Performance measurement in the public sector: the German experience

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Abstract

Purpose – In recent public sector reforms performance measurement has been a central element in many countries. This article aims to review the use of performance measurement within the German public sector, to evaluate the state-of-the-art and to give recommendations for improvement.

Design/methodology/approach – After a brief overview of the intended purposes of performance measurement within new public management, based on a literature review, this article examines the state-of-the-art of performance measurement in the German public sector. An evaluation, based on the identified intended purposes, well-known methodological problems and empirical findings, follows. Recommendations are given, identifying various areas for improvement.

Findings – The German public sector can be described as a late starter with respect to performance measurement. The full potential performance measurement may offer in the opinion of its supporters is not realised. The front runners of performance measurement are local governments. Voluntary inter-administrative comparison circles are the most frequently used instrument, followed – to a much lesser extent – by quality-management initiatives and performance-indicator-based contracting. The experience with and the acceptance of comparison circles have been mixed.

Research limitations/implications – Further research is needed into the transaction and opportunity costs of performance measurement and into the conditions under which the performance measurement can support an organisational learning process.

Originality/value – This paper provides a structured overview of the state-of-the-art of performance measurement in the German public sector, taking all federal levels into account and offers ideas for the improvement of performance measurement.

Keywords Performance measures, Public sector reform, Germany

Paper type General review

I. Introduction

Public sector reforms throughout the OECD member states are producing a new model of public governance incorporating a more modest role of the state as direct public service provider and a strong role of performance measurement (Sanderson, 2001, p. 297). Managing and measuring performance has been one of the key drivers in the reform of the public sector in recent years. It is one of the central planks of the “reinventing government” movement (Gianakis, 2002, p. 36). According to the OECD, performance measurement is an important tool for increasing accountability. Performance measurement may provide data on how effectively and efficiently public services are delivered. Within the public sector, performance measurement has fostered a move towards a contract culture on various levels. Performance contracts are seen as an instrument for steering the interactions between various organisational levels and contract partners. Along with the separation of steering and rowing or, to put it otherwise, the separation of the political and the managerial level, performance contracts have emerged in many countries.
We can now look back to more than a decade of experience with performance measurement in the public sector. With respect to the evaluation of the benefits and shortfalls of performance measurement an ambivalent picture emerges. On one side there are the advocates of performance measurement. Under the headline of result-oriented government, Gaebler and Osborne advocate the power of performance measurement (Osborne and Gabler, 1992, p. 146). They apply to the public sector the message of the benefits of performance measurement for the private sector prominently canvassed by Kaplan and Norton. The mantra promulgated by Osborne and Gaebler and extended by Halachmi (2002b, p. 65) goes along the following lines:

- What get’s measured gets done.
- If you do not measure results you cannot tell success from failure.
- If you cannot see success, you cannot reward it.
- If you cannot reward success, you are probably rewarding failure.
- If you cannot recognise failure, you cannot correct it and on the positive side.
- If you can demonstrate results, you can win public support.
- If you cannot measure it you do not understand it.
- If you cannot understand it you cannot control it.
- If you cannot control it you cannot improve it.
- If they know you intend to measure it, they will get it done.
- If you do not measure results, you cannot tell success from failure.
- If you will not recognise success you may not be able to sustain it.
- If you cannot see success/failure, you cannot learn from it.
- If you cannot recognise failure, you will repeat old mistakes and keep wasting resources.
- If you cannot relate results to consumed resources you do not know what is the real cost.
- If you do not know the actual cost you cannot tell whether or not you should do it in-house or outsource it.
- If you cannot tell the full cost you cannot get the best value for money when contracting out.
- If you cannot demonstrate results, you may undermine your ability to communicate with important stakeholders and you cannot win public support because you provide value for money.

On the other side there are those who have gone the way from ardent enthusiasts to cold realists (e.g. Gianakis, 2002, p. 37) or those who regard performance measurement with great scepticism.

As a central element of new public management something that Meyer calls the performance measurement industry has emerged. According to Meyer (2002, p. 7) performance measurement rarely lives up to the high expectations. He argues along the following lines: organisations are usually swamped with indicators. They follow the path of “use-it-and-lose-it” in the sense that performance measures sometimes rapidly
lose the capacity to discriminate between bad and good performance once they are applied; this can be observed across a range of industries. Although a myriad of non-financial indicators have been developed in the past decade, up to now there has been no clear comprehension of the cause-and-effect relationship between financial and non-financial measures. And last but not least, the motivation and performance-enhancing effects of performance-related compensation systems have been mixed. On a negative note, de Bruijn is convinced that the perverse effects of performance measurement in the public sector will in the long run force out the beneficial effects (de Bruijn, 2002, p. 41). De Bruijn argues that the more the political level intends to steer with the help of performance measurement, the more it is inviting perverse behaviour (de Bruijn, 2002, p. 36).

This article examines especially the role that performance measurement plays in the German public sector. It begins with a short overview of the intended purposes of performance measurement (part II) and then moves on towards a description of the use of performance measurement in the German public sector. While part III gives an overview of the state of the art of performance measurement in the German public sector, part IV evaluates the use of performance measurement in the German public sector. The article closes with recommendations.

II. Intended purposes of performance measurement

Elements of what we nowadays call performance measurement have been in use in public administrations for quite a while (see for the history of performance measurement, Gianakis, 2002, p. 37; Halachmi, 2005, p. 255). The New York Bureau of Municipal Research first developed a budgetary system based on work-load measured shortly before the second world war. The Hoover-Commission recommended a switch towards performance-based budgeting in 1949. Programme outcome measures formed an integral part of the analysis required by the planning-programming-budgeting system back in the 1960s and were used in zero-based budgeting systems in the 1970s and 1980s. Performance targets were also an element of management-by-objectives implementations in the public sector in the 1970s.

In the 1980s and 1990s performance measurement again became a topic in the public sector in a situation when serious revenue shortfalls and changing attitudes towards the public sector made it necessary to find solutions other than the cut back management practised in the past decades.

Nowadays performance measurement is a central element of new public management, which is characterised by some authors as a global movement reflecting liberation management and market-driven management (Gianakis, 2002, p. 42). Liberation management means that public sector managers are relieved from a plethora of cumbersome and unnecessary rules and regulations. Instead of the control of input factors, control should focus on outcome measures. Market-driven management seeks to create internal and external competition for budgetary resources in order to decrease X-inefficiency and budget-maximising behaviour. Performance measures are necessary to create something like the private sector bottom line.

While within the private sector the discussion about the revolutionary and not-so-revolutionary use of performance measurement was closely linked to the debate on increasing the effectiveness of strategic management systems and narrowing the
gap between ambitious strategies and the annual planning, the debate within the public sector has been more complex. Here, from the very beginning, the discussion concentrated on the idea of improving external accountability and increasing internal efficiency at the same time. Performance measurement is seen as a tool for improving public budgeting, promoting a better reporting system and modernising public management.

Looking at the intended purposes of performance measurement within the public sector, one can distinguish at least the following:

- **Modernising public budgeting.** A move from an input-oriented towards an output or outcome-oriented public budgeting system is a key element of public sector reforms. Instead of debating how much financial or personnel resources public agencies or authorities need, output or outcome indicators are included into the budget and planning process. Although the focus of reforms regarding public sector accounting has predominately been on the transition from cash-based accounting to accrual-based accounting, there is also the aim also to reform the budgeting system by including qualitative and quantitative output measures as well as outcome indicators.

- **Obligatory or voluntary reporting.** Improving public accountability is another central theme within the public sector reform initiatives. Value-for-money reporting, information on how the public aims are fulfilled, giving information about the quality of public services, performance data of regulated industries published by the regulatory bodies, and quality-of-life reporting are elements providing greater transparency for the general public. The old desire for professional and efficient administration and democratic, accountable government is expressed in these accountability demands (Gianakis, 2002, p. 39). From a political perspective there is also the expectation that greater public accountability will also contribute to greater citizen involvement and be a remedy against the increasing absence of voters at the ballot box.

- **Contract management.** Performance indicators also play an important role in service contracts. A new contract culture is emerging in the public sector. Performance indicators have become an integrative element in contractual agreements between various administrative levels as well as between the managerial and the political level. Performance-based contracts provide details of the expected quantity and quality of services as well as indicators helping to measure if and how well the services were provided by the agent. Separating steering from rowing means that the political level decides what is to be done, while the management level deals with how it is to be done. In line with promoting competition, the service providers chosen can be a public administration, a private non-profit organisation or a commercial enterprise. Service contracts also play an increasingly important part in supervising public agencies. Within the public administration, contracts as a coordination instrument are established along the various hierarchy levels: between the top-management of a public administration and the various departments and between the head of department and teams or individual public servants.

- **Inter-administrative comparison/benchmarking.** Introducing compulsory inter-administrative comparisons is often regarded as an instrument for
promoting competition in areas where there is no or hardly any competition. From the early 1990s onwards British local authorities had to report a set of indicators to the national audit office, which published the reported indicators. Public managers discovered inter-administrative comparisons, often wrongly referred to as benchmarking, as an instrument for improving process efficiency. Although inter-administrative comparison projects are frequently described as benchmarking, real benchmarking projects, which means learning from the best in class or across sectors from the best in business, are much rarer.

- **Internal diagnosis system.** Performance measurement is also strongly promoted both as an instrument for the administrative management, enabling it to get a clearer picture of the efficiency of various departments, and as a control tool showing how well the various departments fulfil their contractual agreements. Performance indicators may also provide a basis for more informed, internal decision-making processes. The increase in the autonomy of the various actors is accompanied by an increase in controlling and monitoring information, required by top management.

- **Strategic management system.** Another idea is to use performance measurement systems as a management tool to implement strategy. For example, the British Local Government Act 2000 requires that all local authorities must prepare a community strategy for promoting or improving the economic, social and environmental well-being of their area and for contributing to the achievement of sustainable development in the UK. In preparing or modifying its community strategy, a local authority must consult and seek the participation of such persons as they consider appropriate. Indicators are used to formulate a community strategy and to measure how well the strategy has been realised. Unlike in the private sector, quality-of-life reporting is an integral part of a more strategic use of performance measurement in the public sector. There are countries and states that can look back on decades of quality-of-life reporting (e.g. Florida, Oregon, Minnesota). In recent years the discussion about an indicator-based quality-of-life reporting has achieved popularity (e.g. see the initiatives launched by the Canadian central as well as provincial governments or the British Audit Commission). According to the British Audit Commission the quality-of-life indicators can be used to: identify key objectives within (community) strategies, monitor progress against those objectives and (local) priorities set within (community) strategies, foster partnerships working across all agencies involved (in local areas), facilitate comparisons between different areas and paint a picture of, and monitor changes to, the quality of life in a (local) area (Audit Commission, 2005).

Looking at the various “E’s” of new public management, cutting through red tape, minimising public waste and value-for-money reporting have been important drivers for the introduction of performance measurement to the public sector. Many official documents from the early 1990s show that increasing efficiency (as an input/output relationship) and reducing X-inefficiency was high on the official political agenda. This sentiment is well articulated in the American Government Performance and Result Act of 1993 in section 2. After years of using performance measurement as a tool for decreasing inefficiency, the awareness of the use of performance measurement for
increasing effectiveness is rising. The growing popularity of performance measurement as an instrument for implementing a local, regional, state-wide or national public strategy may serve as an example.

Across the sectors the inclusion of non-financial indicators in performance measurement systems was boosted by the popularity of total quality management systems. Today, quality commitments are increasingly becoming an integral part of the mission statements of many public organisations. Quality prizes and obligatory quality assurance systems are a reality for many public agencies. Winning quality awards is prestigious for public administrations. Within the European Foundation for Quality Management there is an “improving public sector performance group”, whose mission is to promote and support improvements by the use of excellence concepts in public sector organisations. In various states, special public sector quality awards have been introduced and with the common assessment framework a self-evaluation tool, which claims to be simple and easy to use, exists for public sector organisations across Europe. Along with the promotion of increasing competition between public service providers by new public management goes the introduction of service quality indicators in order to prevent the public service provider compromising quality for cost-efficiency. Performance measurement here serves as a control system.

III. Performance Measurement in the German public sector: state-of-the-art

With respect to the implementation of new public management, Germany has been a late starter. The main drivers were the communities and advisory bodies of communities, e.g. the KGSt (*Kommunale Gemeinschaftsstelle für Verwaltungsvereinfachung* – joint local government board for the simplification of administration), which is an advisory body for German local governments (cities, municipalities and counties). The central government, the Bund, as well as the state governments, the Länder, embraced the ideas of new public management much later. In introducing new public management in Germany, the new steering model (*Neues Steuerungsmodell*), promoted by the KGSt, played an important role. The new steering model uses the Tilburg model as a reference scheme. Along with the rising popularity of new public management went the introduction of performance measurement. In promoting performance measurement for public administrations the private, non-profit-oriented Bertelsmann Foundation (*Bertelsmann Stiftung*) also played an important part by initiating back in 1992 an inter-administrative comparison project on the level of local governments and later two other projects (kik and kompass). While kik aims at identifying a few relevant indicators for public managers, kompass is targeted at improving the quality of life on a local level (Tebbe, 2004, p. 138). In 1992 a Speyer Quality Award was launched. This prize was founded in 1992 by Hill and Klages at the German University of Administrative Sciences in Speyer. The competition is open for the entire public sector.

Tables I and II provide an overview of important projects for promoting performance measurement in the German public sector.

Regarding the number of participating actors the biggest initiative regarding performance measurement in Germany is the IKO-network. The comparison circles cover a wide range of activities, ranging from building authorities, environment departments, finance departments, kinder-gardens, personnel departments, public
<table>
<thead>
<tr>
<th>Name</th>
<th>Initiator</th>
<th>Level</th>
<th>Type and short description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grundlagen einer leistungsfähigen Kommunalverwaltung</td>
<td>Bertelsmann Stiftung und Deutscher Beamtenbund</td>
<td>Local</td>
<td>Inter-communal comparison circles originally with five cities and then opened up for another 150 communities; project was terminated in 1998</td>
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<tr>
<td>Speyerer Qualitätspreis</td>
<td>Deutsche Hochschule für Verwaltungswissenschaften Speyer</td>
<td>Federal, state and local administration including public enterprises and public-private partnerships</td>
<td>Quality prize for Austrian, German and Swiss public sector organisations; the award uses the Common Assessment Framework. The intention of the Speyer Quality Award is to support the modernisation of public administrations</td>
</tr>
<tr>
<td>Benchmarking für soziale Dienste</td>
<td>Sozialämter und überörtliche Sozialhilfeträger, consens consulting</td>
<td>Local and regional</td>
<td>Inter-communal comparison of 40 performance measures of the social welfare administrations</td>
</tr>
<tr>
<td>IKO-Netz</td>
<td>Kommunale Gemeinschaftsstelle für Verwaltungsvereinfachung (KGSt)</td>
<td>Local</td>
<td>Inter-communal comparison circles of communal products. From 1996 to 2004 685 local administrations participated in 456 comparison circles of the IKO-network</td>
</tr>
<tr>
<td>KIK</td>
<td>Bertelsmann Stiftung</td>
<td>Local</td>
<td>Project that concentrates on key measures in 14 areas of local administration. The idea is to establish a goal-oriented reporting system with a few relevant performance measures for public managers</td>
</tr>
<tr>
<td>Kompass</td>
<td>Bertelsmann Stiftung</td>
<td>Local</td>
<td>Project that aims at developing a strategy management system for communities. Kompass wants to contribute to an increase of the quality of life on a local level, to intensify the collaboration of local actors, to increase the transparency of the local quality of life for the citizens and to improve the decision basis for local politicians</td>
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Table I. Nation-wide performance measurement projects
<table>
<thead>
<tr>
<th>State</th>
<th>Initiator</th>
<th>Level</th>
<th>Type and short description</th>
<th>Start</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bavaria</td>
<td>Bayerischer Landkreistag</td>
<td>Local</td>
<td>Innovationsring Bayerischer Landkreise. Inter-county comparisons on a product level; in 2003: ten participating counties</td>
<td>1996</td>
</tr>
<tr>
<td>Brandenburg</td>
<td>Städte- und Gemeindebund Brandenburg und IKO-Netz der KGSt</td>
<td>Local</td>
<td>Vergleichsring “kreisfreie Städte Brandenburg”. Inter-communal comparison circle of four cities on a product level</td>
<td>2003</td>
</tr>
<tr>
<td>Mecklenburg-Western Pomerania</td>
<td>Land Mecklenburg Vorpommern, Landkreise, Trägergesellschaft des Landes</td>
<td>Local</td>
<td>Controlling im Aktionsprogramm zur Integration von Sozialhilfeempfängern in den allgemeinen Arbeitsmarkt. Project focusing on measures regarding the integration of unemployed social welfare recipients in the labour market; inter-communal comparison on a cost product level, no outcome measures</td>
<td>2001</td>
</tr>
<tr>
<td>Lower Saxony</td>
<td>Landkreistag Niedersachsen und Städte- und Gemeindebund Niedersachsen</td>
<td>Local</td>
<td>Two projects: (1) Niedersächsischer Kosten- und Leistungsvergleich. Cost and performance analyses on a product basis in Lower Saxony on a municipal level (small and medium-sized communities)</td>
<td>1994</td>
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<td></td>
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<td></td>
<td>(2) Kennzahlenvergleiche der Niedersächsischen Landkreise. Inter-county comparison project in Lower Saxony (37 counties and the region around Hannover)</td>
<td>1999</td>
</tr>
<tr>
<td>North Rhine-Westfalia</td>
<td>Nordrhein-Westfälischer Städte- und Gemeindebund, various cities and a private consulting firm</td>
<td>Local</td>
<td>Nordrhein-Westfälischer Kosten- und Leistungsvergleich. Cost and performance analyses on a product basis; as only 24 out of 358 communities participated, the project was terminated in 1996</td>
<td>1995</td>
</tr>
</tbody>
</table>

(continued)
<table>
<thead>
<tr>
<th>State</th>
<th>Initiator</th>
<th>Level</th>
<th>Type and short description</th>
<th>Start</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saarland</td>
<td>Landkreistag</td>
<td>Local</td>
<td>Interkommunale Vergleichsringe Saarland. Inter-communal comparisons on a product basis in Saarland; in 2003 six counties participated</td>
<td>1999</td>
</tr>
<tr>
<td>Saxony</td>
<td>Sächsischer Landkreistag</td>
<td>Local</td>
<td>Innovationsringe Sachsen. Inter-communal comparisons on a product level; in 2003 participation of 19 communities</td>
<td>2002</td>
</tr>
<tr>
<td>Saxony-Anhalt</td>
<td>Landkreistag Sachsen-Anhalt, Landkreise</td>
<td>Local</td>
<td>Vergleichsring Bauordnungsämter. Comparison of six products of building authorities in 21 counties; terminated in 2003</td>
<td>2002</td>
</tr>
<tr>
<td>Schleswig-Holstein</td>
<td>Landkreistag Schleswig-Holstein</td>
<td>Local</td>
<td>Innovationsring Schleswig Holstein. Inter-county comparisons on a product basis with 11 participating counties</td>
<td>2002</td>
</tr>
</tbody>
</table>

*Source:* Kuhlmann (2004, p. 98)
parks, registration offices, schools, social welfare authorities, waste/sewage disposal facilities, vehicle registration offices to youth welfare services.

Establishing inter-communal or inter-county comparison circles has also been at the centre of many state-wide activities as shown in Table II.

In addition to the activities listed in the tables, first steps towards performance-based budgeting and performance-based contracts can be noticed on the level of the Länder. The budget law (Landeshaushaltsordnung) of Rhineland-Palatinate states in section 7 that service indicators may be included in the annual budget. The sometimes cumbersome introduction of cost accounting in German public administrations helps at the same time to increase the awareness that traditionally cost accounting systems should be augmented by non-financial indicators in order to achieve fully-fledged performance accounting.

Performance-indicator-based contracts are slowly being introduced as a steering instrument inside German public administrations and it is the local governments that are most active in this respect. Often performance contracts play a more important role in the relationship of public administrations with third parties. For example, the Departments of Science and Education of the various German states sign target and performance agreements with the state-owned universities. The allocation of funds is partly tied to these target and performance agreements. The states of Baden-Wuerttemberg, Berlin, Brandenburg, Bremen, Hamburg, Hesse, Mecklenburg-Western Pommerania, Lower Saxony, North Rhine-Westfalia, Rhineland-Palatinate, Saxony, Saxony-Anhalt, Schleswig-Holstein and Thuringia have already introduced target and performance contracts, mostly in the last three years. The frontrunner was Hamburg, which introduced this instrument back in 1999. Often target agreements and performance contracts were introduced in combination with financial cut-backs for state universities. One central aim is to come to a more achievement-oriented allocation of public funds.

Organisations that want to get public funds for their work with the handicapped or juveniles must sign a service, quality and financing agreements. In some of the German states job centres are paid by the public funders according to their success rate, measured by the quota of how many clients are offered a job in the first labour market after having completed training courses offered by the job centres.

Only very few administrations have begun to use strategic management systems, such as the balanced scorecard. Back in 1999 the City of Frankfurt am Main introduced the balanced scorecard as a steering instrument inside the offices. Each product of the local authority is defined along the four classical balanced scorecard dimensions (Lührs et al., 2002, S. 124). The City of Stuttgart has started to use the balanced scorecard as a steering instrument between the city council and the various offices and enterprises in the ownership of the city. Each office and public entity must state how it is planning to contribute to the city of Stuttgart's strategic objectives. The balanced scorecard applied by the city of Stuttgart uses five dimensions: public task/service quality, organisation/processes, employees, finance and future/development (Lührs et al., 2002, p. 130). Since 2000 the German Army has been experimenting with the balanced scorecard as a strategic controlling instrument (Hippler and Benzler, 2002, p. 144). In most cases the balanced scorecard is implemented in the public sector by consultancy firms.
IV. Evaluation of the use of performance measurement in the German public sector

Comparing the various state levels, one notices that the local governments and their associations have been more active than the Länder and the Bund. On the level of the federal state hardly any activities are to be observed. In the cabinet’s programme “Modern state – modern government”, which has been running since 1999, performance measurement does not play a central part. There is a general commitment to employ modern management tools, to introduce modern human resources management, to develop useful methods, instruments and indicators to evaluate the performance of public administrations and to establish national and international benchmarking projects with other public administrations and public agencies. The cabinet wants to establish inter-administrative comparison circles, which are referred to as “benchmarking”. No clear time horizon for these projects is given. Compared to the Bund, the Länder have been slightly more active trying to establish performance measurement, but mostly by supporting the development on the local level or in order to govern their relationship with third parties (e.g. universities, non-profit-organisations, private enterprises). As a steering instrument between the state departments and the middle or lower state administrations, performance measurement plays a negligible role (Wollmann, 2004, p. 34).

The most active administrations in embracing performance measurement have been the local administrations. Performance and target-based contracts form an integral part of the new steering model.

At least at the beginning, in the mid-1990s, something like an inter-administrative comparison euphoria became apparent. With respect to the organisational structure many local authorities which participated in the inter-administrative comparison circles established administrative offices for citizens, so called “Bürgerbüros” (citizen bureaus), which made the dealings of the citizens with the local authorities easier (Kuhlmann, 2004, p. 103), since the citizen bureaus are one-stop agencies.

More than 685 local administrations acquired knowledge enabling them to evaluate their performance in a systematic way. A lot of energy was put into comparing the input-, cost-, process- and output-measures of various local authorities. The idea of these comparison circles was welcomed by the top- and middle-managements of the local administrations. Local parliaments were not actively engaged in the introduction of performance measurement.

Since the mid-1990s much of the comparison-circle euphoria has abated. There are quite a few local administrations that participated only for one year in inter-administrative comparison projects. Some projects were terminated after one year because the participation rate of the local authorities was very low. There are also differences between East German and West German cities and municipalities with East German local governments being less involved than West German local governments (Table III).

Even in West Germany only a few states actively participate. Taking into account that in Germany that are altogether more than 14,000 cities, municipalities and townships, a net involvement rate of 524 cities, municipalities and townships in the IKO-network reveals that less than 4 per cent are active in the IKO-network. On the county level the participation rate is much higher with 138 out of 323 counties, or 42.7 per cent active in the IKO-network. The drop-out rate of local administrations from
these inter-administrative comparison circles is rather high. Quite a few left the comparison circles after a trial period. On the one hand, this has to do with high implementation, transaction and opportunity costs (Kuhlmann, 2004, p. 111) and on the other hand with the well-known effect that the marginal rate of the benefit resulting from an extra year of participation declines. The most positive effects will arise in the first years of participation. After that a running down of indicators occurs. The first euphoria is replaced by a discussion about the effectiveness of performance measurement systems. Measuring for measurement’s sake is no longer a value in itself (Nullmeier, 2004, p. 48). As the data collection for comparison circles is often an add-on job for public employees, they are sometimes de-motivated or even afraid that the data will mainly be used to monitor their own performance (Kuhlmann, 2004, p. 107).

There is some evidence that inter-administrative comparison circles have led to an increase in cost-efficiency. Whether the overall cost-benefit-balance is also positive, is more difficult to assess. If the implementation, transaction and opportunity costs are taken into account, the result is not necessary positive (see along the same lines, Halachmi, 2005, p. 260). Regarding service quality improvement, cities with a low ranking in the Bertelsmann project “Grundlagen einer leistungsorientierten Kommunalverwaltung” certainly improved but in the middle field, immobility was to be noticed (Kuhlmann, 2004, p. 105). Most inter-administrative comparison circles stop at the output-level, they compare products not outcomes. While the information is often highly relevant for public managers, it is not used in the political decision-making process. On the political-strategic level of local governments the comparison circles have made hardly any impact (Reichard, 2004, p. 349). The measures included are not suited for an outcome evaluation. Whether politicians would like to inform the general public of the outcome of their political activities, is another question. Optimists assume that politicians are interested in information about the consequences of their actions; pessimists believe that politicians are only interested in the publication of outcome results if this increases their chances of being re-elected or if the results support their (symbolic) policy.

Looking at the various purposes of performance measurement, we see that activities concerning the use of performance measurement in the process of modernising public budgeting have been negligible. The idea to link the annual budget plan in Rhineland-Palatinate to output or even outcome measures has not yet been implemented. Performance reporting to the general public is also nearly non-existent. Annual reporting by the Bund, the Länder and the local authorities is still mostly carried out in the cameralistic style, although there is a movement towards

<table>
<thead>
<tr>
<th>State</th>
<th>Number of local governments participating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baden-Wuerttemberg</td>
<td>316</td>
</tr>
<tr>
<td>North Rhine-Westfalia</td>
<td>174</td>
</tr>
<tr>
<td>Lower Saxony</td>
<td>96</td>
</tr>
<tr>
<td>Bavaria</td>
<td>70</td>
</tr>
<tr>
<td>Hesse</td>
<td>69</td>
</tr>
<tr>
<td>Brandenburg</td>
<td>41</td>
</tr>
<tr>
<td>Other states</td>
<td>94</td>
</tr>
</tbody>
</table>

Table III. Local authorities participating in the IKO-Netzwerk

Source: KGSt (2005)
accrual-based accounting. Annual reporting does not focus on identifying how well the various governments have fulfilled their political goals or to what extent the quality of life of the citizens has improved. If there are any activities regarding quality-of-life reporting, they are pursued by a few innovative communities and counties on a voluntary basis. Originally eight local governments participated in the Bertelsmann foundation’s Kompass project (Arnsberg, Celle, Coesfeld, Dortmund, Herford (till April 2003), the county of Osnabrück, the county of Pinneberg and the county of Soest). The cities of Diepholz, Hilden, Paderborn, Soest, Solingen, Vlotho and the county of Wolfenbüttel joined the project in the meantime. With respect to an output or outcome-oriented budgeting system, many German cities have defined products but do not use them for the annual or biannual budget in a systematic way.

Contract management it is gaining momentum on a small scale. In addition to the above mentioned examples, an increasing number of local governments are beginning to conclude contracts on a product basis, mostly in the form of cost and service agreements with the various offices (Wollmann, 2004, p. 36). Performance-based contracts are not the most frequently implemented element of the new steering model of the KGSt.

Unlike in the UK, local communities are not obliged to take part in inter-administrative comparison projects dealing with cost and service quality and service quantity. The performance information provided to other participants in a comparison circle is not evaluated by the national or state audit offices. Compared to other states, the audit office plays a much less active role in promoting performance measurement. In Germany the introduction of inter-administrative comparison circles was a highly decentralised move. Unlike the UK, German communities enjoy much higher independence and it would, therefore, be against the principle of federalism if the federal government had passed a law making the introduction of performance measurement systems compulsory for the Länder or the local authorities. With respect to the indicators included, there has been a movement from input measures to process and output indicators. Problems exist regarding objective qualitative output indicators and with respect to outcome indicators. Customer surveys and employee surveys are getting more popular in German administrations.

The use of performance measurement as an internal diagnosis system is improving slowly. The introduction of the new steering model was accompanied by a reform of the controlling and internal reporting system applied by local authorities. The development of meaningful, relevant and valid indicators is advancing gradually (Wollmann, 2004, p. 37). Some public administrations have made some progress and are in the process of implementing a quality management system. On a small scale the common assessment framework is used for self-evaluation. The majority of the German prize winners of the Speyer Quality Award are local governments. A total of 25 per cent of the prize winners are state administrations, most prize winners are cities.

In Germany there is no obligation for local governments to develop a strategic management system. Only a few communities and counties participate in projects like kompass. Compared to the development in other states, the strategic management leg of performance measurement is underdeveloped. The balanced scorecard, promoted by Kaplan and Norton as the strategic steering instrument, is rarely implemented.

Since the mid-1990s there has been an ongoing discussion about a reform of the compensation system for public employees. Traditionally, public employees were not
paid according to performance. Recent reforms in the compensation system have introduced elements of greater performance-orientation. On 9 February 2005 an agreement between the Bund and the local governments on the one side and the respective trade unions on the other was reached stipulating that in the future, starting from 2007, up to 8 per cent of the income of public employees is to be used for variable, performance-oriented compensation schemes. In 2007 this reform will begin with 1 per cent of the total income of all federal and communal employees. This shows that the discussion about the introduction of performance-related compensation systems in Germany’s public administrations is still at the very beginning. Wherever possible, public and other non-profit-enterprises, which traditionally applied the same compensation scheme for their employees or paid their employees in accordance with the rules of this compensation scheme, are leaving the BAT (Bundesangestelltentarifvertrag – federal employee compensation scheme).

To promote greater stakeholder-involvement in the development of performance indicators is a goal that is at present promulgated on a rhetorical level. It is for example mentioned in the declaration of the federal cabinet “Modern state – modern administration”. Up to now no concepts for involving various stakeholder groups on a local, regional or national level in a systematic way in the development process of performance indicators have emerged. Due to the dominant internal orientation of performance measurement systems (e.g. unpublished data of comparison circles, use as an administrative-internal reporting system) no need for a greater involvement of external stakeholders has been felt up to now.

The use of performance measurement as a tool for making more transparent whether or how well a government’s political goals have been fulfilled, is totally underdeveloped. Much performance information is treated as administrative “company secret”. Using performance measurement as an instrument to achieve greater transparency for the citizens is absolutely necessary.

V. Recommendations
Given the state-of-the-art of performance measurement in Germany, it is a simple task to make recommendations, as the full range of performance measurement purposes has not yet been implemented. If performance measurement is to contribute to greater public accountability it is necessary to improve the external reporting systems in order to increase transparency for the citizens. Experiences in other states, for example in the UK, show that there is the danger that citizens get swamped with so many indicators that they cannot digest them any more. Many managerial indicators are reported in order to conceal the lack of such indicators that would make it possible for the citizens to evaluate the performance of the politicians.

Projects similar to kik, which focuses on internal information systems, could help to identify what types of indicators are required by public managers. From the frontrunners of performance measurement within the public sector one can learn that it is dysfunctional to use the same performance measurement system both for external reporting and for an internal administrative development (Halachmi, 2002a, 2005). The general public will probably be more interested in high-quality services than in information on the internal process efficiency or the number of employees on sick leave. With respect to the types of indicators used, there is, as in many other states, a need for an increase in the number of outcome indicators. Although outcome
evaluation is difficult due to problems with respect to unsolved operationalising questions, problems regarding the measurement process and difficulties concerning the interpretation of measurement results, it is nevertheless necessary. Without outcome evaluation, performance measurement will always be lame on its effectiveness-evaluation leg.

The reform of the reporting system should be accompanied by a reform of the budget system. An input-oriented budget system and an output and outcome-oriented reporting system are not compatible. At least the promoters of new public management are optimistic and believe that if governments try hard enough, outcome budgeting will be possible in the long run. Sceptics refer to the familiar problems that have been known since the first experiments with programme evaluation began. Outcome measures are certainly in the interest of tax payers and users of public services. From the point of view of the institutional theory, outcome reporting could help to increase the legitimacy of public bodies. Whether outcome indicators are in the interest of politicians or public managers is another question. From the perspective of the stakeholder theory, the question arises whether tax payers and user of public services are important stakeholders. From a democratic perspective the answer is obvious.

Concerning the administrative-internal use of performance measurement, only a small number of public administrations have concluded performance-based contracts. As regard to the principles of new public management there is even a greater need for introducing and improving contracts between the political and the public management level. Although some progress has been made in implementing cost accounting systems, it is still a long way to a multidimensional performance measurement system. Uncertainties still persist as to whether performance measurement should be used internally as a monitoring instrument or as an organisational learning instrument. To mingle both is dysfunctional. If performance measurement is applied as a monitoring instrument, the units monitored will be anxious to paint a positive picture of their performance; if it is combined with a performance-based inducement system, the problem will become even bigger. Organisational learning on the other side, which has been preferred by public bodies in Denmark, The Netherlands and Sweden (Sanderson, 2001, p. 302) from the very beginning, makes it necessary that an unveiled picture of the areas for improvement is shown.

With respect to the use of performance measurement as a strategic management system, the high hopes for the balanced scorecard may not be realised due to the complexity of public administrations and their multiple, equally relevant central stakeholders. However, the experiences with the kompass project run by Bertelsmann Foundation are promising.

Taking into account the fact that Germany has been a slow starter regarding performance measurement, the more difficult question is “what lessons can the frontrunners learn from the German experience?” For them some of the German problems resemble the teething problems they faced a decade ago or did not have to face because performance measurement was introduced in a more top-down approach. The most interesting projects for other public administrations are certainly those run by the Bertelsmann Foundation and the Speyer Quality Award.

Perhaps one lesson could be the reminder that, in order to keep the motivation and participation rate high, it is necessary to concentrate on a few relevant indicators. Measurement for measurement’s sake is not a goal in itself, i.e. it is also important to
take the measurement cost into account. A question that has been disregarded in many states is the question of transaction- and opportunity-costs. It would be interesting to quantify to what extent personnel resources are tied up by collecting, checking, analysing and auditing the huge amount of performance measurement data. Further research into this field is needed.

Furthermore analysis of the Speyer Quality Award applications shows that projects are successful if the idea of continuous improvement is put into practice by all members of an organisation. Otherwise performance measurement will be a bureaucratic burden without yielding any organisational added-value. The common assessment framework itself only helps to come to a differentiated diagnosis, it is not a remedy (Saatweber, 2004, p. 245). Indeed, the limits of such instruments are also something to be aware of.

References
KGSt (2005), Jahresrückblick 2004, KGSt, Köln.


