come from middle managers and central agencies, the equivalent of middle managers in the government system. "The most remote bits of the system are the last to change. They don't face the client; they don't face the big picture. It's the same in central agencies where they don't face the client, and don't face the big picture" (personal communication, December 15, 2005).

Conclusion

In seeking to break up a process-bound bureaucracy, New Zealand public management reformers in the late 1980s relied strongly on outputs and contracting to instill a new focus on results. As a technique for disturbing deep-seated organizational routines, funding for outputs has proved a powerful method of fiscal control and managerial accountability. However, as Kaufman (1956) identified, emphasis on one value of administration can create conditions for a subsequent move to a different definition of value. Overemphasis on outputs has prompted the move to managing for outcomes, an as-yet largely untested way of reconciling the differing values of outputs and outcomes.

The current challenge in New Zealand is to define public value by reconciling two necessary but potentially conflicting features of a control system (Norman, 2003; Simons, 1995). Outputs provide important diagnostic reporting, enabling managers to do the equivalent of setting a thermostat and being able to rely on preset standards to guide action and change course when the need is clear from the variances. Outputs have also been found to narrow the definition of performance, resulting in goal displacement and the creation of organizational silos focused on delivering measurable and auditable results.

Outputs provide the equivalent of the bottom line of private sector management. They channel effort and ensure a minimum threshold of performance, providing diagnostic clues about progress with results. Outcomes, as the chief executive quoted herein suggests, add a top line dimension to public sector performance, which potentially provides a motivational challenge to exceed the formally defined accountability targets and take into account the perspectives of clients and citizens in defining public value.

Public sectors have a long tradition of fashions and failures in the use of reporting systems (e.g., see Wildavsky, 1992, for an analysis of the planning, programming, and budgeting system and zero-based budgeting initiatives). New Zealand's adoption of a radical approach to performance management in the late 1980s has been influential in the development of accounting and measurement systems in many other countries. The current effort to reconcile output-based accountability with the broader picture provided by outcomes is less a sign of fashion or failure than an effort to reconcile tensions inherent in performance and control systems.

The challenge now is to reconcile the values inherent in the shorthand descriptions of public value that outputs and outcomes represent.

Notes

1. An account of the turnaround at New Zealand Employment is contained in a 1999 case study "George Hickton—Salesman," by Anna Smith and Richard Norman, available by e-mailing the author at Richard.Norman@vuw.ac.nz.

2. The ideas for reform were contained in the Treasury document *Government Management* (The Treasury, 1987), which provided a textbook-like set of prescriptions for reform. The major ideas relating to the Employment Service were to separate policy and delivery and delegate authority and resources to managers of delivery and hold them to account for delivering clearly specified, predefined outputs.

3. Since 2001, Upton has been chair of the Roundtable on Sustainable Development at the Organization for Economic Cooperation and Development.

4. Secretary of the Treasury, 1986–1993.

5. A detailed account of this phase of strategic planning is contained in Matheson (1998).

6. The metaphor comes from a comment by the associate minister of finance, Maurice McTigue (1992). Electric fences play an important role in New Zealand agriculture and are a significant export industry.

7. The fourth task, described as *procedural*, had clear outputs in the form of processes intended to maintain systems such as court processes.

8. A group of 13 budget specialists were invited in November 2005 to use the electronic meeting software WebIQ (WebIQ, L.L.C., Silver Spring, Maryland; see webiq.com). The specialists were invited to comment on their experiences with the relatively new outcomes system among other aspects of performance budgeting after which statements of individuals were voted on by the group. The views presented were the consensus of the whole group.

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Appendix
Ministry of Social Development Performance Indicators for Employment Services

Annual Report, 2001–2002	*Actual Performance Measure June 30, 2002*
• Achieve 15,100 stable employment outcomes for job seekers unemployed between 6 months and 2 years.	13,949
• Achieve 4,700 stable employment outcomes for job seekers unemployed between 2 and 4 years.	5,260
• Achieve 1,200 stable employment outcomes for job seekers unemployed 4 years or more.	1,895
• Maintain or increase the share of stable employment outcomes gained by short-term (0–26 weeks) or long-term (26 weeks +) Maori job seekers to 32% stable employment outcomes.	32.1%
• Maintain or increase the share of stable employment outcomes short-term (0–26 weeks) or long-term (26 weeks +) Pacific job seekers to 10%.	10.7%

Annual Report, 2005–2006	*Actual Performance Measure June 30, 2006*
• Getting clients into work: The proportion of job-seeking clients in receipt of a core benefit who exit into employment will be:	37.7%
• The proportion of job seeking clients in receipt of a core benefit with a duration of six months or more who exit into employment will be:	38.7%
• Clients remaining in work longer: The average cumulative time that job-seeking clients, who exit to work, spend in employment over the course of a year will be:	40.4 weeks
• The proportion of job-seeking clients who exited into employment and achieved six months continuous employment will be:	65.5%

Source: Ministry of Social Development (2006).

Note: Output class = Services to minimize the duration of unemployment and move people into work.

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