strategy&

Formerly Booz & Company

Putting outcomes first

How to plan performance management in the Middle East public sector

Contacts

Beirut

Fadi Adra
Partner
+961-1-985-655
fadi.adra
@strategyand.ae.pwc.com

Dubai

Sami Zaki
Principal
+971-4-436-3000
sami.zaki
@strategyand.ae.pwc.com

About the authors

Fadi Adra is a partner with Strategy&
Middle East, part of the PwC network. He
is based in Beirut. He has deep expertise
in pensions, municipalities, labor, social
services, and customer service.

Sami Zaki is a principal with Strategy&
Middle East. He is based in Dubai. He has
considerable experience working with the
center of government on national strategy
and agenda design.

Executive summary

&

Every year, governments around the world spend billions of dollars on programs that they hope will improve their economies, strengthen the quality of their services, and benefit their citizens. Yet they often do not take a rigorous approach to tracking these programs and ensuring their effectiveness. This issue looms large in the Middle East, especially for countries that are in the midst of multiyear national development efforts and need ways to oversee them.

Performance management can be invaluable in increasing the likelihood that a wide variety of government programs, such as infrastructure and health, meet their objectives. It is about translating overarching visions into more specific projects and initiatives. It is ultimately about metrics that can help government agencies at every level make the necessary contributions and keep these efforts on track.

Many of the world's most advanced countries have adopted outcome-based performance management, which will also serve the Middle East best. The key aspects of outcome-based performance management include the role and structure of a central performance management entity, key enablers in the areas of human capital, culture change, technology, and measurement; and the need to be flexible and alter the approach as circumstances warrant.

Performance management's role in government planning and decision making

Middle East governments need a way to keep track of their performance as they begin work on large-scale economic and national development plans. The equivalent of hundreds of billions of dollars are at stake in such plans as Saudi Vision 2030, Abu Dhabi Economic Vision 2030, Qatar National Vision 2030, Kuwait Vision 2035, and Egypt Vision 2030. These countries need mechanisms to make sure their investments — in areas such as infrastructure, healthcare, education, and renewable energy — are on schedule and are meeting the necessary milestones. That is especially important now with low oil prices pushing many Middle East budgetary positions into deficit.

A large part of the potential solution lies with performance management, a discipline that allows governments to assess the progress of their initiatives against pre-set goals and expectations. Countries all over the world rely on performance management. In some places, performance management has become a highly developed tool, improving the outcomes of government-funded programs and benefitting the citizenry.

Although Middle East countries have their own performance management efforts in place, they tend to be limited in scope. Their effectiveness is limited because of the rudimentary nature of the associated methodologies and processes. To get more benefit from performance management, Middle East countries will have to rethink their approach.
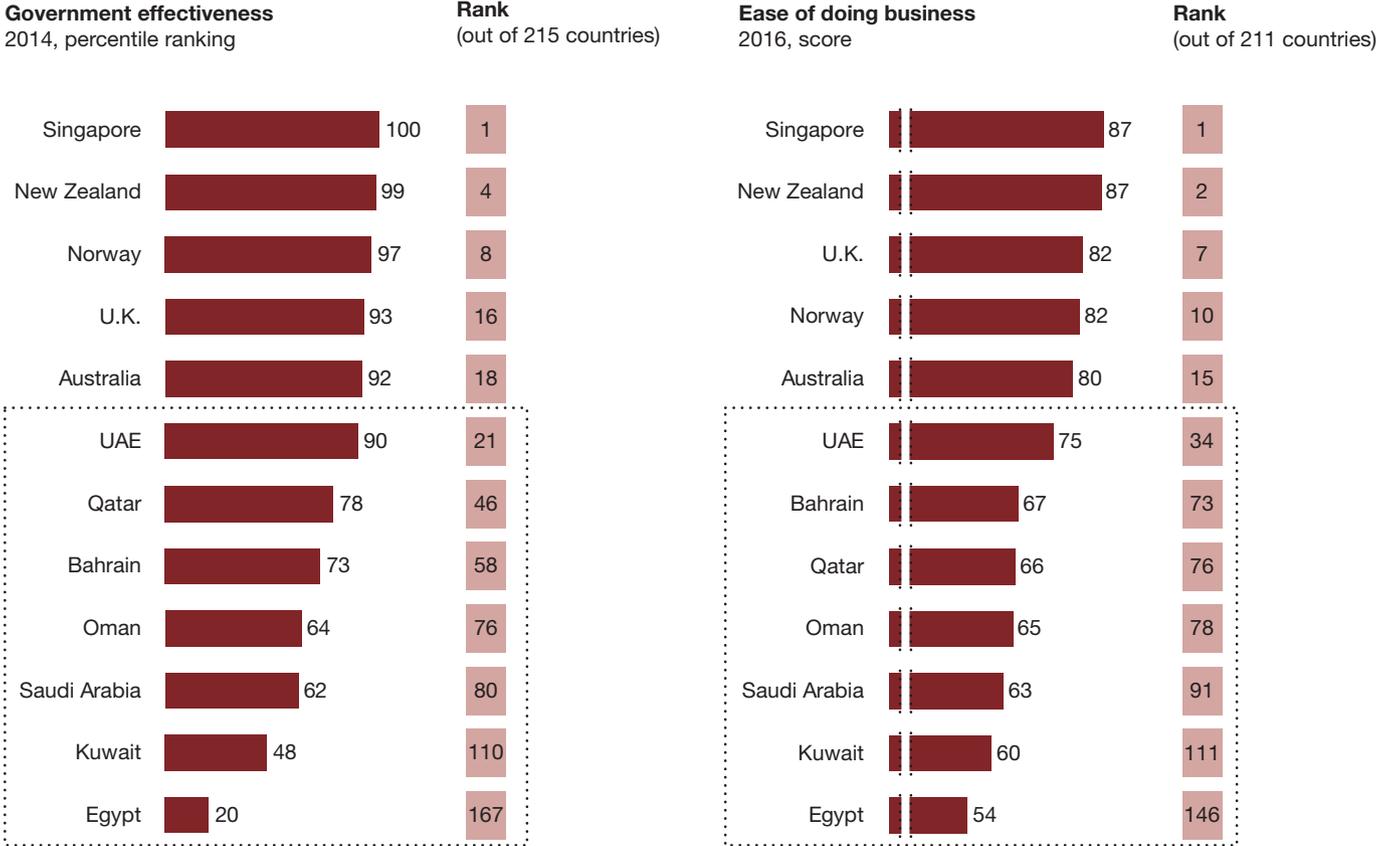
Distinct challenges in the Middle East

Performance management can help Middle East governments by combating bureaucracy and diagnosing sources of inefficiency. Governments can use performance management to improve their everyday activities and to implement national development programs. With few exceptions, Middle East countries have struggled with bureaucracy and low government efficiency. Indeed, Middle East governments generally lag behind advanced economies in the government effectiveness indicator published by the World Bank. The indicator captures elements such as the quality of public services, of civil service work, and of policy formulation and implementation. Middle East governments also rank low in the ease of doing business, an indicator that reflects the quality of key government services such as business registration and licensing, applications for construction permits, and property registration (*see Exhibit 1, page 6*).

Along with addressing inefficiencies in the system, performance management can be used to improve employee performance and motivate civil servants. Indeed, some government organizations use performance management programs as the basis of rewards systems, often monetary, that recognize public-sector entities or individuals. An example is the annual European Public Sector Awards, which recognize high-performing government entities across Europe. These awards create an arena in which Europe's public-sector institutions can excel and become examples for the rest of the world.

Exhibit 1

Limited performance management leads to low ranking in government effectiveness and ease of doing business

Country comparison

Government effectiveness 2014, percentile ranking		Rank (out of 215 countries)
Singapore	100	1
New Zealand	99	4
Norway	97	8
U.K.	93	16
Australia	92	18
UAE	90	21
Qatar	78	46
Bahrain	73	58
Oman	64	76
Saudi Arabia	62	80
Kuwait	48	110
Egypt	20	167

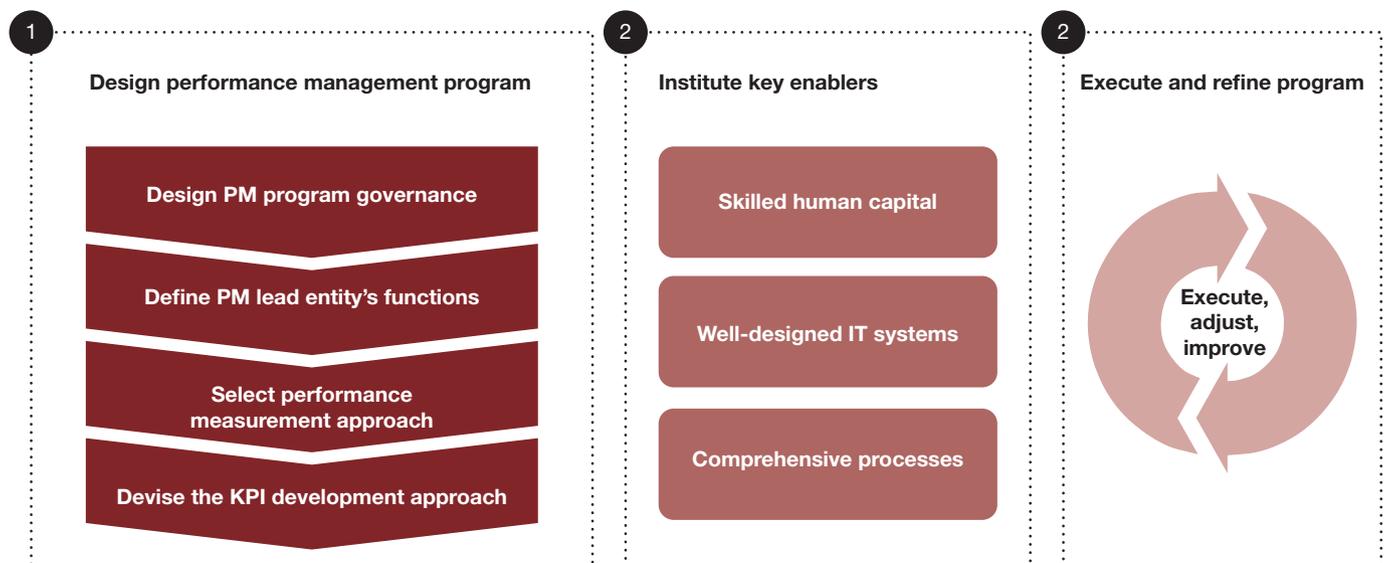| Ease of doing business 2016, score		Rank (out of 211 countries)
Singapore	87	1
New Zealand	87	2
U.K.	82	7
Norway	82	10
Australia	80	15
UAE	75	34
Bahrain	67	73
Qatar	66	76
Oman	65	78
Saudi Arabia	63	91
Kuwait	60	111
Egypt	54	146

Note: UAE = United Arab Emirates

Source: The World Bank, Worldwide Governance Indicators; The World Bank, Doing Business; World Economic Forum; Strategy& analysis

How to apply the discipline of performance management

Middle East governments should proceed through three major phases for the setup and operating model design of their performance management entities. Each phase includes multiple elements (*see Exhibit 2*).

Exhibit 2
Three phases for the setup and operation of performance management entities

1 Design performance management program

- Design PM program governance
- Define PM lead entity's functions
- Select performance measurement approach
- Devise the KPI development approach

2 Institute key enablers

- Skilled human capital
- Well-designed IT systems
- Comprehensive processes

2 Execute and refine program

- Execute, adjust, improve

Note: KPI = Key performance indicator
Source: Strategy&

1. Design the performance management program

This phase consists of four elements that enable the design of the performance management program.

Design performance management program governance
The first element of the first phase is to ask which government entity should be in charge of managing and running the performance management program and where its location is within government. Answers to these questions usually depend on the structure of the government, its strategic objectives and priorities, and the level of focus the government places on the performance management exercise.

Typically, national performance management entities are created in one of three possible locations within the government:

- the president's or prime minister's executive office
- the cabinet
- a specific ministry

Entities located within the executive office benefit from close ties to the center of power. This adds clout when the entity makes a recommendation or takes corrective actions. Entities located within the cabinet benefit from close proximity to ministers and executives, and they often already play the role of disseminating information about the overall economy. Entities located within specific ministries often have access to experts who can conduct more detailed analytical assessments — a potential advantage. However, their authority is limited in cases where they are assessing the performance of fellow ministries that they do not oversee.
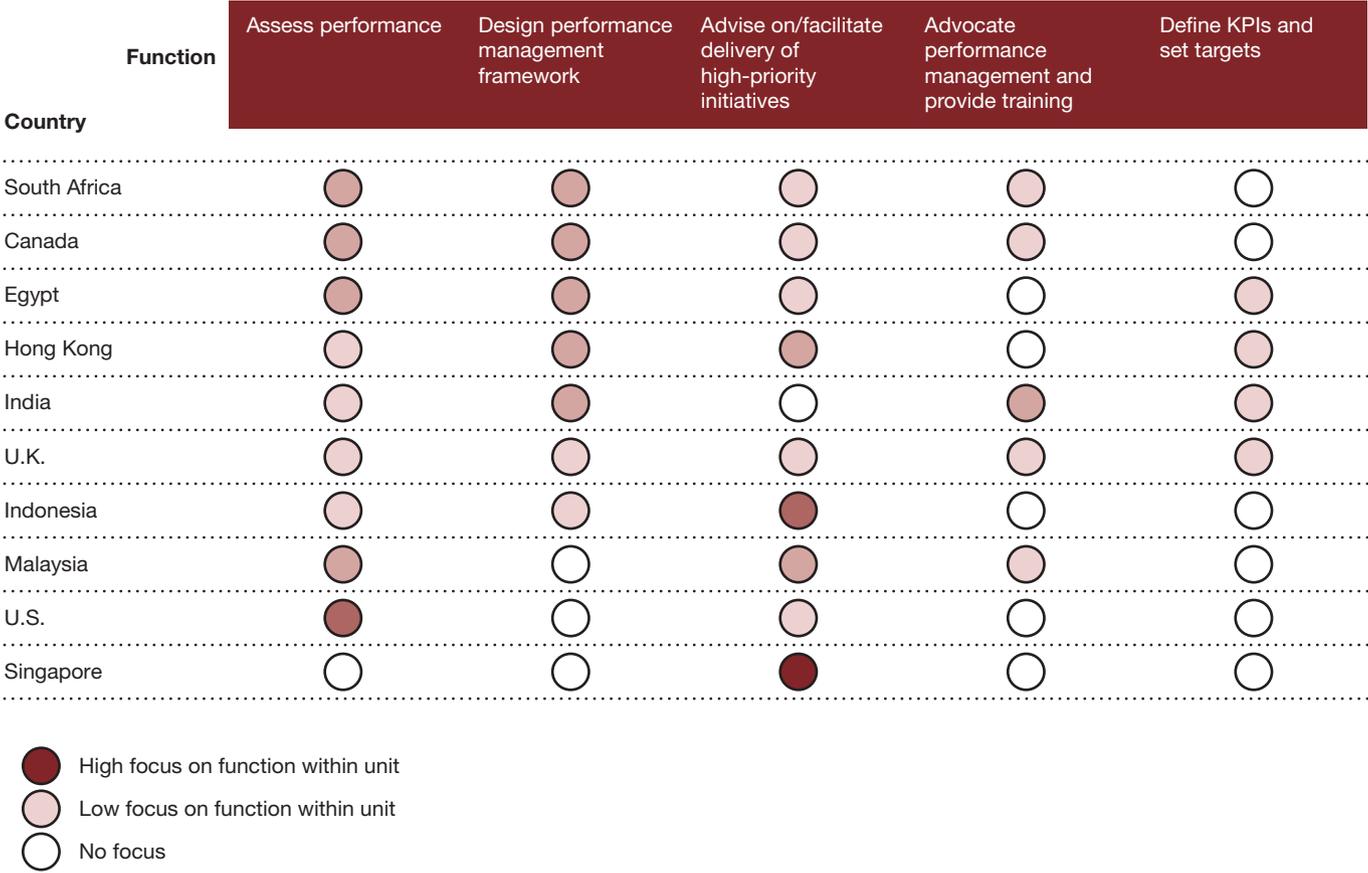
Define the performance management lead entity's functions
The next step is to define the exact mandate, roles, and responsibilities of the lead entity. A performance management entity can potentially play five key roles:

- designing the performance management framework
- defining key performance indicators (KPIs) and setting targets
- assessing performance
- facilitating delivery of related initiatives
- building capabilities of government entities

Performance management units rarely devote themselves to all five roles equally. Where they choose to focus their efforts depends on the unique circumstances and priorities of their governments. There are countries like the U.S. where the performance management entity is responsible for only a couple of the possible roles, and countries like South Africa where the entity takes on almost all of them (*see Exhibit 3*).

Exhibit 3
The unique circumstances of governments determine which performance management functions get prioritized

Country \ Function	Assess performance	Design performance management framework	Advise on/facilitate delivery of high-priority initiatives	Advocate performance management and provide training	Define KPIs and set targets
South Africa	Low	Low	Low	Low	No focus
Canada	Low	Low	Low	Low	No focus
Egypt	Low	Low	Low	No focus	Low
Hong Kong	Low	Low	Low	No focus	Low
India	Low	Low	No focus	Low	Low
U.K.	Low	Low	Low	Low	Low
Indonesia	Low	Low	High	No focus	No focus
Malaysia	Low	No focus	Low	Low	No focus
U.S.	High	No focus	Low	No focus	No focus
Singapore	No focus	No focus	High	No focus	No focus

● High focus on function within unit
○ Low focus on function within unit
○ No focus

Note: KPIs = Key performance indicators

Source: Strategy& analysis

It is probably better if performance management entities do not have too expansive a scope initially given that this approach is at a relatively early stage in the Middle East. The new performance management entity should start by focusing on three roles:

- designing the performance management framework
- defining KPIs
- setting targets and assessing performance using the KPIs

These are, in a sense, the core elements of any functioning performance management framework. By contrast, facilitating the delivery of high-priority initiatives requires capabilities that might not exist in a nascent performance management entity. Likewise, a focus on performance management advocacy and training is probably best left to a time when the framework itself is more fully developed and mature.
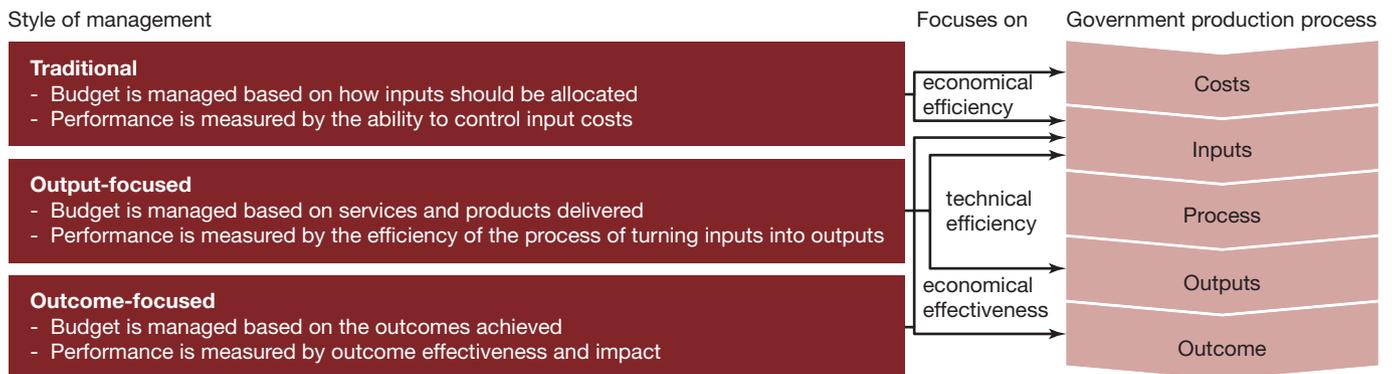
Select the performance measurement approach
Middle East countries should measure performance in terms of outcomes. This looks at the effectiveness and impact of government programs. Such a system has become prevalent among countries that have been doing performance management the longest.

Alternative approaches not focused on outcomes have not been as effective. The alternatives look at inputs such as the allocation of human, financial, or capital resources, or at outputs, such as the efficiency of investment. Most important, neither an input nor an output analysis would be sufficient to ensure that the high-priority national visions and development plans now under way in the Middle East are sufficient to produce the desired long-term benefits (*see Exhibit 4*).

Exhibit 4
An outcome-focused model measures more and better than input- or output-focused approaches

Style of management	Focuses on	Government production process
Traditional - Budget is managed based on how inputs should be allocated - Performance is measured by the ability to control input costs	economical efficiency	Costs Inputs
Output-focused - Budget is managed based on services and products delivered - Performance is measured by the efficiency of the process of turning inputs into outputs	technical efficiency	Process
Outcome-focused - Budget is managed based on the outcomes achieved - Performance is measured by outcome effectiveness and impact	economical effectiveness	Outputs Outcome

Source: IMF 2005: "Establishing a Performance Management Framework for Government"; Strategy& analysis

Australia has fully adopted the outcome-based approach. The country has had success with this largely because of the set of KPIs it has developed. These KPIs measure desired outcomes and the types of services provided. They ensure that the programs are effective from a results and impact perspective, without sacrificing cost efficiency (*see "Australia's use of outcome-based management"*).

It took Australia a while to get to a point where its KPIs actually supported its desired outcomes. When the country first shifted its performance management system from input-based to outcome-focused, government entities and agencies were defining outcomes in broad, aspirational terms. In many cases they did not report unmet targets. This is a common problem with KPIs in performance management and reinforces the need for clear top-down guidance.

Australia's use of outcome-based management

The Australian federal government uses a standardized outcome-based management (OBM) model, which is cyclical and follows four broad steps:

1. Strategic and operational planning at the federal government and federal agency levels. This means identifying goals and desired outcomes for the government as a whole and creating the mission statement and strategic plan for each agency.
2. Setting performance targets. This consists of agency level outcomes (linked to the government's goals and strategic outcomes), the services that will yield the desired outcomes, and the KPIs that will be used to track and monitor the achievement of the desired outcomes.
3. Reporting performance results. This is done by tracking the KPIs, measuring the effectiveness of the outcomes achieved, and measuring the efficiency of the services delivered.
4. An overall assessment to identify areas of improvement for the next OBM cycle.

The Australian federal government defines KPIs in three broad groups to manage performance at all levels: effectiveness indicators, cost effectiveness indicators, and efficiency indicators (which are productivity-based). These KPIs allow for continuous improvement opportunities as well as holding individuals or groups accountable for results.

The process to develop suitable KPIs begins with a clear definition of the desired outcomes and services, which is followed by a critical evaluation of existing performance information. The KPIs are drafted in consultation with major stakeholders to ensure overall alignment. Additionally, KPIs are linked directly to government goals and to government strategic outcomes, whether directly or indirectly. Once existing KPIs are evaluated, federal agencies are also encouraged to develop alternative KPIs based on benchmarks, inputs from other federal agencies, and/or statistical publications.

The OBM process has linked the federal government's annual reports and budget papers, resulting in a streamlining of management and monitoring practices as well as an improvement in the federal government's efficiency.

Devise the KPI development approach
The final step of the first phase is refining the right KPIs and forms of measurement. This is essential to establishing a successful performance management process. A top-down approach, with KPIs driven by the overall government strategy and cascaded down to public entities, probably makes the most sense in the Middle East. This is because national agendas and/or visions tend to drive the work of governments. The opposite approach, in which each public entity defines its own set of KPIs based on its specific objectives, which are then aggregated at a national level, works for countries that are not going through developmental transformation. Moreover, top-down works best with departments and agencies that are not regularly subjected to restructuring. If departments and lower-level bodies are subject to frequent reorganizations, substantial issues will arise about how to redistribute and assess performance measurements and targets. When developing KPIs, it is usually best if the performance management entity limits itself to high-level KPIs involving policy formulation, and allows relevant entities to manage more detailed indicators. This enables the entity to focus on the highest priority activities and avoid information overload. In fact, a proliferation of KPIs can undermine, rather than enhance, effective performance management programs.

2. Institute key enablers

The performance management program is enabled by four elements relating to human capital, culture change, IT, and processes.

Skilled human capital
A successful execution of the performance management program requires the availability of capable and knowledgeable personnel within the performance management entity and across various government departments and agencies.

It is especially important to have experienced strategists. The job of the strategists is to divide the government's high-level goals into specific objectives and KPIs at the entity level. Strategists therefore need a high-level understanding and long-term view of the objectives of the government, as well as the requisite expertise to help respective departments or ministries set their targets. In addition, strategists should possess strong communication skills. They need to be able to connect with government entities' employees and obtain their commitment to the performance management program. They also need to be able to work with the country's leadership to synthesize performance management data and develop meaningful directives.

In addition to seeing that there is skilled human capital in the performance management entity, Middle East governments should ensure that their wider public-sector pool of employees is ready to implement the performance management program. This can be achieved by:

- Offering performance management capability building programs. Such programs already exist in Australia, Canada, South Africa, South Korea, and the U.K. They take the form of workshops, personnel exchange programs, conferences, and various types of training material to continuously develop the skill sets of employees.
- Developing awareness and communication programs that educate public-sector employees on the new performance management process and its benefits. These are critical activities that enable the success of the whole exercise.
- Linking the effective adoption of the performance management process to individual employee rewards/incentives, both monetary and non-monetary. Such moves can have a strong effect on the overall success of these programs.

Effective culture change
The launch of successful, government-wide performance management should be accompanied by a culture change program that aims to instill the culture of performance management in all government entities. The following practices can make the culture change program successful:

- The use of informal peer-to-peer networks and relationships rather than top-down influence through reporting lines. Informal networks have proven to be more effective in influencing culture change
- The motivation to adopt performance management should appeal to individuals on an emotional level in addition to provide them with a rational case for change
- The scope of the culture change program should focus on a few critical behaviors that help instill the culture of performance management, as opposed to trying to influence all behaviors
- The performance management program should be explicitly linked to organizational priorities and put in the context of how the organization operates, rather than being seen as a "people thing" led by HR
- Communication should be used throughout the performance management program to remind and reinforce change, as opposed to being used solely in the beginning to raise awareness and initiate change

Well-designed IT systems
IT systems that provide for the automatic dissemination or reporting of KPIs are critical if governments want to reduce complexity. Leading performance management entities have relied on supporting IT systems. An example is South Korea's On-nara BPS system, which links 16 governmental systems and facilitates the circulation of information among authorized government personnel, leading to more-informed decision making. Similarly, Canada's Management Accountability Framework (MAF) online portal shares information about the performance of all departments and agencies across government, ensuring higher levels of transparency in the system.

When implementing the performance management program, governments should assess the ability of existing IT systems and infrastructure to provide linkages and data channels between various entities to ensure streamlined communication and KPI reporting. If such systems are not available, or are not of sufficiently high quality, then an investment in an appropriate IT system should be considered.

Comprehensive processes
Defining the right set of processes and associated time lines helps ensure that the performance management function is effectively implemented. To maximize adoption rates by stakeholders, processes need to be straightforward, comprehensive, and seamless. Indeed, sharing detailed plans with all concerned stakeholders, and informing them of their responsibilities and contributions with respect to performance management, is essential to the effective collection and utilization of performance management information.

Canada is an example of a country with a clear governance process for performance management. The process includes an annual review of the performance of all federal agencies (*see "How Canada ensures a high-performing federal government"*).

How Canada ensures a high-performing federal government

The Canadian federal government implements an outcome-based performance management approach using what it calls the Management Accountability Framework (MAF). MAF is used by the Treasury Board of Canada Secretariat (TBS) to ensure that federal departments and agencies are well-managed, accountable, and that resources are appropriately allocated to achieve desired results. The MAF assessment process involves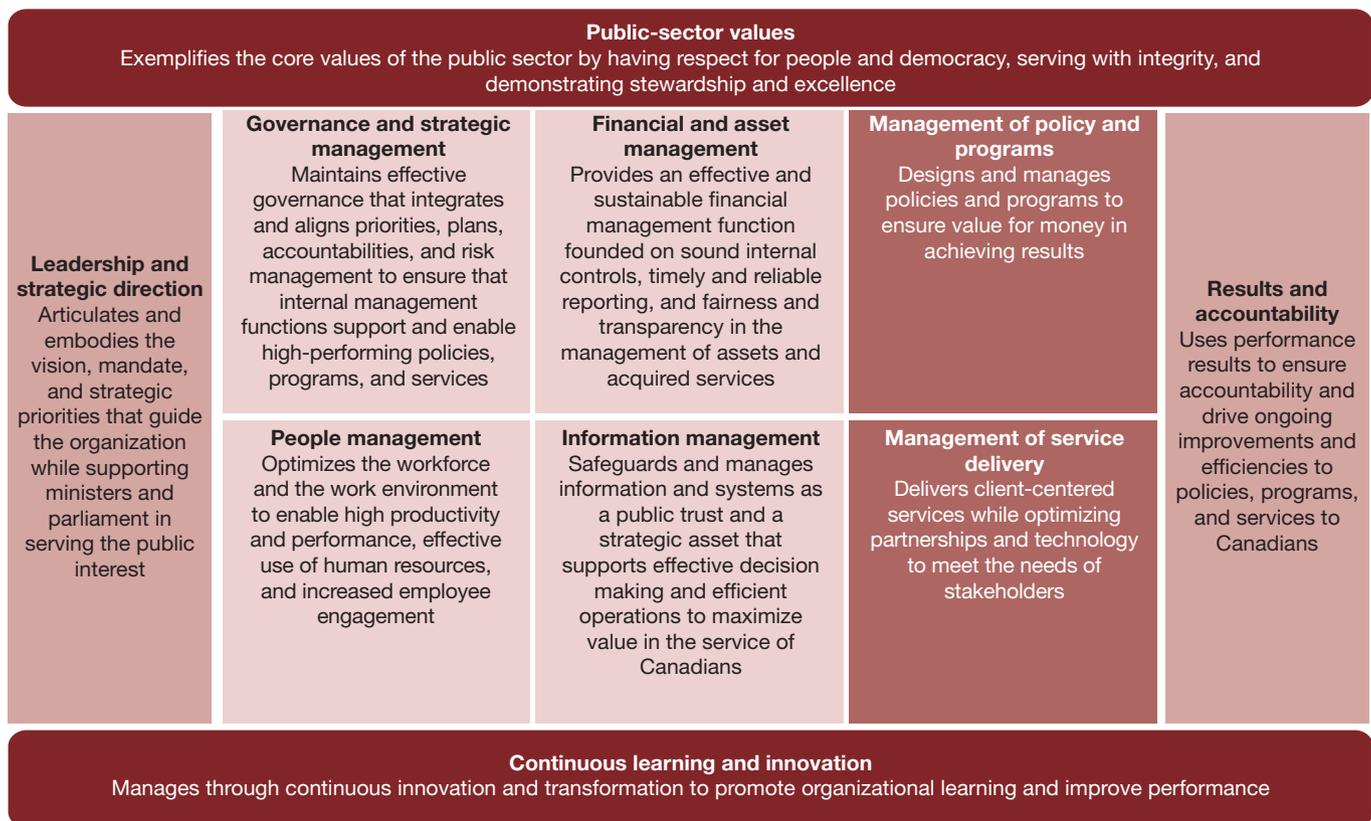 an annual review of management practices and performance in all agencies across the federal government (*see Exhibit 5*).

Under the MAF, the performance of all participating governmental organizations in four key management areas is assessed:
- financial management
- information management and information technology
- management of integrated risk, planning, and performance
- people management

Exhibit 5
Management Accountability Framework components – Canada

Public-sector values
Exemplifies the core values of the public sector by having respect for people and democracy, serving with integrity, and demonstrating stewardship and excellence

Leadership and strategic direction Articulates and embodies the vision, mandate, and strategic priorities that guide the organization while supporting ministers and parliament in serving the public interest	**Governance and strategic management** Maintains effective governance that integrates and aligns priorities, plans, accountabilities, and risk management to ensure that internal management functions support and enable high-performing policies, programs, and services	**Financial and asset management** Provides an effective and sustainable financial management function founded on sound internal controls, timely and reliable reporting, and fairness and transparency in the management of assets and acquired services	**Management of policy and programs** Designs and manages policies and programs to ensure value for money in achieving results	**Results and accountability** Uses performance results to ensure accountability and drive ongoing improvements and efficiencies to policies, programs, and services to Canadians
	People management Optimizes the workforce and the work environment to enable high productivity and performance, effective use of human resources, and increased employee engagement	**Information management** Safeguards and manages information and systems as a public trust and a strategic asset that supports effective decision making and efficient operations to maximize value in the service of Canadians	**Management of service delivery** Delivers client-centered services while optimizing partnerships and technology to meet the needs of stakeholders	

Continuous learning and innovation
Manages through continuous innovation and transformation to promote organizational learning and improve performance

Source: Government of Canada; Strategy& analysis

In addition to the four core management areas that exist in all organizations, three department-specific areas of management, which exist only in specific organizations, are also assessed:

- management of acquired services and assets
- security management
- service management

Select organizations are assessed annually on one or more of the department-specific management areas, based on the specificities of their service portfolio.

The process is launched annually in late spring when questionnaires and requests for supporting documentation are sent to all participating organizations. Between summer and early winter, entities complete the questionnaires and submit them to the online MAF portal along with the requested documents. Subject matter experts then review the submissions and prepare draft assessment reports that are provided to organizations in mid-winter. Organizations are then given a month to discuss their draft assessments with TBS officials. In late winter, the draft assessments are revised, and the final MAF results are released to individual organizations by early spring. This is when the TBS meets with managers and deputy heads to discuss the performance of their organizations. The final MAF results are used as inputs to the official performance management program.

MAF results contain observations by the TBS on where performance meets expectations and where there is room for improvement. The results also provide a snapshot of the state of management practices and performance across the assessed organizations, which allows each deputy head to benchmark his or her organization's performance against the performance of other government entities.

Additionally, 10 elements, identified by the TBS as necessary for a high-performing public sector, are used in the MAF assessment process. These elements are shown in Exhibit 5, along with a brief description of what each element entails. In order to assess organizational performance under the MAF, a set of areas of management (AOM) is developed for each of the 10 elements of the framework. In the people management category, for example, select AOMs may include excellence in people management, employee engagement, leadership, and employee learning. The TBS then evaluates the entity to determine its score: strong, acceptable, or opportunity for improvement on each of the AOMs. It then adds a short summary of its findings for each category, along with the entity's response to the evaluation.

Finally, the TBS uses the MAF results to gain a broad perspective on the state of management practices in the federal government and to monitor policy compliance and implementation. In summary, the MAF results help organizations continuously improve management capabilities, effectiveness, and efficiency.

3. Execute and refine the program

Finally, it is critical for any government to recognize that performance management programs are not initially designed with the idea that they will never change. Instead, they should be allowed to develop over time. Many countries with effective performance management systems (including Australia, Canada, and the U.S.) refined their systems incrementally with mid-course corrections along the way. Performance management program modifications grow out of close monitoring of implementation challenges and are related to the program's ability to provide government leaders with needed insights and feedback.

Adjustments and improvements to the performance management program may involve KPIs, human capital, and IT systems, among other things. KPIs will need to be evaluated for accuracy, proper measurement of outcomes, and appropriateness and relevance compared to benchmarks. Employees throughout the wider government will need to be trained on an ongoing basis in order to increase their effectiveness and ability to meet KPIs. IT systems will need to be updated to ensure that the right information is being shared in a timely manner. Other aspects of the performance management entity will also need to be continuously adjusted in order for the entity to continue developing and ensure that it is helping the government achieve its desired outcomes.

As such, performance management systems must be designed to be flexible. Realizing this, some countries (including Australia and Canada) base their performance management requirements on administrative policies rather than legislation — an approach that facilitates the process of making adjustments to the system. However, there is also a downside to this, which is that modifications can easily be reversed when there is a change in government.

In addition, there needs to be an appropriate balance between deliberate systemic design and organic evolution. Too often in government, the initial version of the performance management system is not comprehensive and does not fully reflect the government's requirements and operating models. The performance management system that was originally put in place in South Africa, for instance, did not adequately consider key aspects of subnational government entities and existing monitoring systems. This led to major delays in the implementation process and negatively affected the perception of the performance management system when it was first introduced. However, there was enough flexibility to address initial design flaws and put the system back on track. This needs to be the case in the Middle East too; there needs to be an awareness that these problems can arise and an openness to the solutions that are put forward for fixing them.

Finally, transparently sharing information regarding performance management with all stakeholders also allows for effective use of the information and development of recommendations and plans of action, and increases the overall impact of the program. Recognizing the benefits that can come from disseminating performance data, South Africa's government shares copies of the annual publication of development indicators with all public-sector bodies, universities, think tanks, and nongovernmental organizations. It also makes the publication available on the presidential office's website and uses it in the government planning process.

Conclusion

It is essential for Middle East governments to institute solid performance management systems given their commitments to deliver ambitious national development programs and their budgetary constraints. By establishing a dedicated performance management entity residing within the executive office, Middle East governments can ensure efficient use of budget and resources, visibility on achieved progress, availability of information to feed government decision making, and increased levels of transparency. Failure to put in place a well-functioning, outcome-based performance management system could severely affect the realization of long-term national objectives and undermine the well-being and prosperity of regional communities.

Strategy& is a global team of practical strategists committed to helping you seize essential advantage.

We do that by working alongside you to solve your toughest problems and helping you capture your greatest opportunities.

These are complex and high-stakes undertakings — often game-changing transformations. We bring 100 years of strategy consulting experience and the unrivaled industry and functional capabilities of the PwC network to the task. Whether you're

charting your corporate strategy, transforming a function or business unit, or building critical capabilities, we'll help you create the value you're looking for with speed, confidence, and impact.

We are a member of the PwC network of firms in 157 countries with more than 223,000 people committed to delivering quality in assurance, tax, and advisory services. Tell us what matters to you and find out more by visiting us at strategyand.pwc.com/me.

www.strategyand.pwc.com/me