Results-Based Systems Are the Path Towards Results-Oriented Government

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Abstract

Purpose – The purpose of this article is to explore the path towards Results-Oriented Government (ROG) by proposing a framework that can lead to achieving it into actual practice.

Design/methodology/approach – The article is based on review of existing experience of pathfinder countries and literature.

Findings – The article argues that the Results Oriented-Government cannot work with the traditional government systems and the adoption of Results-Oriented Government needs to be based on a balanced public sector reform that includes all the following main components: Result-oriented management system (New Public Management (NPM) and New Public Governance (NPG); result-oriented accounting system (accrual accounting system); result-oriented budgeting system (Output-based Budgeting System); result-oriented performance measurement system (Result-based Performance Measurement); result-oriented Auditing System (Performance Audit); and result-oriented Staff (Result-based Culture).

Practical implications – It has been noticed from the earlier experiences that some countries had placed emphasis only on public management reform (e.g., NPM) and some others only on accounting and budgeting reform. Other countries have chosen alternatives paths. This can result in increasing the variance between countries in the path towards Results Oriented-Government. The first hand practical experiences of the pioneer Sovereign States such as New Zealand, the UK and Australia substantiate that for instance, the budgeting process cannot be reformed without taking into consideration the public sector management structure and organization, in conjunction with the financial environment within which it operates. All this implies that the implementation of ROG requires a consistent and comprehensive approach.

Originality/value – The article contributes to the discussion about the right path towards Results-Oriented Government. It presents original conclusions about the implementation of Results-Oriented Government that should be based on a balanced public sector reform.

Key Words - Results-Oriented Government, Balanced Government Sector Reform, Public Sector, and Results-Based Systems.

Paper type - Research paper

1. INTRODUCTION

The old command-and-control system in the public administration system (bureaucratic management regime) gave public sector managers the message that risk would not be rewarded, that inefficiency would not be penalized, that what mattered most was complying with the current procedures, rules, and regulations. It did not matter what you did as long as you observed the rules (OECD, 2002). This means that accountability in the public (government) sector has traditionally been based on compliance with rules, regulations and procedures. Now, when the public sector is deregulated, a new results-based system is needed to hold managers accountable. This is a fundamental change: holding managers accountable for what they do, not how they do it (OECD, 2002). In fact, the public sector reform process across the world started three decades ago, as a large number of member countries of the Organization for Economic Cooperation and Development (OECD) have made radical changes in their public sector. In addition, the Asia-Pacific region (especially the countries which are called Asian Tigers such as: Malaysia, Singapore, Thailand, and Philippines) has also witnessed remarkable public sector reform initiatives in terms of changing the role of state and its impact on public sector management; state/private sector relationship; resource use and efficiency; and decentralized planning (Fulin, 2001, Xavier, 1998). However, public sector reform is complex; cross-sectoral and multi-disciplinary. The context for reform ranges across such aspects as: fiscal management and budgeting; executive decision making and cabinet systems; performance management; alternative services delivery; changes in the role of government and state; privatization of state-owned enterprises; legislative and regulatory reform; management reform; accounting reform; auditing reform and so on. These initiatives in the framework of the New Public Management (NPM) are encouraging implementation of private sector management techniques in the public sector, as well as the development of performance audits in order to monitor the degree of efficiency and effectiveness with which the public sector services are delivered and to evaluate the financial consequences of management decisions (Lapsley, 1999). Moreover, these initiatives have had a substantial impact on public sector accounting, where accounting as an information system plays an essential role in whatever reform process any governmental entity would want to undertake. In addition, these initiatives, especially the NPM, resulted in changing the accountability concept. From accountability in terms of procedural compliance to accountability in terms of efficiency and results (effectiveness and cost effectiveness, sometimes referred to as value for money). Accountability for results depends on clear objectives stated in measurable terms and on budgets showing the minimum results to be achieved (Htun, 2000). This must also be based on expenditure limits and on accounting and auditing systems that measure and report on actual results. Of course, this raises the desirability of accrual-based accounting, output-based budgeting (performance budgeting), result-based performance measurement and performance audit (Ouda, 2005). In the light of increasing economic and financial crisis, very high budget deficits, high public debt and decreasing the economic growth rate, Hillier (1996) argues that governments are required to: Be fully accountable to the community for public resources entrusted to them; optimize the use of the government's total economic resources; be accountable for results - not just for input, process and compliance with spending authorities; work better and cost less, in other words, do more with less; show the actual cost of public sector services and activities; improve the fiscal policy for creating value-for-money; determine the value-added of the budget; realize that living on credit is not sustainable; better manage the governmental assets and liabilities; not leave huge public debt burdens on future generations; disclose the net worth of the State and public entities within the State; provide improved financial information that can assist in decision-making and discharging the mandatory accountability; and disclose the real financial position of the whole Government.

In a nutshell, governments are required to be Results-Oriented Governments. Accordingly, several countries (e.g., New Zealand, UK and Australia) have attempted to adopt Results-Oriented Government in order to create value for money through focusing on results not on inputs, processes and compliance and focusing on creating value for available resources instead of spending the available resources. In other words, the governments are required to be efficient and effective. In order to achieve that, the decision-makers in all levels in the public sector need sophisticated management, accounting, budgeting, performance measurement and auditing systems that can furnish more improved and useful information. However, most countries, especially the developing countries are *currently using traditional government systems* such as: cash-based government accounting system, line item/traditional budgeting system, public administration system (bureaucratic management), traditional performance measurement system and traditional auditing systems. The experiences of pioneer countries such New Zealand, UK and Australia, have proven that these systems are no longer able to provide the required information for an efficient and effective government and to enhance the efficient management of public resources. This can raise the following questions:

- **Can Results- Oriented Government work with government traditional systems?**
- **How could Results-Oriented Government be achieved in the most pragmatic manner?**

Accordingly, the main objective of this paper is *to investigate whether Results-Oriented Government can work with the traditional government systems or not and to explore the path towards Results-Oriented Government by proposing a framework that can lead to achieving it into actual practice.*

The paper is structured as follows: Section two deals with Results-Oriented Government (ROG), especially the main idea behind the ROG, its main principles and the key factors that directing it. Section three will investigate whether Results-Oriented Government can work with the traditional government systems such as bureaucratic management system, traditional government accounting system, line tem budgeting system, traditional performance measurement system and traditional auditing system. Section four will be dedicated to propose a framework that can lead to achieving ROG in actual practice. Section 5 will lead to the conclusion.

2. CONCEPT OF RESULTS-ORIENTED GOVERNMENT

Results-Oriented Government: Shaping the Government to Meet 21st Century Challenges. How can the federal government meet the large and emerging challenges it faces and become more effective? Statement of David M. Walker Comptroller General of the United States (2003)

Results-Oriented Government focuses on achieving results for customers; being responsive and accountable to the taxpayers. *Main Idea behind results-oriented government* is that it focuses on determining the strategic priorities and objectives of the country (outcomes/results) desired to be achieved and translating these outcomes/ results into outputs and linking the allocation of costs to outputs and outcomes and measuring whether outputs and outcomes are being achieved in an efficient and effective way. ROG should be based on: Outcome: what influence the government wishes to have to the community; output: how the government wishes to achieve that influence; performance indicators: how the government and the community know whether that influence is being achieved in an efficient and effective way; and What may that influence cost? *(See figure 1). In other word***s,** the following questions are the cornerstone of ROG: What does government want to achieve (*Outcomes*)? What actions is government going to undertake to achieve it *(Outputs)?* What may those actions cost *(Input)?* **A**nd how the government and the community know whether those outcomes are being achieved in an efficient and effective way *(Performance indicators and measurements)?*

The main ideas of Results-Oriented Government were summarized by Osborne and Plastrik (1997), Osborne and Gaebler (1992), and Ouda (2006) under twelve principles:

Manage for results instead of focusing on inputs, processes and compliance; focus on creating value from available resources instead of spending available resources; budget for results (outputs/outcomes), not input; shift accountability for inputs to outcomes or results; manage total economic resources not cash flows and cash balances; measure the operational performance in terms of the three Es (Economy, Effecency and Effectiveness), not compliance with rules, regulations and procedures; audit the performance of government not the legality and regularity of disbursement; report on total economic resources and performance of government instead of reporting on monetary position of government; foster closer link between strategic planning, policies, budgeting, financial management, performance management systems; centralization of objectives and decentralization of management (Government needs to centralize in order to decentralize); encourage collaboration between and within departments; and link resources with results to improve budgeting decisions. Accordingly, the main ideas behind ROG can reflected in the following figure:

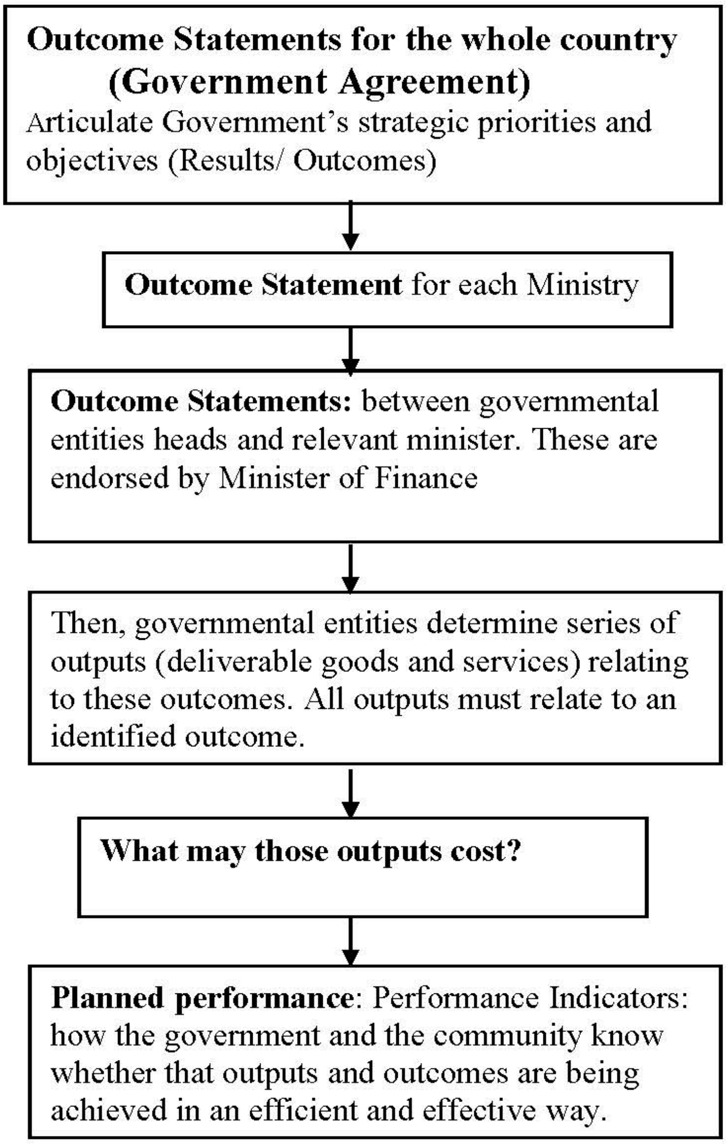


Figure 1: Main Idea behind Results-Oriented Government

The key factors that direct results-oriented government are perceived in terms of: Better Performance; better Accountability; and better Transparency. In addition, Osborne and Gaebler (1992), suggest the following themes for result-oriented government: 1- What gets measured gets done; after performance measures are established, people begin to ask the right questions, to redefine the problem, to diagnose that problem, and to think about organizational goals; 2- If you don't measure results, you can't tell success from failure; when government lacks objective information, decisions depend largely on political considerations; 3-If you cannot see success, you cannot reward it; by rewarding successful managers, Sunnyvale has increased its productivity; 4- If you cannot reward success, you are probably rewarding failure; in practice, if you are failing, you qualify for aid. When the crime rate rises, we give the police more money; 5- If you can't see success, you can't learn from it; unexpected success may be an important lesson to be learned; 6- If you can't recognize failure, you can't correct it; no one outside the bureaucracy can tell if these agencies do anything worthwhile, because no one measures the results of their work; and 7- If you can demonstrate results, you can win public support.

3. RESULTS-ORIENTED GOVERNMENT (ROG) AND TRADITIONAL GOVERNMENT SYSTEMS

As aforementioned, ROG focuses on results not on inputs, processes and compliance; and on creating value from available resources instead of spending available resources. Moreover, it concentrates on funding outputs/outcomes (results), not input; and on shifting accountability for inputs to outcomes or results. The adoption of ROG means that governments are requested to be efficient and effective. However, most countries, especially the developing countries are still using the *traditional government systems* such as: cash-based government accounting system, line item/traditional budgeting system, public administration system (bureaucratic management), traditional performance measurement system and traditional auditing systems. Accordingly, *to what extent Results-Oriented Government can work with the traditional government systems:*

- **Public Administration System (Bureaucratic Management System):** gives no (or little) incentive to manage the public resources in an efficient and effective way. In fact, this system has several shortcomings: it focuses on the blind following of instructions and compliance with written rules and regulations that aim at limiting discretion. The administrative structure is strongly hierarchical and many quite trivial decisions have to be referred to higher levels for resolution. Managers may not have been exposed to modern business techniques and they follow administrative methods based on precedent rather than personal initiatives (Ball, 1994). The Ministers are making the detailed decisions about the internal management of departments for which decisions they did not have adequate knowledge and suitable information. Furthermore, managers act as extension of the Minister, without having any independent existence and consequently no independent responsibility (Ouda, 2008). Therefore, the main feature of the public administration system (bureaucratic management system) is the focus on the input instead of output. Under this system: there is no relationship between the input and the output, managers are not completely responsible for their departments; the expenditures are more important than the costs (expenses); there is lack of a performance measurement system; the incentives to encourage efficiency and effectiveness are absent. Furthermore, under the public administration system, the role of the managers is limited to following instructions and they have no effective role in improving the efficiency of their departments. Their evaluation is not based on the following points: the output, results, total costs, relationship between the input and the output (efficiency) and the relationship between the output and the outcome (effectiveness) (Ouda, 2005). *Based on the aforementioned features of the public administration* *system, it can be inferred that public administration system is managing the inputs and not the outputs (results). This means that governments that do not manage for results cannot apply Results-Oriented Government (ROG), and hence, the bureaucratic system does not support the implementation of ROG.*

-Cash-based Government Accounting System: recognizes transactions and events only when cash has been received or paid. This takes place independently of the time when goods and services are ordered, delivered and consumed. Goods and services for which payments are made (labour, stores, transportation …etc.) are considered to be consumed when suppliers are paid. This means that the cash basis of accounting shows only the volume of disbursements. Such disbursements do not reveal the amount of resources used and the value of actual work done (Ouda, 2006). According to the cash basis, the statement of receipts and expenditures is prepared to disclose information about cash flows during a period and cash balances at the end of that period. Under cash accounting it is not possible to prepare balance sheets because there are no assets and liabilities in the books: "sales are only recognized when cash is received (so there are no debtors); purchases are only recognized when cash is paid (so there are no creditors); there are no stock adjustments because the accounts are not concerned with recording usage, only with the fact that cash has been paid for purchases (so there is no closing stock figure); there are no fixed assets, for the same reasons (Jones, and Pendlebury, 2000). Based on cash accounting, it is not possible to measure the financial performance of the government because there are no revenues and expenditures. Accordingly, traditional government accounting system does not assist in measuring the financial results of the government and do not support the management system, which is based on clear objectives, good performance information, incentives and freedom to manage well. In addition, it does not provide the cost of outputs. In attempting to link resources to results, it will be important to measure the full costs of the resources associated with performance goals using a consistent definition of costs between and among programs (Ouda, 2006). Consequently, it can be concluded that a traditional cash based government accounting system does not facilitate the implementation of ROG.

-Traditional budgeting system uses the bottom-up approach: the traditional budgeting system has traditionally operated on a "bottom-up" principle. In practice, all the governmental agencies and Ministries send requests for funding to the Ministry of Finance/Treasury. It is widely known that these requests greatly exceed what they realistically believe they will receive approval for. In order to come to a realistic budget, the Ministry of Finance/Treasury negotiates with those concerned governmental agencies and Ministries until some common ground for agreement is reached. This "bottom-up" approach has several disadvantages as follows (OECD, 2002 and Ouda, 2003 b): It is very time consuming and is essentially considered a game; all participants know that the initial requests are not realistic. This approach has an inherent bias for overstating the expenditure-allocation requests. All new programs or additions/expansion of the scope of existing on-going programs are funded on the basis of new requests. Generally, using funds for a purpose other than that originally approved is not permitted under the Treasury rules. There is no system for re-allocation within and among Ministries and their respective Departments during mid-fiscal year, and there are no pre-determined internal controls and safeguards against cost over-runs. And it is difficult to reflect political priorities in this approach, as it is a driven "bottom-up" with the budgetary allocations "emerging" at the end of the process. In fact, reflecting the political priorities and strategic objectives in the budgeting system is one of the main requirements for the implementation of ROG. So the bottom-up approach is not consistent with the nature of ROG.

-Traditional Performance Measurement Systems: within the aforementioned context (especially, the bureaucratic management system), the traditional performance measurement systems are no longer able to measure whether the government has efficiently and effectively used the resources entrusted to it; whether the appropriations have been used to produce the outputs that are required to achieve the outcomes. Hence, under the traditional public administration system, the managers are most concerned about the compliance with rules and restrictions and they are not accountable for results. Therefore, there was no real need for a sophisticated performance measurement system. In fact, the adoption of ROG will require that performance measurement should tell us how well government uses resources in production and provides decision makers with information that can be used for monitoring of results, program performance improvement, as well as the rationale for allocation resources and budget justifications. Basically, the performance measurements are required to measure whether the governmental entities have achieved their results in terms of economy, efficiency and effectiveness. It is also clear that traditional performance measurement systems do not support the implementation of ROG.

-**Traditional Auditing System**, which is more concerned with compliance with rules and instructions, is not able to assist in assessing the management and operational performance of governmental entities and to consider questions of economy, efficiency and administrative effectiveness of the operations for which management is responsible. This also means that the traditional auditing system will not facilitate the adoption of ROG.

Consequently, the use of the aforementioned traditional government systems has led to the appearance of the following facts: The objectives for governmental entities are not clearly defined; the respective responsibility of politicians and civil servants are confused, so that the lines of accountability and responsibility are never clear; assets levels are poorly maintained and changes in value or depreciation are not required to be recorded; the relationship between the expenditure and results is not indicated; appropriations are based on input in place of output/outcome; goals and performance requirements of government departments are poorly specified; losses, long-term liabilities, and future revenues are obscured by cash-based accounting system; it is not clear whether the government actions have added to the net worth of state, and whether the current generation has increased or decreased the worth of what is left for the next generation; incentives often encourage dysfunctional behaviour (for example, year-end spending); and responsiveness to changing circumstances is slow. This means that the currently used traditional government systems will not be able to provide the requisite information for an efficient and effective public sector management regime or assessment, evaluation, and enhancement of the value-added factor to the government economic resources, as well as services to the public. Consequently, it can be inferred that ROG cannot work the traditional government systems. In addition, these shortcomings are not only related to one of the following: lack of management reform, public sector accounting reform, budgeting reform, performance measurement reform, performance audit reform and resulted-based culture but they are related to all of them. Accordingly, reform of public management alone is not going to solve the problem. Therefore, the adoption of Results-Oriented Government needs to be based on a balanced public sector reform that includes all the aforementioned systems.

4. BALANCED GOVERNMENT SECTOR REFORM

In fact, it has been noticed from the earlier experiences that some countries had placed emphasis only on the budgeting reform and some others only on the accounting reform. The first hand practical experiences of the pioneer Sovereign States such as New Zealand, the United Kingdom, and Australia substantiate that the budgeting process cannot be reformed without taking into consideration the public sector management structure and organization, in conjunction with the financial environment within which it operates. These experiences and insights corroborate the fact that budgeting and accounting reform cannot occur in isolation - one to the exclusion of the other – both reforms must be undertaken concurrently and in parallel. Budget reform is a case in point, for it has been premised on the mistaken notion that the process by which funds are allocated can be revamped without taking into account considerations such as: the information generated by the accounting system; the demands made by auditors; the incentives provided by the public sector rules and other procedures; the embedded habits and norms of budget makers; the interface of the accountability between the Ministers and the Managers; and numerous other managerial considerations. In many contemporary reforms, by contrast, budgeting is regarded as part of a grid of inter-connected practices and processes. For example, Budgeting Reform: the shift from input-based budget to output-based budget requires the determination of the outputs that will be used as a basis for allocating the appropriations. In the context of the public administration philosophy, these outputs are not determined and it is also not known who is going to determine such outputs. Basically, the determination process of the outputs is originally a technical and management issue rather than an accounting and budgeting issue; namely, the management (operationally and politically) is basically responsible for specifying the outputs. Logically, *before we talk about the shift from input to output-based budget, we should firstly specify the outputs (Ouda, 2005).* Another example, Accounting Reform: accounting is important and exciting when it generates information that is used by decision makers. Conversely, without decision-makers demanding and using accrual information, the provision of this information is meaningless. Frankly speaking, the public administrators who spent their lives to administrate rules and regulation and formalize procedures are not accustomed to using improved information. Consequently, the transition to accrual accounting in the public sector will provide superfluous information that will not be used and the costs of generating this information cannot be justified. Hence, the target benefits from the accounting reform will not be achieved under a traditional public administration system. *So similarly, before talking about the production of improved information, we should firstly create the scope, which allows for using this information and to find the right person who can efficiently and effectively use it (Ouda, 2005).* Consequently, any change in accounting and budgeting system must be justified in terms of benefits from that change. Accordingly, Accrual Accounting and Budgeting can really work in the Government Sector only if parallel management reforms are made, too. Should this not take place, the adoption of Accrual Accounting and Budgeting will not bring about major end-results to the performance of the Government Sector. In fact, the experience of the pathfinder country (New Zealand) has proved that these financial reforms did not occur in isolation. They were part of a movement to make the New Zealand economy more competitive as well as to make the government more competitive and accountable. So, the New Zealand approach with respect to public sector reform is a consistent and comprehensive framework, which comprises all the mechanisms of accounting, reporting, budgeting, parliamentary appropriations, performance specifications and monitoring, rather than dealing with accrual accounting and budgeting as a separate issue (Ball & Bradbury, 1998). Based on the aforementioned facts, the Public Sector Reform should be implemented in a consistent and comprehensive manner, which we identified as *a Balanced Government Sector Reform program* that comprises the following components:

4.1 Management Reform: [including both New Public Management (NPM) and New Public Governance (NPG)]:

Bear in mind that the main focus of this paper is on Results-Oriented Government. Managing for results is an essential/integral part of Results-Oriented Government. In fact, the management reform means shifting from the focus on compliance with written rules and regulations aimed at limiting discretion, rewarding compliance and creating incentives to avoid risk, having little freedom and less accountability *(Bureaucratic culture)* towards the focus on the output (results) instead of input, granting the managers extensive discretion in the use of resources and measuring the performance in terms of efficiency and effectiveness (NPM culture). The *Input-focused management approach* is oriented towards how much resources, staff, facilities, etc. are made available for a programme or ministry. The amount of money being spent on a programme or problem is often the main performance measure when managing to input. The internal management information of an input system does not reveal what the resources actually bought or achieved were and often an input focus is accompanied by process regulation – i.e. standards and rules on how inputs should be aligned, how things should be done. Whereas *an output-focus to management* describes public functions in terms of goods and services and calculates how many services are being delivered, or products produced. An output focus is primarily oriented to increasing the individual accountability, giving the managers extensive discretion in the use of resources, measuring the performance in terms of efficiency and effectiveness. Unlike the private sector, the government sector has far more difficult management problems; therefore, the challenge for the government sector is to move to the development of new methods of management appropriate to the distinctive needs of government. For example, based on the NPM, the Minister has to specify the performance (outputs) that are required of the Department Chief Executive. Due to the distinctive nature of the government sector, it can happen that one output has to be produced by two or more governmental entities. Thus, there should be a new management approach to manage the interrelationships between the governmental entities. Therefore, the shift to New Public Management (NPM) has to be accompanied by New Public Governance (NPG) (Hodges, 2013). As NPM has a focus on intra-organizational management involving independent contracts, whereas NPG provides an emphasis on inter-organizational governance of inter-dependent agents involving relational contracts. In this regard, the Governance is viewed as representing the structures which are created or develop to manage the relationships between governmental entities within networks or partnerships drawing upon the concepts of collaborative governance.

Consequently, the main feature of the **management reform** includes the following:

1. **Development of an effective accountability relationship** [framework] between the Ministers, and Department Chief Executives;
2. **Development of performance-based employment contract agreements** between the Ministers, and Department Chief Executives; and
3. **Development of partnerships working structure** between governmental entities (New Public Governance -NPG).

4.1.1 The Accountability Framework: The components of an accountability framework and relationships are depicted as follows: (Ball, et.al, 2000)

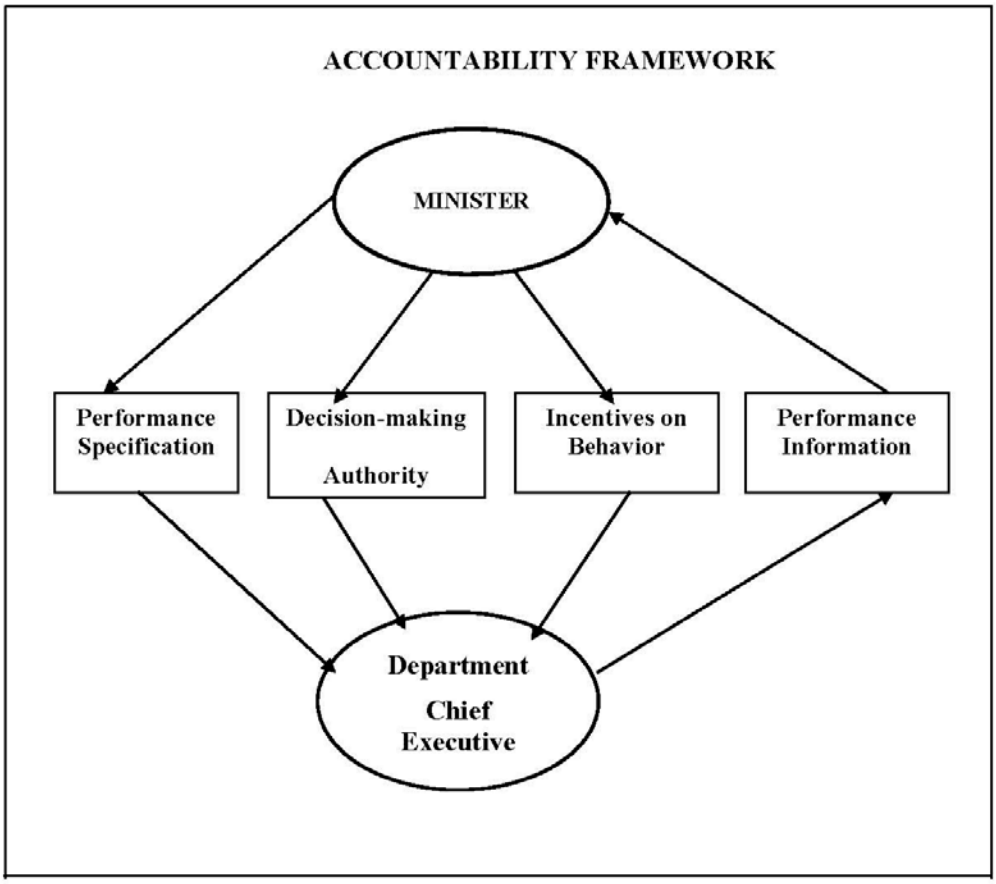


Figure 2: Components of Accountability Framework and relationships.

The accountability framework comprises four components as follows: (Ball, et. al, 2000)

- *Performance Specification*: At the beginning of the contract period it must be made clear to both the Principal [the Minister] and the Agent [Department Chief Executive] the specifics of the performance that are required of the Department Chief Executive. This means that the performance requirements have to be specified in advance.

- ***Decision-making Authority:*** The Department Chief Executive must have authority to achieve the agreed level of performance and outputs. Consequently, the Chief Executives shall be granted extensive authority over their use of resources, and the processes by which they produce the agreed output. In other words, there is the devolution of decision-making authority to give the Chief Executive control over the acquisition, utilization, disposal and mix of input.

- ***Incentives on Behaviour****:* There must be real incentives associated with the decisions and behaviour of the Department Chief Executives empowering them to deliver the agreed performance, namely, to act in the government's interests.

- *Performance Information**:* The performance information reported at the end of the period should reflect the agreed performance [outputs targeted], per the specification at the start of the period. In other words, there should be ex-post reporting of actual performance against specification.

These accountability relationships are more efficient when ex-post monitoring, assessment, and reporting are based *on clear ex-ante agreements about performance expectations.* Therefore, it is postulated that problems in performance evaluation arise more often from inadequately specified targeted outputs than from the ex-post evaluation itself. In any event the ex-post evaluation is of limited use other than with the prior agreement on goals established and recognized with the person being held to account (Ball, 1994). In fact, the accountability relationship will only be efficient if there is an appropriate balance among the elements of the relationship. Performance expectations must be consistent with the delegated decision-making authority, reporting must mirror the agreed performance expectations, and there must be incentives systems to generate the necessary motivation. To the extent that any one element of the relationship is missing, weak or poorly specified, it is less likely that manager will perform as expected.

4.1.2 Performance-based employment contract agreements

In order to establish the Departmental objectives and to hold accountable the government's executive officers [the Ministers and Department Chief Executives] for results [output/outcome framework], it is important to strengthen the relationship between the Ministers and Department Chief Executives with measures such as: Re-definition of the relationship between the Ministers; and Department Chief Executives in such manner that Department Chief Executives are fully accountable to the respective Ministers for the performance [output/outcome framework] of their Departments; and establishment in due manner of a uniform application of Labour – Market regulations to both Government Sector and Private Sector employment.

In summary: The Government Sector Reform component for the re-definition of management structure and form, aims at the development of performance-based employment contract agreements between the Ministers and Department Chief Executive[s]. These agreements specify what is to be delivered [output deliverable], and the expectations regarding quality and cost [cost/benefit], together with the management policy and criteria for ensuring the effective use of resources. As mentioned, the employment contract of the Department Chief Executives is performance-based. Accordingly, that contract prescribes the method of determining the remuneration, the criteria and metrics to be used for specifying the reporting of the performance outputs against the predetermined targeted results – further, the process for the proposed performance appraisal will be stated explicitly. This also means that the accountability relationships between the Minister and respective Department Chief Executives are seen as: Contract focussed; Performance-based; Incentives driven; Factored for decentralized decision-making; and Having predetermined criteria for performance appraisal.

4.1.3 Development of partnerships working structure between governmental entities (New Public Governance -NPG).

Partnership working in the government sector is a more recent world-wide phenomenon. Based on the NPG literature, the partnership working in the government sector can take one or more of the following types (Hodges, 2013)

- *Collaborative partnerships*: are those in which each partner exercises power in decision-making. Each partner gives up some autonomy to other partners so that there is mutual dependence in meeting the project objectives;
- *Operational partnerships*: are characterized by sharing of work, rather than decision-making power. Control may be retained by one partner particularly if it provides the bulk of the resources;
- *Contributory partnerships*: are those in which a governmental entity agrees to provide support, usually in form of funding, for activity in which it will have little operational involvement; and
- *Consultative partnerships*: are those in which a governmental entity solicits advice from others.

4.2 IMPLICATIONS FOR PUBLIC FINANCIAL MANAGEMENT

In fact, the undertaking of public management reforms necessitates a re-assessment of the public financial management; namely, these reforms will make the revamping of the public financial management components inevitable. These components are: Public sector accounting system Reform; budgeting system reform; auditing system reform; and performance measurement system reform.

4.2.1 Public Sector Accounting Reform

Due to the shortcomings of cash accounting, public sector accounting reform means shifting from Cash-Based Accounting to an Accrual-Based Accounting. Public sector accounting reform aims to disclose financial information useful to evaluate matters such as: the financial position of the State as a whole and its financial performance in a manner so as to facilitate the enhancement of the value of its usefulness for decision-making purposes, and the accountability aspects of the public sector management. By this approach it is possible to enlarge the public sector information systems through an evolution of the public sector accounting methodology towards the utility paradigm (Ouda, 2003a). Furthermore, the public sector accounting reform reflects a shift from a cash flow and cash balances concept to a total-economic resources concept, namely, it is an extension of measurement focus to encompass the total economic resources of the public sector instead of only directing attention to the public sector cash resources and their utilization. Accrual basis of accounting recognizes transactions and events when these occur rather than when cash is paid or received. The financial statements under the accrual basis disclose the total assets [*i.e. current and fixed assets*], total liabilities [*i.e. short and long-term liabilities*], net worth/public equity, revenues and expenses [including *the statement of financial performance*]. Accordingly, the measurement focus under accrual accounting is on the total economic resources (IFAC, 2000). Hence effectively, the assets, liabilities, revenues and expenses arising from transactions and/or in relation to events, as must be, are duly recognized in the financial statements at the point in time when these transactions/events produce a financial impact on the public sector entities' operations, regardless of the actual timing of the associated cash flows. Unlike the information outputs from cash-based accounting, accrual-based accounting system output reports consist of information drawn up at specified period-ends, setting down:

The total assets [financial values and physical units]; the total liabilities [short-term - current and contingent, and medium to long-term liabilities]; net assets/net worth; and expenses, revenues, and the surplus or deficit. The focus of accrual-based accounting is on all transactions that have a value consideration expressed usually in money terms, and not just cash-based transactions *per se*. Nevertheless, accrual-based accounting records [normally the statutory books of account comprising the Cash Book, Journal, and Ledger], contain complete information on all transactions [cash or credit] also enabling the ready preparation of periodic cash flows statements, as and when necessary, for management decision-making purposes. Further, a statement of cash flows is an integral part of the periodic financial statements (IFAC, 2004). The periodic *Financial Statements,* prepared on the basis of the accrual-based accounting system and in terms of generally accepted accounting principles, comprise*: Statement of Financial Position,* this includes details of all recognized assets and liabilities. The balance of assets less liabilities is referred to, in the Public Sector, by a variety of terms including net assets, public equity, net financial position or net worth. The Balance Sheet discloses the financial position as at a specified period-end [usually a half year-end; and/or year-end]. *Statement of Financial Performance:* This comprises details of all recognized revenues and expenses. It shows the surplus [or deficit] of revenue [income] over expenses. This is a useful measure of whether an entity has managed to meet current expenditure from current revenue, and whether its net resource position has increased or decreased, during the period reported. This measure is consistent with one element of golden rules of fiscal policy, which states that the Sovereign State/Government should finance current expenditures from current revenues. The Statement of Financial Performance discloses the operating results for a specified period [usually a half year, and or a year]. *Statement of Cash Flows:* This encompasses a summary of cash receipts and cash payments during the year, classified under various sub-headings [operating, investing, and financing] and shows the opening and closing balances of cash and cash equivalents. The Statement of Cash Flows discloses the sources and uses of cash and cash equivalents for a specified period, together with the opening and closing balances of cash and cash equivalents (IFAC, 2004).

Accordingly, each government sector department must provide a full set of Financial Statements (Includes Statement of Financial Position [Balance Sheet], Statement of Financial Performance; Statement of Cash Flows) to the Ministry of Finance/Treasury on a half-yearly and annually basis. In addition to the financial statements, Departments must produce and duly submit non-financial performance information, for example, Statement of Service Performance, outlining the outputs produced versus the outputs agreed and reports on the degree of the achievements in both quantitative and qualitative terms. Thereafter, the Ministry of Finance can simply consolidate the Financial Statements of the whole government Sector [applying the principles of consolidation enunciated in the current International Financial Reporting Standards] and produce national financial statements on an accrual basis. The consolidated financial statements should be forwarded to the Central Auditing Organization in order to carry out the final audit of the records, accounts, and financial statements of all the governmental entities. The Central Auditing Organization should scrutinize the consolidated financial statements and it prepares and presents its audit report to the Parliament within three to six months of the close of the fiscal year.

The consolidated financial statements should at least encompass the following statements: (Miah1991): Statement of financial position (balance sheet); statement of financial performance; statement of cash flow; statement of movements in equity; statement of accounting policies; statement of borrowing; statement of commitments; statement of contingent liabilities and assets; statements of segments; notes to the financial statements; and comparison of budget to actual (IPSAS 24).

The main objectives [anticipated benefits] aimed at by the adoption of accrual-based accounting in the public sector are to: Better manage [stewardship] the assets and liabilities; present a full picture of the financial position of the whole Government Sector; make more transparent the true cost of the public sector services and activities; improve decision-making in the public sector by utilization of an improved and enhanced accounting information system; improve performance measurement; determine the net worth/State's worth; evaluate economic outcomes relative to inter-generational equity status/situation; provide reliable measures of the fiscal policy implementation; improve transparency of the government's fiscal policy and the integrity of governance; derive the full benefits of economic planning and the appropriation of budgetary allocations in the short- and medium-terms; support the public sector management reforms; and create an opportunity to build and use cost accounting systems for cost/benefit analysis models.

4.2.2 BUDGETING SYSTEM REFORM

Budgeting system reform means shifting *from* Traditional/Line item Budgeting System to Performance (or Performance-policy) Budgeting System. Due to the following shortcomings, the traditional budgets are problematic because they: Result in uncontrollable and unforeseen management behaviour; generate a short term perspective; produce an incremental budgetary enlargement with no linkage to economic strategy; involve focusing on inputs rather than outputs and results/outcomes; produce waste due to passive adherence to rules and procedures; involve cash-based accounting resulting in weak management of assets; provide little or no information about "total" revenues and "total" expenses; and are unresponsive to socially sensitive issues and demands. (Caiden, 1998). Therefore, most of the Sovereign States have performed a radical change-over to improved budgeting techniques and systems. Some have adopted the use of the performance budget methodology, while others have developed and put together more sophisticated budgeting systems such as: Outcome-based budget; policy budget; accrual-based budget, etc.

Performance budgeting is defined as presenting the purpose and objectives for which funds are requested, the cost of programs proposed for achieving those objectives, and the quantitative data for measuring the accomplishment and work performed under each program. The performance budget aims to provide a systematic method of improving the allocation process; to incorporate in the planning activity the recognition of costs/benefits of alternative programs and resources available; and to provide a basis for choosing the most economically feasible [competing] program (Shah and Shen, 2007). The performance budget indicates the relationship between the inputs and the outputs and whether the resources have been effectively used and the target objectives have been achieved. In short, it focuses on the purpose[s] of the expenditure[s] and the end-results/outcomes of the expenditures and provides data, which can be used to evaluate those outcomes. As aforementioned, the development of the budgeting system has gone beyond the scope of the output-based budget. Many Sovereign States have developed more sophisticated budget models such as outcome-based budget and policy budget. For example, the Netherlands has developed a new budgeting system, which is known as Policy Budget. In fact, the Policy Budget aims at making the budget more policy-oriented and the Budget is considered as the Netherlands Government's policy document (Blondal & Kristensen, 2002). This means that a linkage between policy, performance, and resources must be established. It is also important to note that parallel changes are made to the *ex-post* annual reports: consequently, the structure of the policy budget provides answers to the following questions: What does the Government want to achieve? [these are the outcomes]; what action is the Government going to undertake to achieve it? [these are the outputs]; and what may those actions cost? [these are the inputs-expenditures]. Logically, the new structure of financial reporting should follow the budget structure to give answers to: Did the Government reach its goals as set down in the budget? Has the Government done what it was going to do? Did the cost of those actions remain within the limits previously set down in the budget?

While there are differences among the aforementioned budget models [Output-based budget, Policy budget, and Outcome-based budget], they share the following common elements: Focus on results; the shift to a more multi-year focus [Medium-term budget framework];Top-down budgeting techniques; relaxing central input controls; prudent economic assumptions; carry-overs; capital charge; and others. For a proper understanding of the new budgeting models, for purpose of illustration, three of the aforementioned elements are discussed below:

A. Shift to a more Multi-year Focus:

Multi-year budget frameworks/formats are the basis for achieving fiscal consolidation. Within these frameworks, the Sovereign State's medium-term objectives are stated in terms of high-level targets such as the magnitude of aggregate revenues; aggregate expenditures; deficit/surplus; and debts. The high-level fiscal targets are fixed in the context of a medium-term. They aim to achieve a certain fiscal outcome over a number of years. The short-term [one year] traditional budget format does not assist in monitoring the achievement of the high-level fiscal targets. In addition, the multi-year budget framework enables the Public Sector managers to be in a better position to plan their operations logically and strategically as they have some indicative level of funding beyond the next ensuing fiscal year (Spackman, 2002). The application of the multi-year budget framework could vary from one country to another on taking into account the particular local needs. For example, Sweden employs a multi-year budget framework as the basis for the annual budget process. It has a three-year time horizon, i.e. the upcoming budget year and the next two consecutive years. The multi-year budget framework provides the linkage between the Swedish Government's fiscal policy objectives in a macro-economic setting and their application in an operational context. It operates on the specified three cascading levels: (OECD, 2002).

The ***first level*** constitutes the articulation of the Swedish Government's fiscal policy objectives in macro-economic terms, i.e. level of surplus or deficit as a percentage of GDP.

At the ***second level***, these objectives are translated into a maximum level of the total expenditure based on certain economic assumptions.

At the ***third level***, the limit for total expenditure is further analyzed operation-wise by giving indicative funding levels for each of the expenditure areas.

As the multi-year budget framework is in place, the starting point in the annual budget exercise is to update the information for year 2 in the framework. The Ministry of Finance [Sweden] starts by re-examining the macro-economic outlook for the coming year to see if the economic assumptions applied in the multi-year framework remain valid. The updated macro-economic outlook plays a key role in determining the stance of budget policy. For example, a higher level than the assumed economic growth would permit making available additional resources for the next ensuing year.

B. Top-down Budgeting Techniques:

As earlier noted, the “bottom-up” approach has many shortcomings. Therefore, that approach is now being abandoned and replaced with a modern “top-down” approach to budget formulation. The “top-down” approach, in practice, has been found to be of great assistance in achieving fiscal consolidation. The starting point of the “top-down” approach is for the government, to make a decision as to the total level of expenditures and to divide that “pool” among individual spending Ministries. The key point is that each Ministry has a pre-set limit on how much it can spend. Once this decision is taken by government, the Ministry of Finance/Treasury largely withdraws (stops taking part in) from the details of budgetary allocations of each ministry. The Ministry of Finance/Treasury concerns itself only with the level of aggregate budgetary expenditure allocation for each Ministry, not the internal allocations within each respective Ministry. The internal allocation is attended to by the Minister for each respective Ministry. Each Minister is deemed to be his own finance minister. Each Ministry has a total amount and each Minister can re-allocate the budgetary provision among that Ministry’s various agencies and programs. This approach gives each Minister greater control over his Ministry’s Budget proposals. In this manner, each Minister is in a position to identify and select the priority level of each budget program for appropriate funding accordingly (OECD, 2000).

C. Capital Charge [or Cost of Capital]:

Ministries and Departments may be made to bear a capital charge, calculated on the basis of their net assets, for the cost of the capital the government has invested in them. This charge has several benefits. *First,* it ensures that the cost of capital is reflected in output prices because a Department’s total cost must be allocated to its outputs to ensure comparability with non-Public Sector producers. *Second*, the charge encourages Departments to manage their financial position carefully and to divest surplus or redundant assets. *Third*, it encourages Management to consider the mix of assets needed to produce services efficiently. If a Public Sector manager finds it more efficient to purchase additional computers and sell some cars, he or she is free to make this decision. If the sale of assets reduces the overall capital charge, the savings can be applied to other budgeted expenses.

4.2.3 PERFORMANCE MEASUREMENT REFORM

Shifting from Traditional Performance Measurement System To Result-based Performance Measurement System. Getting the financial incentives right is essential in the public sector management reforms. In Government, no less than in the marketplace, money is a powerful signal: It pushes entities to produce more not less; to care about costs and not to ignore them; to be more efficient; and to take business risk after due diligence. In fact, the shift to a Result-based Performance Measurement System is basically connected with the New Public Management (NPM) approach. In other words, the change brought on by the doctrine of “accountability” is from responsibility in terms of procedural compliance to accountability in terms of efficiency and effectiveness [output/outcomes]. In addition, the accountability for results depends on clear objectives stated in measurable terms. This requires, in turn, a performance measurement system that can assist in assessing whether the public sector entity has achieved the contemplated objectives or not. In fact, the trend of decentralization, power devolution, and making the public sector managers accountable for results, has created the need for developing a new Performance Measurement System (Van Thiel and Leeuw, 2002). Performance Measurement would tell us how well the public sector uses economic resources in production and provide decision-makers with information that can be used for monitoring the results, program performance improvement, as well as the rationale for the allocation of resources and budget justifications. Performance Measurement data can also be used for transparency purposes [provision of clarity on matters of social interest]. Basically, performance measurements are required to assess whether the governmental entities have achieved the projected results, quantified with respect to economy, efficiency, and effectiveness. *Economy*: provision of inputs of a specified level of quality at the lowest cost. *Efficiency*: how well a Public Sector entity uses its resources to produce outputs [goods and services] relative to the best practice at a given point in time. In other words, the relationship between inputs and outputs, or the productivity rate at which inputs are converted into output. *Effectiveness:* how well the outputs of a Public Sector entity fulfil the objective criteria and reach the levels expected by the government; for example, are the activities of hospitals having an effect on the general health of the community? So it is usually conceived to be the extent to which objectives have been fulfilled. It is sometimes considered to be the ratio of outputs to outcomes. However, measuring the performance of Public Sector entities is considered to be a complex issue**.** The State performs different activities such as education, defence, health care, etc. and the accomplishment of those actions results in different outputs. Hence, the assessment of the value created would involve specialised technical know-how. The outputs of each public sector entity require a suitable performance measurement system with appropriate metrics. In addition, the Performance Measurement System is essentially an integral part of the New Public Sector Management System, Accrual Accounting System, and Performance Budget. Therefore, the Performance Measurement System of the public sector would need to be considered from the standpoint of the aforementioned reforms. Essentially, effective performance measurement in the Public Sector should be guided (Wang, 2002) by the following axioms:

- *Performance Measurement must be "Value –Based"*

The focus is on the value-added concept relative to a public sector entity being organized and managed according to a well formulated strategic plan with defined measurable results. These accomplishments must justify the fundamental purpose of that public sector entity.

- *Performance Measurement to reflect achievement of Long-term Objectives:*

The performance measurement should be designed to help the public sector entities "learn to do the right things right". To achieve this, performance measurement requires a long-term, multi-dimensional multi-disciplinary perspective, not just a short-term outlook.

- *Performance Measurement must not be sold as a "Self-contained" Solution:*

Performance measures [metrics] will not produce *per se* higher levels of efficiency, quality, and effectiveness. These are achieved through decisions to re-allocate or re-assign resources, improved work methods, adoption of best practices, and adjusting as necessary the task priorities. Nevertheless, the Performance Measurement System can provide some of the data to facilitate the re-direction/deployment of resources.

- *Rewards must be linked to Performance:*

To be successful a public sector entity needs to have carefully defined measures of success. This involves a structured process for the linking of government's objectives to critical success factors and to the associated performance measurements. Experience shows that the behaviour of Executive Managers is directly linked to the performance criteria on which their contribution is appraised. This contention is valid and affirms the motivation value of their compensation being pegged to the performance appraisal.

- *Performance Measures should provide:* Information to facilitate accountability; a means of identifying areas for review; a means of monitoring policy implementation and success; information on the potential productivity improvements of a Public Sector entity;

Assistance for the resource allocation/budgeting process by providing the means of allocating funding between competing needs, based on priorities and performance cost/benefit, rather than historic precedent; and powerful internal management tool for the Public Sector entities - they provide Managers with an idea of how efficient they are, and may explain areas of poor performance as well as identify appropriate leading performers.

4.2.4 AUDITING REFORM

Shifting from Traditional Auditing System to Performance Audit System. Traditional auditing systems are viewed as a process-oriented task that measures success by comparing audit work to generally accepted auditing standards. This type of audit aims at ensuring that the public sector does not spend more than was approved by the Parliament, in the Budget and that it has been spent on the goods and services which are determined by the Parliament. So the traditional task of this type of audit is to audit the legality and regularity of the disbursement of public sector fund allocations. In the present times, public sector entities are required to continue performing in the most economical and efficient manner. This implies the requirement for the audit of the public sector entities' activities to be consistent with the Government Sector Reform initiatives, and not be constrained by the traditional audit methodology (Summa and Waerness, 1999).

Performance Audit is the process of assessing objectives, programs, and their implementation coupled with economy, efficiency, and effectiveness. In short, the shifting to Performance Audit is fundamental to: Achieve considerable savings in public money through improved administration; assist the parliament in its role of holding the government-of-the-day to account, this through providing valuable information about the government operational performance; assess the management and operational performance of governmental entities and consider questions of economy, efficiency and administrative effectiveness of operations for which management is responsible; provide Parliament and the public with critical evaluations of a wide range of public sector activity in all governmental organizations and not to be confined to financial statements audits; and add value to public sector management with constructive criticism and recommendations for improvement and not only report on performance. In addition, the auditing reform will inevitably require a new criterion to be established for "performance" auditors in that their audit should measure the value-added factor in the public sector performance. In this regard, performance auditors should make themselves knowledgeable, at the very start of the performance audit work process, of the expected/likely socio-economic outcomes of the outputs/results achieved by the particular Public Sector entity. The proper and accurate assessment of the socio-economic outcomes should take center stage throughout the audit process (Gendron, Cooper, & Towenley, 2000 & 2007). In order to add value from conducting the audit process, the following questions should be asked at each audit stage: What is the impact of the audit?

What savings will emerge from the audit? What value is being added by the audit? However, the shifting to performance audit involves certain technical considerations that need to be carefully examined. Examples of these considerations are shown below:

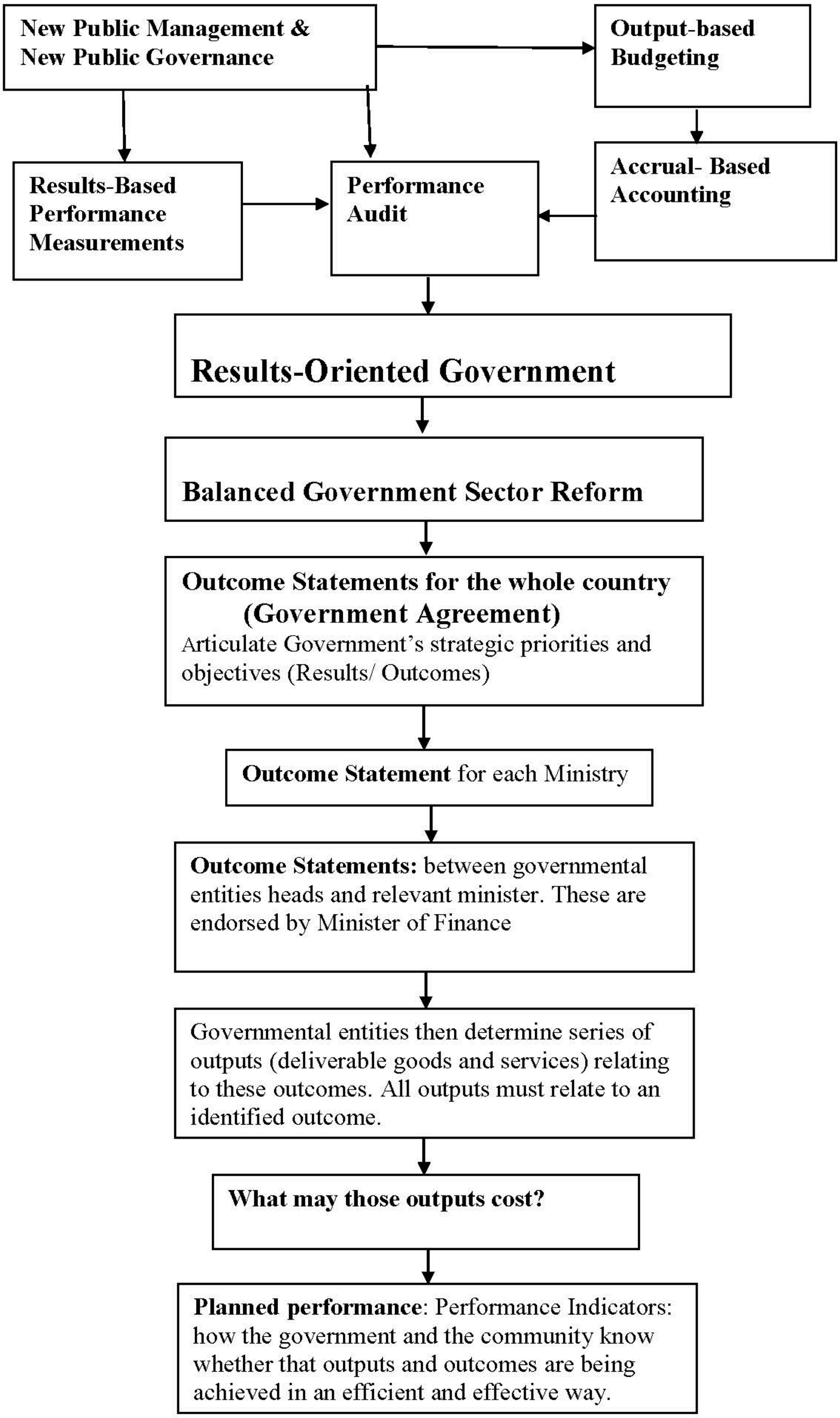
A. Establishing Audit Criteria should comprises the following: Sources and Types of Criteria in Performance Audit; Criteria in Performance Audit; How to Determine Performance Audit Criteria? General Criteria; Specific Criteria; and Elements of Performance Audit Criteria (Kiraka, Clark, & Martinis, 2007). B. Executing Performance Audit considers: Objectives of Audit Program; Scope of Audit Program; Developing Performance Audit Program; Step-by-step Approach to Audit Program; and Carrying out Performance Audit Program.

C. Reporting Results of Performance Audit considers: Conditions for an Effective Performance Audit Report; Style of the Performance Audit Report; Structure of Audit Findings; Format of Performance Audit Report; Issues in Performance Audit Reporting; and Dissemination of the Report (Kahan, 1994).

Consequently, the Balanced Government Sector Reform will lead to improving the public management by creating value-for-money and facilitating the implementation of Results-Oriented Government as follows:

- Encouraging a greater emphasis on outputs and the achievement of the aims and objectives;
- Identifying the outputs and the processes by which they are produced;
- Making the decision-makers focus more on resources consumed and not just on cash spent;
- Treating the capital and current expenditure in a way which better reflect their different economic significance;
- Charging for all resources consumed including the use of capital assets and non-cash items;
- Producing more systematic information on what each department expenditure has achieved;
- Keeping tight control on public spending through the additional information that will be provided by accrual accounting and performance budgeting;
- Improving the way in which government conducts its public expenditure planning and control procedures at central and local government level;
- Reducing or eliminating the pressure for spending at the end of financial year (the year-end surge);
- Measuring whether the departments have achieved their results in terms of economy, efficiency, and effectiveness; and
- Making comparison of cost of services provided by the Public Sector with those of the private sector more straightforward.

Figure 3: The Path towards the Results-Oriented Government



5. CONCLUSION

It is obvious that the currently used traditional government systems will not be able to provide the requisite information for an efficient and effective public sector management regime or assessment, evaluation, and enhancement of the value-added factor to the government economic resources, as well as services to the public. In addition, it has been noticed that the lack of efficient and effective public sector management is not only related to lack of management reform, or public sector accounting reform, or budgeting reform, or performance measurement reform, or performance audit reform and resulted-based culture but they are related to all of them. This means that the reform of public management without taking into consideration the public financial management reform is not going to solve the problem. Therefore, *the adoption of Results-Oriented Government needs to be based a balanced public (government) sector reform* that includes all the aforementioned systems. Consequently, in order to adopt Results-Oriented Government, it should be based on the following main components:

- Result-oriented Management System—New Public Management (NPM) and New Public Governance (NPG);
- Result-oriented Accounting System – Accrual Accounting System;
- Result-oriented Budgeting System – Output-based Budgeting System;
- Result-oriented Performance Measurement System-- Result-based Performance Measurement;
- Result-oriented Auditing System – Performance Audit; and
- Result-oriented Staff – Result-based Culture.

In addition:

No results-oriented government without setting and achieving strategic objectives and priorities;

No setting and achieving strategic objectives and priorities without results-based management;

No results-based management without performance-based budgeting;

No results-based budgeting without performance-based accounting system;

No performance-based accounting system without performance-based audit; and

No performance-based audit without result-based performance measurement

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