

# Towards best practice financial performance management

## A platform design for stewardship in Public Administration

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### ABSTRACT

*Since the start of human civilisation, the field of public administration has changed to a landscape of modern public administration unrecognisable to second-generation theorists and their normative theories. Rising aspirations of people are placing more demands on effective mobilisation of financial resources. The emphasis of the citizenry is on value for money measured in terms of economy, efficiency and effectiveness, thus making public financial performance management increasingly vital. The success of the public service of the future will be its ability to balance continuity and change; and the need to devote significant intellectual energy to the subject of stewardship as a concept for the enhancement of organisational performance becomes evident.*

*Stewardship in the context of public administration underlines the relationship between the public administration environment, the generic functions of public administration and management and the application of good governance principles in order to provide the opportunity for enhanced public financial performance. High-performing organisations have moved beyond bureaucracy to a commitment-based (platform) approach and are able to mobilise themselves within a complex and rapidly changing environment. "Performance management is seen as an integrated framework of systems and processes for the alignment of strategic intentions, decisions and activities across and within public service organisations." The stewardship theory recognises the importance of structures that empower the steward and offer maximum autonomy built on trust. It stresses the position of public managers to act more autonomously so that the shareholders' returns are maximised. The act of stewardship relies on a performance platform that is provided by the functions of public administration based on good governance for the economic, efficient and effective delivery of goods and services, meeting the needs of society.*

## INTRODUCTION

The postulation that public administration is probably as old as human civilization, and that the development of Public Administration as a discipline and academic subject is of fairly recent origin, offers a clear concept for further research and development of public administration in an era of modern management. Administrators have been necessary as long as kings and emperors required pages, treasurers, and architects to carry out the business of government. Evidence of basic administrative functions could be traced back to the early inhabitants of ancient Mesopotamia in the development of irrigation systems as a measure to survive. It is accepted that administration is to be found wherever two or more people take joint action to achieve a common objective, meaning that administration is present in all spheres of human activity.

Traditionally the study of Public Administration concerned the administrative activities required to govern and the administrative need to give effect to public policies. Various developments in history have had a marked effect on the delimitation of the public sector and the role of governmental institutions in serving society. Giving effect to the implementation of government policies implies the authoritative allocation of values and resources through the political system to individuals in society. It is a purposive course of action to be followed by an actor or set of actors in dealing with a problem or matter of concern.

The aim of this discussion is to highlight management best practices that can serve as a performance platform for stewardship with the emphasis on financial performance management within the domain of public administration and management. The importance of historical perspectives in the evolution of Public Administration and the significance of a post-bureaucratic reform thesis in Public Administration will be discussed. The emerging need for stewardship in public administration will be highlighted and concepts related to a possible performance platform for public financial performance management will be discussed.

## HISTORICAL PERSPECTIVES ON THE EVOLUTION OF PUBLIC ADMINISTRATION

The history of public administration (pa) as an activity and Public Administration (PA) as a discipline is characterised by different historical stages of development in relation to global events and environmental influences. During the early stage of development the emphasis was laid on moral and political issues and the establishment of a public administration to satisfy the needs of society. There was a need for structural arrangement for the implementation of law and order and to protect the integrity of the state. Also evident was the need for expert civil servants, knowledgeable in taxation, statistics and administration. Public administration was now viewed as a science and with the needs of society satisfied through a balanced conversion of inputs to outputs (Bagby & Franke 2001:623).

Societal reform initiatives create a growing need for administrative expertise and the establishment of professional institutes headed by skilled and knowledgeable academics in order to establish an economic and social school of thought. This school of thought characterised by sophistication, and the concept of natural law were closely related to the modern science of Public Administration (Langrod 1961:75).



In the United States of America, Woodrow Wilson in 1887 prepared the way for the study of Public Administration as an academic discipline with his article *The study of Administration*. Although Wilson made some controversial statements, his argument that “it is getting harder to run a constitution than to frame one” is evident of his valuable contributions in Public Administration (reproduced Gildenhuis 1988:69). With this argument, Wilson refers to the complexity of the executive activities of a government and the implications for a public official without formal training equipped with only a lay knowledge of governmental activities to cope successfully with his/her executive functions. Wilson argues that the object of administrative study is *firstly*, to determine what government can properly do, and *secondly*, how best to do these things efficiently and effectively (Woll 1966:18–34).

Luther Gulick and Lyndall Urwick were major contributors to the demarcation of the area of study of the science of Administration in its later development stages. They integrated the work of contemporary behavioural, administrative and organisational scholars including Henri Fayol, Fredrick Winslow Taylor, Paul Appleby, Frank Goodnow and William Willoughby into a comprehensive theory of Administration. Fayol, in his *Industrial and general administration*, developed 14 principles of management. Taylor (1856 – 1915) is considered the father of scientific management and his ideas of finding the one best way of executing a task to enhance production methods were the foundation of the classical organisational theory. Goodnow (1895–1939) argued that politics is the expression of the will of the government and administration is the implementation of that will. Willoughby is well known for his reasoning that public administration had common features that were applicable to all branches of government, as well as for his work on budgetary reform (Shafritz & Hyde 1997:2-4).

Gulick and Urwick believed a single science of administration, which exceeds the borders between the private and public sector, could exist. Gulick developed a comprehensive, generic theory of organisation, which emphasised the scientific method, efficiency, professionalism, structural reform and executive control. In 1937, Gulick summarised the duties of administrators with an acronym: POSDCORB, an acronym widely used in the field of Management and Public Administration, which reflects the classic view of administrative management. The acronym stands for steps in the administrative process: planning, organising, staffing, directing, coordinating, reporting, and budgeting (Botes, Brynard, Fourie & Roux 1997:284).

After 1945, theorists challenged the ideas of Wilson and Gulick and the politics-administration dichotomy remained the centre of criticism. In addition to this area of criticism, political events such as the sometimes deceptive and expensive American intervention in Vietnam and domestic scandals such as Watergate, characterised by ineffective, inefficient and largely wasted efforts, caused a situation where Public Administration as a science had to detach itself from politics. There was a call by citizens for efficient administration to replace ineffective, wasteful bureaucracy. Public administration would have to distance itself from politics to answer this call and remain effective. Public Administration was now allowed to establish itself as an independent body and as an eclectic science to develop its own theoretical framework and refine theories from related disciplines to establish an own body of knowledge (Waldo 1955:1).

During the late 1960s and early 1970s, the new public administration surfaced as a reaction to various factors such as the turmoil in the discipline in terms of its intellectual basis, and a

change of emphasis in the social science disciplines. Issues such as social equity, inequality and participation have irrevocably changed the study of Public Administration. The client-centred approach and service delivery have become the focus of public administration. The models of reform in the new public administration, reinventing government, business process re-engineering and new public management have all shaped the discipline and provided a framework for analysis of ideas and lessons learnt (Hood 1995:104-117).

Since the 1980s, neo-liberalism has emerged where the impact of globalisation, the role of markets, privatisation, corporatisation and outsourcing of services have become the terminology of the new *public management* (NPM) approach. The focus shifted to the balancing of economic policy with social and environmental policies, client-centred service delivery and the participation of the community in government decision-making. Physical evidence of this new approach was Britain's macroeconomic policy of reducing public expenditure through a series of public-sector reforms after 1979. In the United States, the movement began with President Reagan's call for a small-sized public sector. New public management received greater attention with the entrepreneurial management model outlined in Osborne and Gaebler's popular book *Reinventing government* (1992) and later in the Gore's National Performance Review set out in 1993 to make federal organisations more performance-based and customer-orientated (Moe 1994:111). Many countries around the world have tried to implement the reinventing ideas and some influential international organisations, such as the World Bank, promoted new public management (OECD 1991).

NPM is a combination of ideas derived from Economics (public choice theory) and is a new approach to public management, which advocates the reconfiguration of existing boundaries and responsibilities of the state through a number of initiatives. These include the restructuring of public services, the application of various business management techniques to improve efficiency, the utilisation of non-state actors to discharge public services (privatisation) along with the introduction of market-based mechanisms. As such, the direct involvement of the state in the delivery and production of public goods and services is thereby abandoned or at least reduced to give primacy to market mechanisms (Auriacombe 1999:125-128).

## **POST-BUREAUCRATIC REFORM THESIS IN PUBLIC ADMINISTRATION**

The argument for a self-conscious, professional field of study of Public Administration started from a managerial vantage point. Arguments concerning the area of study became known as the '*politics-administration dichotomy*' (Caiden 1982:33). Government's core focus should be on what government can successfully do and how it can succeed with maximum efficiency. Thus, public administration must become anticipatory, flexible, results-orientated, customer-driven, value-based and should strive towards maximising economy, efficiency and effectiveness using practices similar to those prevalent in the private sector (Rosenbloom & Kravchuk 2002:5).

This approach is relevant to the management of scarce resources to accomplish the goals set by public policy and have influenced the understanding and practice of public



administration. The management of resources to obtain maximum efficiency is related to the concepts of value for money and return on investment. Therefore, public administration principles and practices should strive towards maximising economy, efficiency, and effectiveness using responsive practices. Public administration principles should be based on systematic and scientific methods of financial performance management, capacitated, empowered and motivated personnel and scientific structural arrangements for logical divisions within work roles and the assignment of responsibilities. This approach emphasises values such as representativeness, political and administrative responsiveness and accountability (Bourgon 2007:19).

According to Musgrave (1959:4), sound, transparent and accountable management of public finances is at the core of organisational performance. Financial performance management as a prerequisite for organisational performance determines to a large extent the government's capacity to implement policy and manage public resources through its own institutions and systems. Financial performance provides the foundations upon which to build effective, capable and accountable administrations, able to fulfil their responsibilities and deliver basic services to the poor. Financing in public administration focuses on the prioritisation and use of scarce resources, ensuring effective stewardship over public money and assets and achieving value for money in meeting the objectives of government, i.e. rendering the best possible services. This must be done transparently and in terms of all relevant legislation. The financing function within a government includes various activities: formulation of fiscal policy; budget preparation; budget execution; management of financial operations; accounting; and auditing and evaluation (Musgrave 1959:4).

Finally, a post-bureaucratic reform argument in public administration must be based on a governance strategy designed to create a strong sense of ownership and responsibility for outcomes, i.e. those things one can do successfully. Thus, the concept of a governance strategy encompasses a public sector leader and manager that fully embrace the necessities of change that define the post-bureaucratic reform environment. This concept envisions a capacitated, motivated public servant that is empowered to facilitate change through sound, transparent and accountable management practices. Given the strong change influences that have emerged through post-bureaucratic reform the contemporary public administration landscape lays the basis for the concept of stewardship to provide a viable path for organisational performance.

## **EMERGING NEED FOR STEWARDSHIP IN PUBLIC ADMINISTRATION**

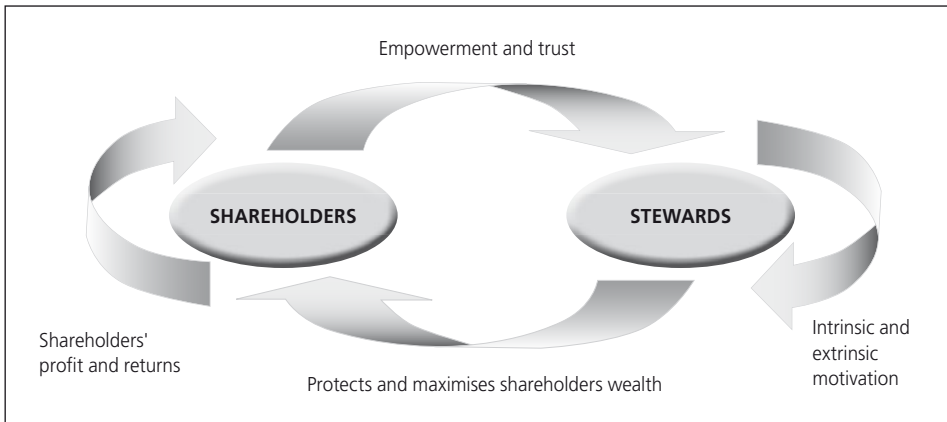
Stewardship is the personal responsibility for taking care of another person's property or financial affairs. Historically, stewardship was the responsibility given to household servants to bring food and drinks to a big castle's dining hall. Stewardship later became the responsibility of taking care of passengers' domestic needs on a ship, train, or an airplane, or managing the services provided to diners in a restaurant. The term continued to be used in these specific ways, but it is also used in a more general way to refer to a responsibility to take care of something someone does not own or taking good care of resources entrusted to one (Davis, Schoorman & Donaldson 1997:20).

In a public administration context, *stewardship* refers to public servants' responsibility to utilise and develop all resources, including its people, its property and its financial assets in the most economic, efficient and effective way. *Stewardship* also refers to the keeping and safeguarding of someone else's financial affairs and, therefore, the use of wise administrative practices to achieve good governance practices. From an ethical perspective, *stewardship* can also be seen as a function of government responsible for the welfare of the population, and concerned with the trust and legitimacy with which its activities are viewed by the citizenry. It requires vision, intelligence and influence in the practice of managing or looking after the well-being of the public administration environment (Swilling 1999:32).

Another way to conceptualise *stewardship* is to link it with performance improvement in four potential areas. *Firstly*, by the resource input requirements, and *secondly*, the throughput requirements, often viewed as process efficiency, measured in terms of time, waste and resource utilisation, *thirdly*, output requirements, often viewed from a cost/price, quality, functionality perspective, *fourthly*, outcome requirements, did it end up making a difference?

*Stewardship* theory has its roots in Psychology and Sociology and is defined by Davis, Schoorman & Donaldson (1997:20) stating that "a steward protects and maximises shareholders' wealth through firm performance, because by so doing, the steward's utility functions are maximised". From the public administration perspective, stewards are public servants serving the needs of citizens in the most economic, efficient and effective manner. Stewardship theory recognises the importance of structures that empower the steward and offers maximum autonomy built on trust. It stresses the position of public managers to act more autonomously so that the shareholders' returns are maximised (The three Es). Indeed, this can minimise the costs aimed at monitoring and controlling behaviour. However, in order to protect their reputation as decision-makers in organisations, public managers are inclined to operate the government organisation to maximise financial performance as well as shareholders' profits (needs of citizens). In this sense, it is believed that the government organisation's performance can directly impact on the perceptions of their individual performance (Donaldson & Davis 1991:65). Figure 1 depicts a stewardship model.

**Figure 1** The stewardship model



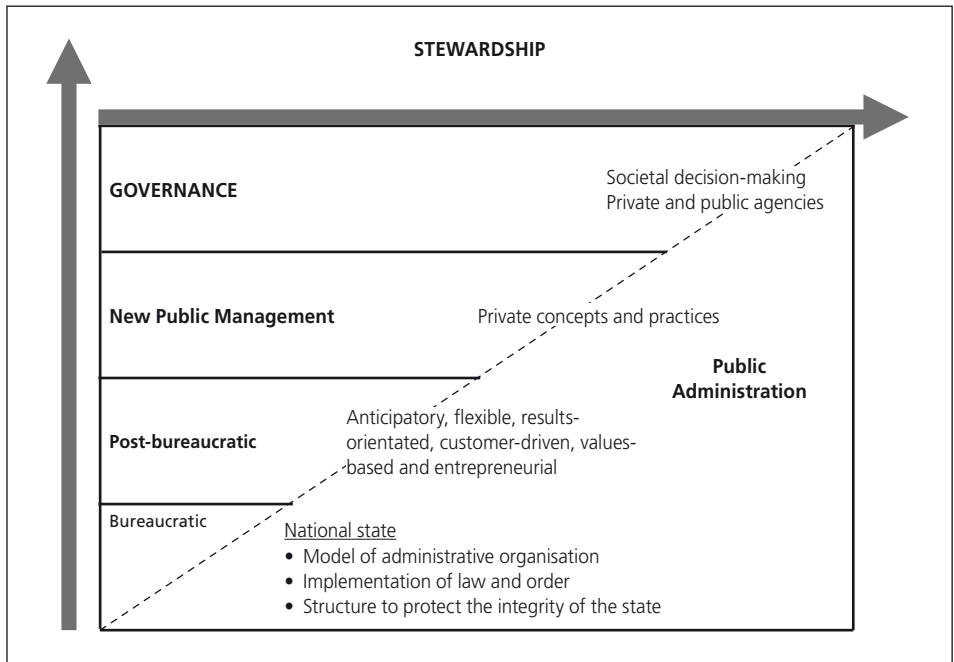
Source: Jordaan, J. 2013. *Public financial performance management in South Africa: A conceptual analysis*. Unpublished PhD thesis. Pretoria: University of Pretoria, page 45.

Performance assumes an actor of some kind (steward) being an individual person or a group of people acting in concert. In public administration, the performance platform is provided by the functions of public administration used in the performance act based on good governance for the economic, efficient and effective delivery of goods and services, meeting the needs of society. There are two main ways to improve performance: improving the measured attribute by using the performance platform more effectively, or improving the measured attribute by modifying the performance platform, which, in turn, allows a given level of use to be more effective in producing the desired outcome. Stewardship in the context of public administration underlines the relationship between the public administration environment, the generic functions of public administration and management and the application of good governance principles in order to provide the opportunity for enhanced public financial performance (Donaldson & Davis 1991:65).

The emergence of a new thinking about public administration and the concept of stewardship underline the need for a shift from traditional and rigid public administration practices and procedures to alignment with possible *best practices* in the business environment. As a result of this situation, public servants are now exposed to a *new organisation* characterised by business ideas such as quality management, market research, human capital management and entrepreneurship in an environment characterised by political oversight (Thornhill 2007:13).

The evolution of public administration and the emphasis on a stewardship perspective paved the way for the future transformation of public service delivery. This situation requires support from a new synthesis of public administration, which takes into account the

**Figure 2 A constructive platform for organisational performance**



Source: Jordaan, J. 2013. *Public financial performance management in South Africa: A conceptual analysis*. Unpublished PhD thesis. Pretoria: University of Pretoria, 85.

historical foundations and the current realities of practice to provide a constructive platform for organisational performance. Figure 2 is an illustration of a constructive platform with the concept of stewardship centrally placed (Bourgon 2007:7).

As illustrated in Figure 2, the concept of *stewardship* centrally placed on the firm basis of governance as the result of the evolution of public administration makes provision for the true meaning or role of government as derived from its mandate to serve citizens and to advance the public good. This provides the opportunity for the establishment of performance platform for the application of public financial performance management as part of the generic functions of public administration.

## **PUBLIC FINANCIAL PERFORMANCE MANAGEMENT – A PLATFORM DESIGN**

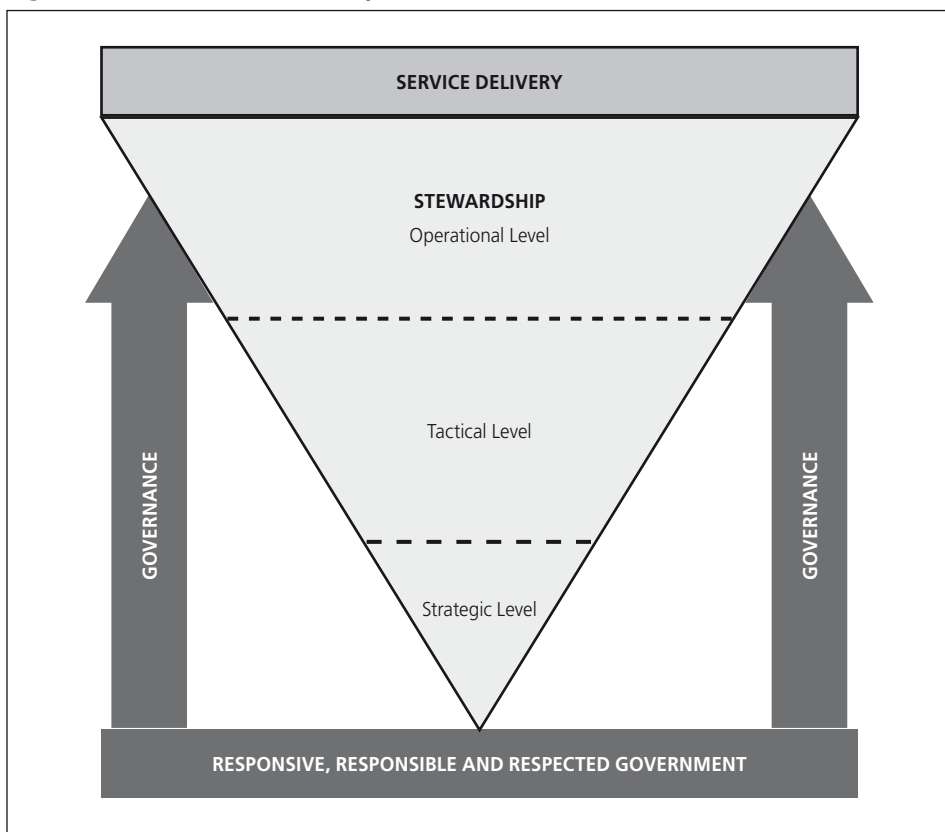
To have a clear understanding of public financial performance management, one needs to understand the relationship to policy as a statement with intent made by someone with authority and then the implementation thereof. The most common meaning of *implementation* is to carry out, to accomplish, to fulfil, to produce or to complete. This meaning could easily be associated with service delivery. *Policy implementation* is regarded as the accomplishment of policy objectives through the planning and programming of operations and projects so that agreed outcomes and desired results are achieved.

Valuable lessons for future management interventions in order to enhance organisational performance can be drawn from management reforms of the past. Stewardship centrally placed on the firm basis of governance as a performance platform implies fostering an environment that supports and demands performance and insisting on the efficient use of resources. The performance platform approach is based on the approach of what should happen before any advanced solutions could be discussed but with a more holistic approach to public financial management. It aims to establish a performance scenario at operational level designed to achieve increasing performance by line managers with specific reference to public financial management and accountability. The hypothesis behind the platform approach is that the strategic profile of the organisation is embedded in the concepts of *responsive, responsible and respected government* and that the strategic setting gives rise to the operational platform. Derived from these concepts are the characteristics of good governance as the anchor (empowerment) for the operational platform. Good governance implies an operational modification and the more effective use of the operational platform in order to enhance service delivery (see figure 3). Modification by means of the inverted hierarchy implies a shift from the traditional organisation as a typical triangle where the ultimate power and authority rests with one individual at the top of the organisation, and all others are subordinate to this person. The inverted hierarchy rejects this concept of the organisation and proposes an inverted triangle, symbolising the role of top management as empowering. This approach shifts the emphasis from less focus on command and control to a role of managers based on interaction and involvement aligned to service quality that provides value to the citizens. This approach is liberating and developmental in nature and allows for achievement and continuous improvement achieved by enabling, empowering and giving responsibility to





Figure 3 The inverted hierarchy



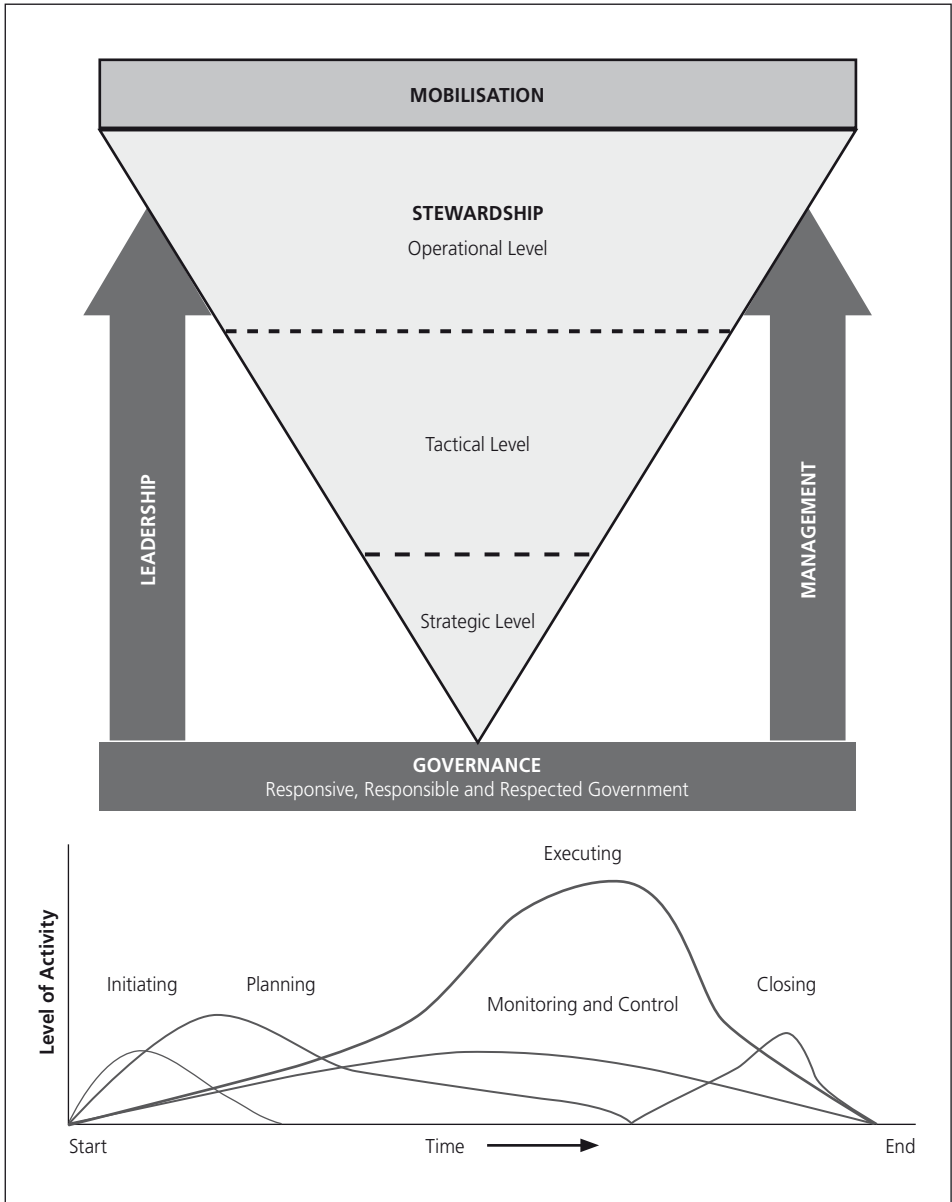
Source: Jordaan, J. 2013. *Public financial performance management in South Africa: A conceptual analysis*. Unpublished PhD thesis. Pretoria: University of Pretoria, 200.

the operational level of service organisations. The inverted hierarchy confirms existing convergence between the top-down and bottom-up approaches of policy implementation and highlights the close relationship between policy implementation and service delivery. Figure 3 provides an illustration of this approach.

The inverted hierarchy not only modifies the platform for service delivery, but also allows for a more effective use of a service delivery platform by shortening the distance between the operational level and the service beneficiaries. This situation creates the ideal environment for the application of the concept of *stewardship* (Jordaan 2013:199).

In support of the inverted hierarchy, it can be argued that in the traditional bureaucratic hierarchies, the aim of management is to define the best way to do a job, to set standards for compliance, and to monitor and control employees to ensure that they comply. At its best, this approach results in efficient production when work is routine, repetitive and predictable. However, when there is much uncertainty, complexity, rapid change and high interdependence, the control-based approach loses much of its effectiveness. High-performing organisations have moved beyond bureaucracy to a commitment-based (platform) approach and are able to mobilise themselves within a complex and rapidly changing environment.

**Figure 4 The expanded inverted hierarchy**



Source: Jordaan, J. 2013. *Public financial performance management in South Africa: A conceptual analysis*. Unpublished PhD thesis. Pretoria: University of Pretoria, page 202.

Performance management is seen as an integrated framework of systems and processes for the alignment of strategic intentions, decisions and activities across and within public service organisations. Performance management also aligns management frameworks of individual departments towards achieving improved effectiveness and for assessing its effectiveness both in terms of specific results and outputs and the impact of these on the lives of citizens (outcomes). Finally, performance management aligns human resource processes, systems

and practices designed to recruit, retain, support and develop individual employees and set them up to succeed.

Based on the inverted hierarchy (see Figure 3) the ideal platform provides opportunity for the mentioned alignment and integrated framework. Figure 4 shows the integration where the operational role of managers is phased in from initiation (needs requirement), planning as a management function, followed by execution, monitoring and control as a continuous function and finally closure. The figure illustrates the approach to mobilisation that provides the framework, processes, guidelines and techniques to manage a team and its responsibilities. The result is a well-defined scope and agreed understanding of intended outputs and provides for the management of risks, issues and timely decision-making supported by clear and short lines of reporting and also for on-going commitment and support from senior management at tactical and even strategic level. Operational managers are now empowered to portray personal accountability and overall responsibility for the successful outcome of activities. The situation is characterised by appropriately trained and experienced public officials whose capabilities match the complexity of the activities and they are guided by defined management practices, processes and procedures (Jordaan 2013:201).

The stewardship theory recognises the importance of structures that empower the steward and offer maximum autonomy built on trust. It stresses the position of public managers to act more autonomously so that the shareholders' returns are maximised. The act of stewardship relies on a performance platform that is provided by the functions of public administration based on good governance for the economic, efficient and effective delivery of goods and services, meeting the needs of society (Jordaan 2013:201)

## **CONCLUSION**

Since the start of human civilisation, the field of public administration has changed to a landscape of modern public administration unrecognisable to second-generation theorists and their normative theories. Public effectiveness now relies on public management practices by which stewardship and governance theory are put into action and on networks as an alternative for collective action. Consequently, an organisational performance strategy must be based on a broader vision of improved financial performance management and increasing organisational effectiveness leading to good governance. Public financial management is an essential part of the governance process and includes resource mobilisation. Rising aspirations of people are placing more demands on effective mobilisation of financial resources and the emphasis of the citizenry is on value for money measured in terms of economy, efficiency and effectiveness, thus making public financial performance management increasingly vital.

The success of the public service of the future will be its ability to balance continuity and change; and satisfy the need to devote significant intellectual energy to the subject of change and responsiveness. The expected outcome will be a high-performing public-sector organisation, which is results-driven with a culture of continuously improving performance. The organisation will be responsive to change; will encourage innovation by seeking a balance between risk and opportunity, will have a strong customer focus and will be highly transparent about its performance to its stakeholders.

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