

APPENDIX B

“The Performance Monitoring and Evaluation (PME) System: A Tool for Improving the Performance of Public Organizations”

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1 Objectives

The presentation has the following objectives:

- To show that the Performance Monitoring and Evaluation (PME) system can be used to improve the performance of public organizations.
- To discuss the essential features of a good PME system.

2 Definition/Description

- A PME system can be described as a contract between two parties: the evaluator and the evaluated.
- The contract often has the objective of improving the performance of an entity/enterprise that is managed by the evaluated.

Note:

- These contracts have often been between governments/states and the managements/boards of state-owned enterprises (SOEs).
- These contracts have been and are being used in several countries in Africa, Asia, Latin America and Central Europe.

3 PME System Operated by State Enterprise Commission (SEC)

The system incorporates three elements linked in an annual cycle of activities, namely:

1. Preparing/updating corporate plans by SOEs;
2. Performance-contract negotiations between government and SOEs; and
3. Quarterly monitoring, a mid-year review process, annual evaluation and reporting on SOE performance by the SEC.

Note:

- The SEC plays the role of a referee during the negotiations.
- The system was introduced in 1989. The SOEs covered ranged between 12 and 50 over the years.

The contracts have more or less a standardized format that includes the following main sections:

- The SOE's basic information, recent performance and constraints faced in the past year.
- A statement of the mission of the SOE (derived from the corporate plan).
- The SOE's objectives during the contract period.
- Performance targets for the contract period, underlying assumptions used in setting these targets and strategies to achieve them.
- Commitments undertaken by the SOE and government during the contract period.
- A statement of incentives/disincentives for performance during the contract period.
- The SEC's responsibility in monitoring and evaluating the SOE's performance.
- Other legal stipulations, such as duration of the contract, arbitration, etc.

3.1 Impact of the PME system operated by the SEC

Generally, the system provided an improved mechanism for managing the interface between government and the SOEs as well as for guiding the implementation of measures to improve performance.

- It forced some discipline on the SOEs by making management focus on specific quantifiable targets. This has had a positive effect on the performance of SOEs such as Ghana Civil Aviation Authority (GCAA), Ghana Ports and Harbors Authority (GPHA), Tema Development Corporation (TDC), and Precious Minerals and Marketing Corporation (PMMC).
- It instituted a culture of planning within the SOE sector and also inculcated in the SOEs accountability for enterprise direction and control by the board of directors. (As a result, discussions of the SOEs now focus on how to improve performance rather than whether to do so. This is a tremendous cultural achievement).
- It has also increased operational autonomy of SOEs' managements by reducing the extent of both authorized and ad-hoc ministerial interventions in enterprises operations.

Note:

- The performance of certain SOEs did not improve or deteriorate under the PME system, e.g., Ghana Airways, Omnibus Service Authority (OSA), Ghana Railway Corporation, New Times Corporation.
- The PME system is thus not necessarily a magic wand for performance improvement.

4 Necessary Conditions for Success of Performance Contracts

Ultimately, the success of performance contracts depends on government's willingness to make the exercise a meaningful one.

- It requires that the government take politically difficult actions, such as allowing SOE managers to cut costs through layoffs, raising tariffs to allow cost recovery, or firing managers who fail to perform.
- The government must signal its commitment to the contract by specifying a neutral enforcement mechanism and adhering to its decisions.
- The status/income of the actors responsible for negotiating and monitoring the contract should be similar to that of the SOE managers.

5 Office of the Head of Civil Service (OHCS) PME System

In many ways, this is similar to the SEC system.

- The contracts are between the chief directors and the government.
- The OHCS plays the role of the oversight agency (referee, i.e., SEC's counterpart)
- Impact of the system on the performance of the civil service is yet to be assessed and documented by an independent agency.

6 Essential Features of a Good PME System

The system has to be fair to both parties.

- A fundamental principle for ensuring such fairness is that all benefits and costs (however measured) should be counted once and only once.

- If some costs or some benefits are counted more than once, then the system sends distorted signals on relative importance and will generally be unfair to the manager, to the nation or to both.

Specific features to ensure that this basic principle is adhered to are:

- *Fairness to manager.* This implies that the manager of an enterprise should only be evaluated based on conditions within his control.
- *Fairness to nation.* Implies that an enterprise must not be rewarded (penalized) for making the nation worse off (better off).
- *Non-duplication.* That is, indicators that count the effect of the same outcome more than once should not be used; e.g., a system that includes total revenue, operating income, and return on capital as indicators would count benefits three times, which may be good for (or unfair to) the enterprise but unfair to (or good for) the nation.
- *Weighting of indicators.* Weighting of indicators should be done in a manner that sends the right signal to the institution being evaluated regarding the relative importance of various indicators.
- *Dynamic effects.* Incorporate dynamic indicators, which measure costs incurred in this period but for which benefits will not occur until future periods. Examples of such indicators are training, research and development, planning, marketing and maintenance.
- *Score normalization.* In a multiple-indicator system, scores must be normalized to produce sensible results if different metrics are used for different indicators. This

ensures that the aggregate score is always consistent with the underlying individual scores.

- *Incentive system.* Institute adequate incentives to ensure that the enterprise's employees are sufficiently motivated to invest the requisite time and effort to improve performance. In sum, the negotiated performance indicators point in a direction that the enterprise should move; incentives ensure that the chosen direction is actually pursued.