

## CHAPTER 7: CONCLUSION: A CONCEPTUAL MODEL FOR PUBLIC FINANCIAL PERFORMANCE MANAGEMENT

### 7.1 INTRODUCTION

In order to develop a conceptual model for public financial performance management, it is necessary to provide a brief overview of important research findings. The purpose of Chapter 1 was to describe the character, objectives and need for public financial performance management in order to improve the quality of service delivery in South Africa. The need for this study is highlighted in the fact that despite the progress and achievements of the Government in the delivery of services, serious challenges still prevail, which proves disappointing in terms of reducing poverty and solving ongoing socio-economic problems. A major obstacle to effective service delivery in South Africa is poor governance, specifically corruption and poor performance of government officials in their management of public resources resulting in ineffective public service delivery implementation.

The problem statement reflects issues related to the fact that public financial management capacity is at the core of good governance and lies at the heart of effective service delivery. Therefore, it is necessary to unpack the source of the problem to provide a conceptual framework to improve public-sector financial performance management. Unique knowledge is required for the analysis, measurement and evaluation of performance effectiveness in public organisations. Operational managers must be empowered to measure the effects of service delivery in non-monetary terms in order to ensure effective public financial performance management. Not only will the operational manager be able to indicate what he/she has done, but also to account in a constructive manner for all planned achievements. Measurement will enhance management and will shift the phenomenon of public performance management beyond the boundaries of quantity to quality in terms of outcomes. The research question: how can decision-makers in public financial management give account of their performance with specific reference to the area of effectiveness and outcomes? culminated in the topic of the study: **Public financial performance management in South Africa: a conceptual approach.**

Chapter 2 was devoted to the contextualisation of public administration. The historical development of the discipline of Public Administration and the practice of public administration was discussed to put modern public administration as the

organised non-political executive state function into the context of the 21st century. Performance management must be viewed in the historical context as an evolution in the field of public-sector management. Employing a governance perspective and a new focus on public service allows one to explore the full range of policy choices, management strategies, ethical responsibilities, and civic commitments, which are necessary for effective and responsible public administration. 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 a government's capacity to implement policy and manage public resources through its own institutions and systems; it provides the foundations upon which to build effective, capable and accountable administrations, able to fulfil their responsibilities and deliver basic services.

People are concerned that governments do not spend their taxes appropriately and there is the quest to know how and for what purpose their taxes are spent. This prompts governments to become accountable, performance- and results-orientated. 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.

Chapter 3 shows that an ideological basis for the state such as an economic welfare ideology seems to be conducive for a performance platform and the application of good governance, stewardship and public financial performance management. This basis provides an environment that is conducive for growth and development, it provides for enabling opportunities for growth while still delivering services through public administration interventions with a long-term impact for quality of life. The problem of scarcity with unlimited human needs and wants, and limited resources to fulfil these wants relies on an economic system to determine the pattern of production and solving the issue of what economic goods shall be produced and in what quantities. These decisions are influenced by the institutional means through which the allocation decisions are processed and this establishes the link between the basic economic problem of scarcity and the study of public finance. Therefore, all public expenditure decisions to promote the collective utility are made by experts employed by the state.

The state's role has changed from hands-on management and the direct deliverer of goods and services to facilitating an enabling environment for private-sector participation. The economic role of the state has shifted to that of regulator of financial institutions to ensure fair competition and maintain safety and soundness of financial systems. It has increasingly become clear that the success of a country's development initiatives hinges on the country's effective economic policies and good governance as a political imperative with a high value placed on political and social justice and public accountability. Good governance as a relational concept will create a situation where people see themselves as part of the larger society and seek a balance between their self-interest and society's collective interest. They view their relationship to the government as equivalent to their relationships to voluntary trade associations, in which dues are paid for the benefit of all the members of the association. Ultimately, government will be evaluated through the effectiveness of its role of regulator, facilitator and enabler.

The emphasis on a governance perspective and a total rethinking of public service paved the way to explore the full range of policy choices, management strategies, ethical responsibilities, and public commitments, which are necessary for efficient, effective and accountable public administration. These reforms require a broader definition of public results, an expanded view of the role of government and a dynamic understanding of the field of public administration. This situation requires support from a new synthesis of public administration that takes into account the historical foundations, the current realities of the practice of public administration as well as new insights from other disciplines.

Public administrations are a vehicle for expressing the values and preferences of citizens, communities and society as a whole. Some of these values and preferences are constant; others change as societies evolve. Periodically, one set of values comes to the fore, and its energy transforms the role of government and the practice of public administration. In order for a responsive and responsible reaction from government, public financial performance management principles and practices need to support a public service that is ready and prepared at all times to provide the most effective services at the right place and at the right time.

Chapter 4 shows that globalisation has opened the boundaries; and the causes and consequences of its political, economic, social and technological decisions are not contained by its borders. Globalisation affects everyone; individuals, communities,

countries, regions and institutions. Globalisation tends to shape not only the organisational character of the administrative state, but also the managerial dimension of public administration. It is increasingly recognised that good governance is significant in a country's developmental processes to ensure that globalisation benefits all. The state, in partnership with business and civil society, has a key role to play in attaining a good life for all its citizens. Organisations need to participate in the establishment of strategic alliances and partnerships and must maintain a level of competency comparable with that of worldwide skills and best practices. The future organisation will have to focus on the capacity to access a wider population.

Progress has been made in economic governance, public financial management and accountability and the integrity of the monetary and financial systems by several African countries. As a result, the situation in Africa today is better than it was a decade or so ago. However, a great deal remains to be done, such as the question of leadership and how seriously it is committed to sound public financial management and accountability. The integrity of the monetary and financial system is central, as is the question of the ability of other institutions of government and civil society in general to control the executive and makes it accountable. In this regard, the role of parliaments and civil society organisations is crucial. These institutions must be empowered and their capacity enhanced so that they are more or less equal interlocutors and partners with the executive branch of government. The dominance of the executive over the legislature and the judiciary must be sharply curtailed, and a true and genuine system of checks and balances must be established among the three spheres of government. In addition, civil society organisations (oversight) must be strengthened, and their independence from the government as well as their ability and capacity to play a greater and more effective role in economic policy-making and implementation must be greatly reinforced. Many of these organisations simply lack the capacity and experience to be effective in economic governance and public financial management.

Given the magnitude of the challenges and the tasks facing African countries, African governments and other stakeholders, especially the international community, must focus not only on devising schemes, policies and programmes and adopting internationally accepted rules, regulations and codes of good practices, but also on ensuring that the capacity to implement these well-conceived reforms is available. A

holistic approach will be needed for the problem of governance and to make progress on all fronts simultaneously, challenging though this may be.

Chapter 5 deals with the analysis of public financial management practices in the international environment and discusses specific initiatives undertaken by national states and also international organisations in the quest to make the world a “better place”. In terms of PFM, financial performance management is an integrated strategy with the goal of improving the performance of public service organisations. An effective PFM system is critically important in achieving the strategic goals and objectives of government in the most economic, efficient and effective way. Therefore, international reform initiatives to enhance public financial performance management emphasise the establishment of a series of performance platforms to accommodate multiple role players and to manage relationships. For optimal financial performance, the performance platform must be used more effectively or the performance platform can be modified.

Due to the unique country-specific and changing nature of the public financial management environment, future financial performance will rely on concepts that exceed the conventional boundaries of public administration. The concepts of the future role of government as it has evolved over time illustrate the role of governance as the ideal platform to deal with the current environmental realities and the need for financial performance management. The concept of *stewardship* centrally placed on the firm basis of governance provides the opportunity for the application of public financial performance improvement in the four areas of resource input requirements, process efficiency, output requirements and outcome requirements.

The performance platform allows for an interactive relationship between the public financial management system and the budget process as to be facilitated by various role players in different relationships. Interaction is based on the concept of *getting the basics right* and is also aligned with the public financial management system as a series of realistic platforms to accommodate the multiple role players. The result is a financial system that provides the opportunity for financial performance management and effective and optimal budget outcomes.

The importance of sound PFM systems to enhance service delivery, poverty reduction and the achievement of the development goals is highlighted. In developing capacity, the new guidance is to build on existing capacity and not to impose external

solutions. The lack of professional and managerial skills, as a serious constraint on PFM reform, is evident. Peer groups and regional affiliations are becoming increasingly popular as there is a worldwide trend towards government outcomes, namely the impact of public policies on citizens.

Chapter 6 is an analysis of the public-sector financial performance management situation in the South African Government environment. A 'high performing' public sector organisation is results-driven, i.e. has a culture of continuously improving performance, receives and allocates funding aligned with cost-effective delivery, is responsive to change, encourages innovation by seeking a balance between risk and opportunity, has a strong customer focus, and last but certainly not least, is highly transparent about its performance to its stakeholders.

A sound public financial management system allows government to make the best use of all available resources, including international development assistance, and deals with the quest to efficiently and effectively utilise public resources to meet the needs of the community in an equitable manner. Public financial management is not merely a question of spending more, but requires adequate capacities for managing public finances in order to maximise the impact of public resources to improve the quality of life of society. This includes both managing expenditure and raising revenue. Raising revenue is essential for development and state-building.

This thesis highlights the focus on financial performance management as a critical component of the total system of public administration and the role that it can play in implementing the South African Government's policies to promote national economic, social and other developmental goals. However, it is recognised that at theoretical level no one method of public financial management will satisfy the specific needs of a government better than any other. It is only in practice that an optimal system of public financial management can be determined. The approach taken in this thesis was to emphasise the role of public financial performance management in support of public administrative reforms that meet developmental needs.

By taking a view of the role of public financial performance management and its potential contribution to public management and development as analysed in the chapters of this study, a conceptual model for public financial performance management can now be depicted.

## 7.2 A CONCEPTUAL MODEL FOR PUBLIC FINANCIAL PERFORMANCE MANAGEMENT

This study was an attempt to construct a theoretical framework on how decision-makers in public financial management can give account of their performance with specific reference to the area of effectiveness and outcomes. The provisioning of a conceptual model to improve public-sector financial performance management will make a positive contribution to meet the needs of all people in the most economic, efficient and effective way.

### 1) Public financial performance management and governance

The role of public financial performance management arises at a number of points when considering improvements to governance. The public financial performance management system must be integrated into the total governance framework if it is to contribute as part of an organic whole to enhancing a country's development prospects. Lack of integration between the financial performance management system and the total public management system can make administrative reforms fail or even represent a step backwards. A successful financial performance management system is a core component of a total system of management and needs to work in harmony with the other elements (human capital, strategic and operational planning, information systems, etc.) that are employed to achieve the objectives of government.

In comparison with the traditional bureaucratic model of legislated responsibility, performance-based management systems focus on the specification and achievement of explicit goals in an environment of increased accountability. Such reforms reflect the views of the state that sees its public administration as an instrument for the delivery of economic, social and other goals. Within this rationalist view of the state, the task of the reformer is to find ways to improve the performance of the government in terms of meeting these goals efficiently and effectively. Put simply, the principles of effective management involve a clear expression of an agreement about objectives, managers who are accountable for results, the freedom to manage resources subject to incentives for efficiency and effectiveness, and clear information about performance. Today's environment demands public institutions that are extremely flexible and adaptable. It demands institutions that are responsive to development and growth and willing to establish stewardship relations characterised



by a sense of meaning, ownership and empowerment. This approach of outcome-focused management is the result of an elective stance towards the evolution of public administration and management with a shift away from process regulation and controlling of inputs. Good governance provides a performance approach that is serving the needs of people and is results- and outcomes-driven.

Governance principles apply to the processes towards results and outcomes and highlight the need for role identification and alignment towards the establishment of reporting structures within processes. The creation of a governance structure illustrates the relationships among the various roles and shows the basic governance 'flow' of responsibilities within a process.

## 2) Management effectiveness to accountability

Organisational structures are designed layouts or arrangements of duties and tasks created while taking into consideration the allotment of the job, distribution and granting of authority, as well as operational links of the subgroups or departments in an organisation. Organisational structure, therefore, maximises the group performance by allotting each member individual responsibilities and tasks without redundancies and at the same time monitors the group performance by assigning authorities to supervise and co-ordinate with the members of the group.

Organisational structures, however, differ from one group to another. It varies with the goal of the organisation, the type of leadership a certain group has, as well as the organisation's view of their clients or benefactors. In essence, organisational structures can be broadly classified depending on the distribution of power, authority and responsibility.

As analysed, allowing managers to manage, but holding them accountable for their performance, implies management effectiveness to be more accountable and the obligation of the individual to carry out his/her duties in terms of standards of performance. Accountability is a result of responsibility and responsibility is a result of delegation and granting of authority and empowerment (see Figure 7.1). Empowerment ensures that managers know their roles in implementing the organisation's mission, and have the resources, information, skills and decision-making authority for those roles. Managers cannot be responsible, nor can they be



accountable for performance excellence without adequate authority and empowerment.

Figure 7.1: Management effectiveness to accountability



Organisations have tended to work in a pyramid structure. This structure is easily identified by the existence of a ruling class or individual and every pyramid has a decision-maker at the top. As the pyramid unfolds, the next layer of individuals report directly to the leader, and pass along his/her desires to the people below them. As orders filter down, the groups get larger and larger, until finally, the bottom of the pyramid is reached. The majority of individuals in a pyramid structure are at the bottom layer, performing the most menial tasks.

While a top-down format has certain advantages, the unfortunate truth of the pyramid structure is that it is designed for the most people to have the least input. What is also unfortunate is that in most cases, the services and activities undertaken by the bottom layer are usually the main reason for the pyramid in the first place. While the leader may make the decisions that get passed down, it is the lowest layer that meets the customers, makes the products and delivers the services.

An alternative structure for organisational management is the inverted (or upside-down) pyramid. This structure recognises that the organisation exists solely to

provide for customers. If the payments by customers (through sales or taxes) are crucial for the survival of the organisation, then the most important people in the organisation are those that interact with customers. If customers are satisfied and served well, they will continue to feed the organisation, ensuring its continuity.

While the top of an inverted pyramid consists of the many people who have direct influence on customers, the next level down contains the people required to support the front lines. Support staff may provide maintenance services, administrative services, or even management services. However, in the inverted pyramid, management does not exist to rule but rather to co-ordinate information and efforts of front-line individuals, providing them with the resources required to fulfil service obligations.

Since the front line is crucial to the organisation, those in that position must have input resources for assigned duties and tasks, authority and decision-making responsibilities. While management services may provide guidance, it is really up to the front line to identify their needs. As long as the objectives are to improve service delivery and organisational strength, front-line requirements should always be met.

Switching from a regular pyramid to an inverted pyramid requires a system of structural empowerment. What this means is that front-line individuals are given authority and responsibilities, along with guidelines and structures that ensure all efforts are for the common good. Throughout the transitional process, front-line teams identify common requirements, and adjustments are made in operational process to most efficiently meet those requirements. The shift is not straightforward, and each activity and decision must be reassigned to the most effective level.

In the inverted structure, the leading and motivation function of management prevents individual concerns; and desires can get in the way of success. It is important for all participants to distinguish between their personal desires and the requests that truly improve the organisation. When all are dedicated to the improvement of service delivery and efficient reallocation of authority, it can be successful. When groups or individuals insist on changes that are to the detriment of the entire organisation, expectations must be adjusted. Ultimately, the inverted pyramid works when all of the people choose to make it work.

While the basic concepts of this power shift can be explained, the details are not as clear. The process takes place over time, and specific details fall into place. The key requirement for upper management is to suggest the change, encourage the change, and allow the change. Once an organisation has been given the objective of restructuring, it will. Ultimately, the system of structured empowerment requires the top levels to allow and co-ordinate the shift of power, and the front lines to honourably accept their responsibilities and duties. This situation emphasises the critical relationship between people and power.

### 3) The people side of public financial performance management

While these structural arrangements related to an outcomes-focused management underlie financial performance management efforts, it should be remembered that a high standard of organisational performance is ultimately established by people and not management systems. Management systems can increase the probability that people perform successfully but cannot guarantee it; by the same token, poor management systems can inhibit good performances by people who would otherwise be capable of achieving them. The human side of improving performance is fundamental to a holistic approach to improving public management.

The traditional bureaucratic organisation, still found in many governments, combines a management philosophy with a system for public service delivery that focuses on enforcing compliance with central requirements to achieve minimum performance standards, which are universally applied. It is similar to the philosophy of management known as Taylorism, which typified management up until the 1960s.

The traditional bureaucratic model as described in Chapter 2 has increasingly come under attack in the government sector, as it did in the private sector and for many of the same reasons. Such organisations fail to become anticipatory, flexible, results-orientated, customer-driven, values-based and entrepreneurial in service delivery. Mass-produced services of indifferent quality, with little concern for the customer, have increasingly become unacceptable in the public sector, as they are in the private sector. To solve the problem requires a complete reorientation of management systems and organisational culture, which most governments are only just beginning to come to terms with even though such ideas have existed for a long time.

The theme of this reorientation will be one of empowering public managers to use resources in a way that will meet their clients' needs. The principle is not one of abandoning control but of finding more effective and efficient ways to deliver public services. It should be noted that control over the higher purpose of delivering a government's strategic objectives can be significantly increased if managers provide a higher quality service and are responsive to policy direction. To ensure this outcome, the administrative centre of government needs to be redesigned, to strengthen its policy development capacities and to develop more sophisticated oversight capabilities in order to monitor the performance of delivery agencies.

The broad perspective on management systems and current trends in management reform yields a particular perspective on financial performance management and its potential contribution to a country's development. Located on the 'hard' side of management, financial performance management is about implementing concepts, systems and processes, which establish essential hygiene factors in an organisation or in a government as a whole, enabling satisfactory accountability for resources to be achieved. Derived from public policy objectives, the financial performance management system needs to be implemented alongside and in harmony with the other basic modules of a management system.

#### 4) Public financial performance management: an implementation orientation

To have a clearer understanding of the public financial performance management model, 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.

In understanding implementation as a complex political process, rather than a mechanical administrative one, an implementation orientation to public financial performance management becomes an attempt to see how it can be influenced by the establishment of a financial performance management model to better accomplish the goals it set out to achieve. While the maze through which policy travels in the course of its implementation is unique to each situation, there must be

an attempt to identify critical variables which shape the direction that implementation might take. A critical variable might be implementation capacity however, it is likely to be a function of the content of policy in order to provide for resources for capacity building. Derived from the public administration environment, the institutional context of the relevant organisation may hinder or help such capacity enhancement. The commitment of implementers to the goals and methods of the policy may make up for the lack of such capacity or vice versa; or the coalition of actors opposed to effective implementation may prevent the capacity, which might otherwise have been sufficient and here, again, supportive clients and coalitions may in fact enhance capacity.

As discussed in Chapter 3, the seminal typology of policy content is provided by Lowi (1963:16), who characterises policy as distributive, regulatory, or redistributive. In very broad terms, distributive policies create public goods for the general welfare and are non-zero-sum in character; regulatory policies specify rules of conduct with sanctions for failure to comply; and redistributive policies attempt to change allocations of wealth or power of some groups at the expense of others. The content of policy is important not only in the means it employs to achieve its ends, but also in its determination of the ends themselves and in how it chooses the specific means to reach those ends that is related to outcomes and results.

Institutional context as another critical variable will necessarily be shaped by the larger context of social, economic, political and legal realities derived from the public administration environment. This is, in no way, an attempt to understate the importance of the larger contextuality, but merely to emphasise the potential impact on the implementation process, primarily via the institutional corridor through which implementation must pass and the support of clients and coalitions. Effective working relations typically result from bargaining, accommodation, threats, gestures of respect and related transactions. Straight lines that link square boxes mean little if the underlying reality is a jumble, whereas effective working relations can be established by transactions among agencies with no formal connections whatsoever. Based on the research findings in Chapter 2, bureaucratic contexts favourable to implementation more often grow out of human interactions (stewardship) than out of hierarchical regulation.

In the context of this thesis, the capacity of the public sector is conceptualised in general systems thinking terms as the structural, functional and cultural ability to implement the policy objectives of the government, i.e. the ability to deliver those

public services aimed at raising the quality of life of citizens, which the government has set out to deliver, effectively, as planned over time, in a durable way. It obviously refers to the availability of and access to concrete or tangible resources (human, financial, material, technological, logistical, etc.). Capacity also includes the intangible requirements of leadership, motivation, commitment, willingness, endurance, and other intangible attributes needed to transform rhetoric into action. The political, administrative, economic, technological, cultural and social environments within which action is taken must also be sympathetic or conducive to successful implementation.

In the context of a systematic network approach to service delivery, capacity-building can be regarded as a total (structural, functional and cultural) transformation of government in order to mobilise all available resources to achieve policy objectives. This amounts to a paradigm shift regarding the nature of government. On no other variable does the analytic literature on implementation seem as unanimous as on the need for effective implementation capacity. It is, after all, intuitively obvious that a minimum condition for successful implementation is to have the requisite administrative and other abilities to implement. However, this simple articulation of the 'capacity problem' is deceptive. Indeed, administrative capacity is necessary for effective implementation. However, providing the necessary resources is nowhere a simple matter; in fact, merely knowing what the necessary resources are can be a non-trivial problem. More importantly, it is a political, rather than a logistic, problem. Like implementation itself, resource provision deals with questions of "who gets what, when, how, where, and from whom". The critical question, then, in understanding how capacity may influence implementation effectiveness is not simply what capacity is required, where, but also: how this capacity can be created and operationalised?

The importance of government joining coalitions of interest groups, opinion leaders, and other outside actors who actively support a particular implementation process is widely recognised throughout the research. This is illustrated by the fact that power shifts can take place and a power shift among the different outside interest groups produces a corresponding shift in the implementation process. As with the other variables, the first task is determining the potentially influential clients and coalitions from the larger cast of characters in the implementation environment. The constellation of actors who are directly or indirectly affected by any implementation process is likely to be far larger than the set of key constituencies whose interests

are impacted enough for them to have the desire, or the ability, to influence the implementation process in return.

What the interlinked dynamic variables imply is that implementation cannot be seen as an activity to be planned and carried out according to a carefully predetermined plan; rather, it is a process that can only, at the very best, be managed and lessons learnt as one proceeds through the different implementation stages. Managing it, and steering it towards a more effective outcome, entails strategically ‘fixing’ those variables over which one has some direct or indirect influence to induce changes in the ones over which one does not have such influence. The strategic imperative is to identify which are the defining variables and how one might best influence them to arrive at the desired results.

Implementation, aligned to the above variables, as an activity to be planned and carried out according to a carefully predetermined plan will only be possible if one can mobilise all available resources in terms of time, cost and quality to achieve policy objectives. This capacity, referred to as ‘strategic fixing’ can only be operationalised within a systems approach in implementation.

##### 5) Finding the right vehicle for public financial performance management

As stated in Chapter 2, a potential area for performance improvement lies within the throughput requirements or transformation of inputs into outputs. There are two options to improve performance: improving the measured attribute by using the performance platform more effectively or by 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. The second option highlights the need to shift away from the conventional boundaries of public administration, which are concerned with the formal institutions of government. The transformational modification of the performance platform requires a highly fluid institutional and policy matrix in which the powers and responsibilities of different actors and tiers of government are in flux. Furthermore, it requires a focus upon wider processes through which public policy is effected and must make provision for the development and implementation of public policy through a broader range of private and public agencies than those traditionally associated with government. In public administration, the performance platform is provided by the functions of public administration used in the performance act based on good governance and



stewardship for the economic, efficient and effective delivery of goods and services, meeting the needs of society.

Effective stewardship of public resources and efficient provision of services as principles of financial performance management are common to most countries. But the institutions set up for the purpose, and the systems and procedures specified, differ between countries contributing to divergent practices. Some practices may be more efficient than others but consideration alone does not determine the course taken. New approaches imply a total indictment of the existing patterns of work, which are considered hidebound, rule-orientated, and generally uneconomic. Managerial approaches, on the other hand, are expected to be task-orientated and flexible. This very flexibility, however, becomes an issue of accountability. To what extent is the legislature willing to provide that flexibility within the overall framework of accountability? Is the legislative authority prepared to trust the decision of a public servant? The answers to these issues are becoming increasingly problematic, as legislatures keep on adding more and more legislation and administrative rules, which can potentially hamper managerial flexibility in government.

Lack of integration between the financial management system and the total operational management system can make administrative reforms fail or even represent a step backwards. For example, systems of central financial control that prohibit flexibility and innovation in public service provision are common. Similarly, drawing on the modern management philosophy of staff empowerment and granting managers freedom over the use of resources can be a risk in reform programmes in which such freedom is not balanced against those managers' explicit financial accountability. The principles of effective management involve a clear expression of, and agreement about, objectives, managers who are accountable for results, the freedom to manage resources subject to incentives for efficiency and effectiveness and clear information about performance.

In order to provide content to the model in the operational application, the following will be important:

a) Accountability in the context of operational management

Accountability is a key requirement of good governance. To be accountable in general terms means to give reasons for and explanations of what one does. This

implies that an explanation should be provided, that a reckoning should be given of the manner in which a specific function or assignment has been carried out (see Figure 7.1). One could therefore argue that the most significant characteristic of accountability is the requirement that an explanation should be provided, i.e. reasons have to be given for an action, inaction or even insufficient action. It could be deduced from research that accountability concerns a statutory obligation to provide reasons for actions (mostly resulting in the expenditure of public funds). It also implies that the reasons requested have to be provided.

Statutory arrangements are characterised by centrally prescribed bureaucratic rules and specifically by strictly controlled public financial processes, which allow little scope for managerial discretion. This leads to regulating how money are to be used to 'buy' inputs, and diverting attention from the delivery of the outputs that the inputs were intended to achieve. This approach does not clearly define responsibilities and results in poor accountability and less value for money.

Public financial legislation and relevant regulations should adopt a new modernised approach to financial management with the aim of reducing fraud, corruption and waste for more efficient and effective use of public resources. In order to maximise the capacity of governments to deliver services, a doctrine of *hands-on professional management in the public sector* must be evident in an approach of allowing operational managers to manage but, at the same time, hold them accountable for the resources they use. In terms of this approach, clear lines of accountability must be established and must also be supported by broad frameworks of best practices, which managers can adopt or, where necessary, adapt with a greater emphasis placed on output controls.

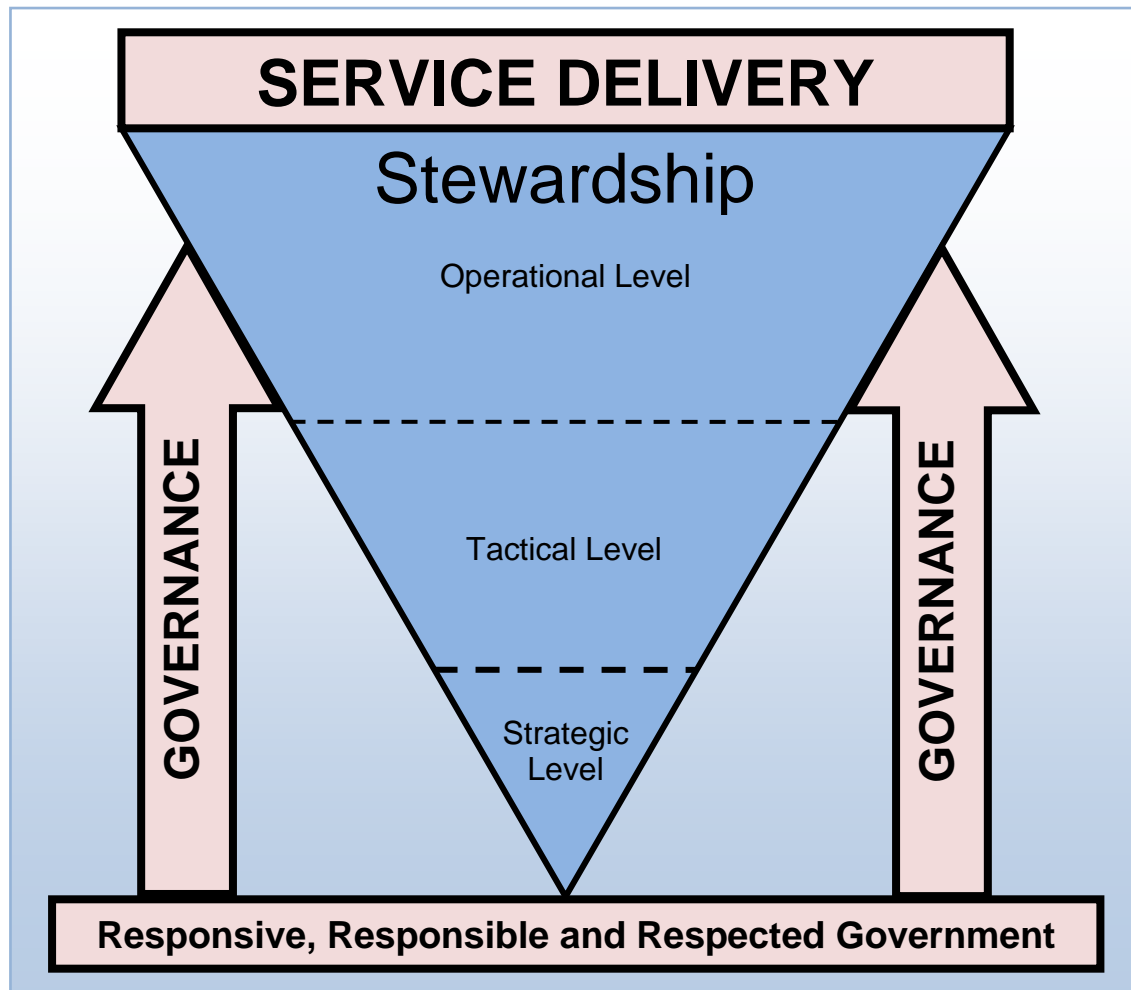
*Key role players* in public financial management refer to the line managers and administrative staff responsible for government operations derived from the division of responsibilities between the political executive and administrative executive. The success of financial management in government organisations depends to a large extent on the appointment of highly trained and competent and empowered line managers at operational level. These officials are the backbone of the functional management and administration of resources, which enable government organisations to attain their determined goals and objectives.

b) A fundamental approach to operational management: The Inverted Hierarchy

As stated in Chapter 5, valuable lessons for future management interventions in order to enhance organisational performance can be drawn from some of the management reforms of the past, namely to *get the basics right*. This implies fostering an environment that supports and demands performance and insisting on the efficient use of resources. The ignorance of *getting the basics right* has led to the implementation of financially specialised and advanced solutions, which have often proved ineffective and inappropriate at operational level.

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 competence. 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. 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 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 7.2 provides an illustration of this approach.

Figure 7.2: The inverted hierarchy



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*.

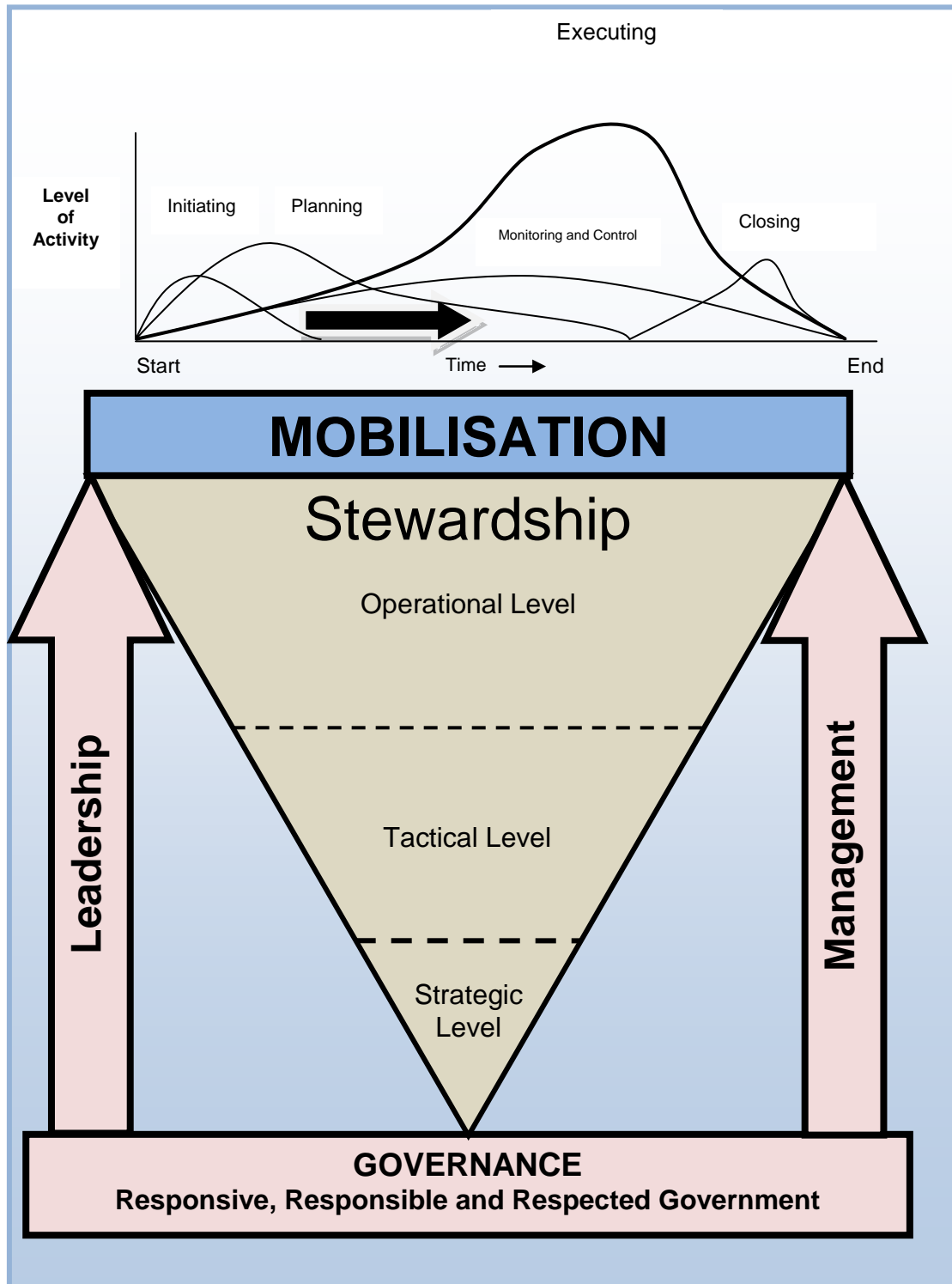
In support of the inverted hierarchy, it can be argued that in the traditional bureaucratic hierarchies, the aim of management is to define the best way to do a job, to set standards for compliance, and to monitor and control people to ensure that they comply. At its best, this approach results in efficient 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 as portrayed in Chapter 4.

c) Performance management as an integrated framework

As stated in Chapter 6, 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 staff and set them up to succeed.

Based on the inverted hierarchy (see Figure 7.2) the ideal platform provides opportunity for the mentioned alignment and integrated framework. Figure 7.3 shows the integration where the operational role of managers is phased 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 ongoing 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.

Figure 7.3: The expanded inverted hierarchy



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. At operational level, 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 change and responsiveness is evident. The operational manager of the future requires vision, intelligence and influence in order to ensure that the best possible match of divergent resources is available. 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.

A sound public financial performance management system allows government to make the best use of all available resources and resolve the quest to efficiently and effectively utilise public resources to meet the needs of the community in an equitable manner. The system requires adequate capacities for managing public finances in order to maximise the impact of public resources and improve the quality of life of society, which is essential for development and nation-building.

### 7.3 CONCLUSION

Outcomes-focused management and financial management actions such as budgeting and revenue management involve asking how to ensure that government decision-making and actions impact on the nation. The conceptual analysis of public financial performance management and the suggested financial performance management model provide solutions to how decision-makers in public financial management can give account of their performance with specific reference to the area of effectiveness and outcomes.

In the development of a public financial performance management model, important areas were highlighted. 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. The comprehensive, functionally uniform, hierarchical organisations governed by strong leaders who are democratically responsible and staffed by neutrally competent civil servants who deliver services to citizens to the extent these citizens never existed are long gone. These organisations have been replaced by an organisational society



in which many important services are provided through multi-organisational programmes. These programmes are essentially interconnected clusters of firms, governments and associations, which come together within the framework of these programmes. These implementation structures operate within a notion of governance as a focus far broader than government. Public effectiveness now relies on public management practices by which governance theory is put into action and on networks as an alternative for collective action.

Public financial performance management must be viewed as the next logical evolution in the field of public management. Public financial performance management must be viewed as an essential component of successful management, leading to cultural, operational and human resource management change. The transition requires recognition that rationality (not politics) is the underlying force of financial performance management.

There are many things wrong with the South African Public Service. Most of the problems in the Public Service do not relate to remuneration. They relate to management, structure, incentives, rewards for good performance, penalties for poor performance and the relationship between political head and civil servant. If one wants the state to be an active participant in development and one wants to resolve the capability gaps among the poor, then one needs a better performing civil service.

The development of public financial performance management capacity is a means and not an end in itself; it is an integral part of the overall development agenda. Consequently, a capacity development strategy must be based on a broader vision of improved financial performance management and increasing organisational effectiveness leading to good governance. While country ownership is critical, the capacity development efforts have to be tailored to match the existing human resources, institutions, legal system, as well as the administrative and political culture. Furthermore, the motivation for capacity development should transcend the mode by which it is to be delivered.

Future research fields could deal with the people side of public financial management and the interrelated financial performance management interactions of operational managers. Public finance 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.