Public sector performance measurement in developing countries

A literature review and research agenda

Ni Putu S.H. Mimba, G. Jan van Helden and Sandra Tillema
Faculty of Economics, University of Groningen, Groningen, The Netherlands

Abstract

Purpose – This paper aims to explore the influence of specific characteristics of the public sector in developing countries (i.e. a low-institutional capacity, a limited involvement of stakeholders, and high levels of corruption and informality), and of reforms of this sector, on public sector performance measurement (PSPM).

Design/methodology/approach – Based on a review of prior literature, the paper develops understanding of the demand for and supply of performance information in developing countries, and of changes in this area.

Findings – The paper argues that public sector organisations in developing countries are likely to face an unbalanced position, i.e. disequilibrium between the demand for and supply of performance information. More precisely, the public sector reforms – which are partly stimulated by a growing involvement of some stakeholders – lead to an increasing demand for performance information but, because of the low-institutional capacity and the high level of corruption, this increasing demand is not always followed by a sufficient supply of performance information. This leads to an “unsatisfied demand” position.

Research limitations/implications – The paper concludes with an overview of issues related to PSPM in a developing country context that require further investigation.

Practical implications – The arguments presented in this paper are summarised in an overview of factors that influence the demand for and supply of performance information in the public sector in developing countries. This overview might be helpful to those who are involved in the design of performance measurement systems in these countries.

Originality/value – So far, relatively little is known about PSPM in a developing country context. This paper is an attempt to fill this gap.

Keywords Performance measurement (quality), Public sector reform, Government, Developing countries, Decentralized control

Paper type Literature review

1. Introduction

In recent years, public sector performance measurement (PSPM) has attracted much attention in the literature. However, almost all papers that have been published in academic journals focus on the public sector in European or North-American countries, Australia or New Zealand (van Helden et al., 2006). As a consequence, relatively little is known about PSPM in a developing country context. It is, for example, not clear which types of performance indicators are selected in developing countries, to what extent, in

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what manner and for what reasons performance information is used, and which changes are taking place in this area. Our paper is an attempt to fill this gap. It aims to explore the influence of specific characteristics of the public sector in developing countries, and of reforms of this sector, on the demand for and supply of performance information. Although this paper focuses on the public sector in general, many of the issues discussed are of particular importance to the governmental sector.

The structure of the paper is as follows. Firstly, we discuss PSPM in general, and the approach we use to study this area in particular. Next, we discuss specific characteristics of the public sector in developing countries; namely, a limited institutional capacity, a low involvement of stakeholders, and high levels of corruption and informality. In addition, we discuss the recent public sector reforms in developing countries. Subsequently, we examine the implications of these characteristics and reforms for PSPM in developing countries. We argue that there is a growing demand for PSPM, while at the same time the supply of PSPM is still rather limited. This discussion leads to an interesting research agenda for PSPM research in developing countries.

2. Public sector performance measurement
The area of PSPM is important because of its potential impact on organisational performance. Good organisational performance implies that a public sector organisation is effective (in terms of volume and quality) and efficient in supplying public goods and services. PSPM can contribute to attaining such a performance level because it may be an input for achieving good governance. There are many different definitions of good governance. The funding agencies that are active in developing countries, for example, all seem to use their own definition. For the purpose of our paper, we prefer to make a clear distinction between good governance and good organisational performance. More precisely, we consider the following characteristics to be the main characteristics of good governance: responsiveness, accountability, transparency, combating corruption, a predictable legal framework, and participatory governance (Agere, 2000; United Nations Development Program, 1997; World Bank, 1992). Described in this way, good governance can be seen as an important, though insufficient, condition for achieving good organisational performance.

There is a growing interest in investigating PSPM, including its relationships with good governance and good organisational performance. The topics that have been examined recently include the development, adoption, implementation and use of performance measures in the public sector (Cavalluzzo and Ittner, 2004; van Dooren, 2005). In order to avoid confusion about the exact meaning of these terms, this paper uses the supply/demand approach to study PSPM (van Dooren, 2005). More precisely, it makes a distinction between the supply of performance information and the demand for this information.

The supply of performance information is defined as the production of performance information by a public sector organisation. It includes selecting the performance areas that will be measured, developing performance indicators, collecting and analysing data, and reporting performance information. The demand for performance information is defined as the actual or desired use of performance information by the organisation’s internal and external stakeholders (Mayston, 1985, pp. 51-3; Ospina et al., 2004, p. 231). Some of these stakeholders (e.g. managers, policy makers, and their advisors) may want to use this performance information for internal management; namely, decision making
and control. Others (e.g. customers, tax payers, citizens, elected and appointed officials, and managers at higher levels within the public sector hierarchy) may want to use it to assess whether delegated responsibilities are exercised as expected, and to hold organisations or managers accountable for their performance. Important aspects of stakeholders’ use of performance information are the extent to which, the manner in which, and the reasons why, they use this information.

This paper examines whether in a developing country context a balance between the supply of and demand for performance information is likely to occur. It uses the terms “equilibrium” and “disequilibrium” to refer to, respectively, balanced and unbalanced positions (Barzelay, 2001; Baumgartner and Jones, 1993). The ideal position is one of equilibrium. Here, the following two conditions are met. First, the aggregate of the demands for certain types of performance information of all (groups of) internal and external stakeholders is followed by a supply of this information by the organisation. Second, all performance information that is supplied by the organisation is demanded by at least one (group of) internal or external stakeholder(s). Also, a position of disequilibrium may occur. We distinguish two types of situations that lead to a disequilibrium position: unsatisfied demand and excess production. The “unsatisfied demand” situation occurs when a demand for particular types of performance information from certain stakeholders is not followed by a supply of this information by the organisation; the “excess production” situation happens when there is a supply of particular types of performance information by the organisation without a demand for this information from any stakeholder.

In practice, it seems likely that a public sector organisation is, at the same time, faced with partial equilibrium (i.e. a balance between the supply of particular types of performance information by the organisation and the demand for this information by some of its stakeholders) and partial disequilibria (i.e. an unsatisfied demand for other types of performance information from some stakeholders and/or an excess production of other types of performance information by the organisation). Our supply/demand approach is summarised in Table I.

From the literature, it is clear that public sector organisations have specific characteristics which may influence the demand for and supply of performance information (Brignall and Modell, 2000; Cavalluzzo and Ittner, 2004; Rainey et al., 1976). One of these characteristics concerns the nature of their objectives. Public sector organisations usually have multiple and conflicting objectives. As a result, stakeholders who demand performance information for internal management may have difficulty in deciding how to use the information that is produced to attain “good” organisational performance (demand side). In order to decide which actions should be taken, they must balance the different objectives by establishing trade-offs between them. Furthermore, some objectives of public sector organisations can also be rather vague. Consequently, in certain performance areas, it may be quite difficult to develop

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<td>Yes</td>
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Table I. Supply/demand approach
performance indicators and to quantify performance (supply side). Assuming that only imperfect indicators can be developed, this further complicates the use of performance information, not only for internal management but also for holding organisations and managers responsible for their performance (demand side).

A second characteristic of public sector organisations that may influence the demand for and supply of performance information is related to the role of stakeholders. Public sector organisations are often confronted with a wide set of stakeholders, each with their own interests, who have a relatively strong influence on the organisation. Each of these stakeholders may demand particular types of performance information, either to hold the organisation accountable for its performance or to inform internal management (demand side). The question of whether an organisation satisfies a particular demand for performance information depends on the power and pressures exerted by the (group of) stakeholder(s) that make(s) this demand (supply side). In other words, power relationships and political bargaining processes will affect the supply of performance information in public sector organisations.

The above discussion shows that PSPM is characterised by a demand from various stakeholders for diverse types of performance information, and by complications in the supply of this information as well as in the manner in which it is used. This discussion is, however, based on research in developed countries. Since there are important differences between the public sectors of developed and developing countries, the demand for and supply of performance information in developing countries might be quite different (Wickramasinghe and Hopper, 2005). As a starting point for finding some of these differences, Section 3 discusses four distinguishing characteristics of the public sector in developing countries.

3. Characteristics of the public sector in developing countries
The United Nations (2001, p. 3) divide countries into two groups: developed and developing countries. Countries in North America, Europe and the former USSR, Japan, Australia and New Zealand, are all categorized as developed countries, whereas all others are regarded as developing countries. Compared with developed countries, developing countries have, in general, a lower human development index (which measures a country’s performance in three areas: education, health and society purchasing power), a lower level of industrialization, a lower level of average income per inhabitant, and a higher level of population growth (Caiden and Wildavsky, 1980, pp. 46-8). These features, together with the local circumstances of each country, can be expected to influence the characteristics of the public sector in developing countries. This section examines some of these characteristics; namely, those that may influence public sector decision-making, control and accountability. More precisely, it discusses four characteristics:

(1) a low institutional capacity;
(2) a limited involvement of stakeholders;
(3) a high level of corruption; and
(4) a high level of informality.

In addition, this section discusses the reforms that are currently taking place in the public sector in many developing countries.
3.1 Low institutional capacity
The World Bank (2004) defines institutional capacity as the ability of an institution to decide on and pursue its goals, to perform tasks, and to improve performance constantly. In a governmental organisation, institutional capacity can be defined as the organisation’s ability to identify problems, to develop and evaluate policy alternatives, and to operate the government’s programmes (Howitt, 1977). It is commonly believed that public sector organisations in developing countries still have a limited institutional capacity (Cassel and Janovsky, 1998; Frischtak, 1994; Graham, 2002; IMF, 2002). Characteristics of public sector organisations with a limited institutional capacity are weaknesses in regulatory practice, a low level of public accountability, administrative inefficiencies, limited human resources, a lack of facilities, and insufficient funding (IMF, 2002; Nsouli, 2000; Van Crowder, 1996). These characteristics lead to situations in which it takes long bureaucratic procedures, with a lack of transparency, to deliver goods and services to the citizens (Henderson, 2001), in which the volume and quality of these goods and services is inadequate (Devas, 2002; Haque, 2003), and in which stakeholders have little information about the extent to which a public sector organisation has achieved its objectives.

3.2 Limited involvement of stakeholders
Compared to developed countries, the involvement of stakeholders – such as citizens – in public sector organisations is rather limited in many developing countries (Graves et al., 2002; Splettsstoesser, 1998). Both public sector organisations and their stakeholders may have their own reasons for not changing this situation. On the one hand, public sector organisations may fear the consequences of more stakeholder involvement. Conflicts of interests among the various stakeholders and stakeholders’ resistance to the organisation’s decisions may take time and may cause difficulties in making decisions. On the other hand, stakeholders may feel that organisations do not give access to sufficient information, which makes it difficult for them to get involved in decision-making processes. Moreover, stakeholders might feel that their involvement is only a formality rather than a substantial input for decisions, because most of their interests are not included in the final decisions made.

It seems that public sector organisations pay attention only to the more powerful stakeholders. Batley (1999) indicates that especially internal stakeholders such as public sector officials and civil servants are powerful groups. External stakeholders whose involvement is high in many developing countries are (international) donors, such as funding agencies and non-governmental organisations (NGOs). Their power in decision making is, generally speaking, high and increasing (Haque, 2002). The reasons why donors have been able to attain such an influential position is related not only to the funding that they can provide to public sector organisations in developing countries, but also to their well developed human resources (Lux and Straussman, 2004).

3.3 High levels of corruption
Corruption can be defined as the abuse of public power for private gain (Johnston, 1996; World Bank, 1997). This paper focuses on corruption that is related to decision-making processes in the public sector. In this context, we define corruption as all behaviours of public sector officials and civil servants to misuse their power in decision-making processes for their personal gain that hamper the public interest. A distinction can be
made between high-level (grand) corruption and low-level (bureaucratic) corruption (Nabli and Humphreys, 2003). High-level corruption implies that top-level policy-makers destabilise the government process for their own financial gain; low-level corruption implies that public sector officials and civil servants call for payments from citizens who expect to receive normal public goods and services. This section focuses on low-level corruption.

In general, developing countries have a relatively high degree of low-level corruption. According to the United Nations (2003), this type of corruption has become one of the acute problems facing the delivery of public goods and services in developing countries. It increases the costs of the public goods and services delivered to the citizens. The high level of poverty in these countries might be the main reason for their public sector officials and civil servants to be susceptible to corruption. Countries that pay inadequate salaries to their public sector officials and civil servants seem to have a higher level of corruption (Van Rijckeghem and Weder, 1997). In the case of Indonesia, for example, low salaries were shown to be an important reason for public sector officials to engage in corruption (Booth, 2005, p. 213; McLeod, 2005, p. 379). Similarly, Hope (2002) finds that the major contributors to corruption in Africa are an erosion and compression of the salary scales of civil servants.

These findings suggest that corruption can be caused by a large gap between needs and income. Furthermore, the weak control system in most developing countries may also provide an opportunity to become corrupt. Without this opportunity, it seems that the chances for public sector officials and civil servants to engage in corruption are limited. Currently, most developing countries are still faced with the problems of a weak control system and a low-income level for most of their citizens in general, and for their public sector officials and civil servants in particular. Therefore, corruption is likely to be a common phenomenon in these countries (Michael, 2004, p. 1071).

3.4 High level of informality
Informality can be found in all countries, but in developing countries it is often a main tenet of the economic system, including the private as well as the public sector (Schick, 1998, pp. 127-8). That is, although there are formal rules, informality may be more important in practice (Hoque and Hopper, 1997, p. 131). Schick (1998, p. 127) suggests that the high level of informality in many developing countries is related to the often relatively weak specification of property rights and other formal processes to regulate economic activity. Under these circumstances, it is probable that rules and regulations are routinely breached. In the public sector, this could, for instance, lead to situations in which a civil servant is hired not because he was the winning candidate in the formal hiring process but because he knows the right person, or to situations in which a governmental organisation has not only a public budget that is presented to the parliament but also a real one that determines how much is actually spend (Schick, 1998, pp. 127-8). Schick (1998, pp. 127-8) argues that informality can be seen as a mixed blessing. It makes things happen, but it also causes corruption, a neglect of outputs, and distrust in government.

So, in general terms, informality can be described as the mechanism of not following formal rules and regulations. In the context of PSPM research, however, a narrower conceptualisation of informality seems more useful. Using insights into informal
authority structures of organisations (Abernethy and Vagnoni, 2004, p. 210; Meyer and Rowan, 1977, pp. 341-2), we define informality as the mechanism through which individuals or groups influence organisational decisions and activities without having a formal authority to exert that influence, and/or without aligning the content of their influence with the goals and policies that are laid down in official documents. Defined in this way, informality results in a gap between the formal goals, policies and authority structure of an organisation, which are laid down in official documents, and its actual day-to-day decisions and activities. In other words, it is related to the difference between what an organisation officially says it does, and what it is actually doing.

3.5 Reforms
In order to change the above-described characteristics, many developing countries are now in the process of reforming their public sector. In general, such reforms aim at improving organisational performance through improvements in governance. This is, for instance, the case in most African countries (United Nations, 2003). An important motivation for the current public sector reforms is that good governance is often a prerequisite for receiving funds from funding agencies and NGOs (ADB, 1997; Batley, 1999; IMF, 2003; World Bank, 1992). These donors recognise that financial aid alone is not sufficient to improve organisational performance.

It seems that the new public management (NPM) paradigm is applied extensively to the public sector reforms in developing countries (Larbi, 1999; Litvack et al., 1998). One of the principal themes of NPM is decentralisation (Hood, 1991, 1995; Hope and Chikulo, 2000; Lister and Betley, 1999). Since, the 1980s, developing countries have increasingly adopted decentralised forms of governance (Betts, 2003; DFID, 2002; Hope and Chikulo, 2000). It was approximated that 63 of the 75 developing countries with a population of more than five million are actively employing decentralisation (Helmsing, 2002, p. 317). As decentralisation has become a trend in most developing countries, this paper regards decentralisation as a crucial element of the public sector reforms in developing countries. Decentralisation implies the transfer of public authority from central to intermediate and local governments, which is followed by a similar transfer of public responsibilities (e.g. planning, resource allocation and decision making).

Especially, in countries with a large population and/or land area, decentralisation is a key to improve public sector performance, particularly the delivery of basic public goods and services (Heady, 2001). Moreover, it can also result in an increase in society participation in government. In some African countries, decentralisation allowed a better mobilization and use of resources, and it encouraged the market-like responsiveness of the public sector (Hope and Chikulo, 2000, p. 38). Also Zimbabwe, Sri Lanka, Ghana and India implemented programmes that have increased organisational autonomy through decentralisation in order to improve the efficiency and effectiveness of government (Nickson, 1999, p. 780).

Another aspect of the reforms that are taking place in developing countries is marketisation. This aspect includes such changes as the introduction of contract management, public-private partnerships, privatisation, benchmarking or other types of performance comparisons, internal markets for administrative services, and contract competition (Eikenberry and Kluver, 2004; Hoggett, 1996; Olson and Sahlin-Andersson, 1998; Reichard, 2002; Sanderson, 2001). These changes aim at better governance and performance improvement. Moreover, marketisation is sometimes motivated by a
desire to reduce corruption. It is expected that through marketisation, the number of arbitrary state interventions and monopolies – which both may lead to conspiracy and corruption – can be reduced (ADB, 1997). On the other hand, Schick (1998) argues that in a context of high-informality marketisation can be quite risky, because it gives managers much more discretion to hire employees and spend money as they wish, which provides them with more opportunities for corruption.

Often the public sector reforms also include the implementation of an anti-corruption programme. Such programmes may be needed for a better control of government. Most of the anti-corruption programmes that have been implemented in developing countries over the past decade are supported by international agencies, such as the UNDP, World Bank, IMF, USAID and Asian Development Bank (Haque, 2001; Klein Haarhuis and Leeuw, 2004). Furthermore, in several developing countries, including Indonesia, the reforms include the introduction of direct elections, not only for choosing the President, but also for choosing, for instance, the heads of local governments (Indonesian Government, 2004; Weiner and Özbudun, 1987).

4. Implications for PSPM in developing countries

PSPM can be viewed as an instrument for public sector organisations to make better decisions, to improve control and to enhance accountability. In this way, the introduction of PSPM can be expected to assist public sector organisations in realizing their objectives. However, its introduction may not automatically lead to an improvement of decision making, control and accountability. Important conditions are that the suppliers of performance information adapt the information they produce to the demand for performance information, and that the demanders use the information they receive correctly. Section 2 argued that in practice it might be quite difficult to meet these conditions, even in a developed country context. The specific characteristics of the public sector in developing countries that were discussed in Section 3 may make it even more difficult to attain such an equilibrium between the demand for and supply of performance information. As will be set out below, the recent public sector reforms are expected to lead to an increasing demand for performance information that is not always followed by an increased supply of performance information.

4.1 Demand for performance information

Given that historically the involvement of stakeholders in the public sector of developing countries was low, it can be expected that in the past the demand for performance information in these countries was rather limited. Moreover, also the high levels of corruption and informality may have restricted the demand for performance information. Corruption hinders the demand for performance information, because public sector officials and civil servants tend to make decisions mainly based on an assessment of their personal gains, rather than on an assessment of the influence on organisational performance. Furthermore, as performance measurement systems are formal systems, in a context of high informality, they can be expected to have a predominantly ceremonial role. This would imply that there is a formal demand to produce performance information, but the actual use of this information is limited. The performance measurement systems are then decoupled from everyday practice, or there is a loose coupling between these systems and the organisations’ decisions and activities (Uddin and Hopper, 2003, p. 744).
In recent years, however, the demand for performance information seems to be increasing. This increasing demand is related to external pressures on public sector organisations that encourage them to focus more on performance. These pressures may come from parties outside the public sector (e.g. donors; see for instance: Hoque and Hopper, 1997, p. 131) as well as parties within the public sector (e.g. central government). The external pressures can have both a direct and an indirect effect on the demand for performance information. The direct effect implies that external stakeholders demand performance information to assess an organisation’s performance and to hold it accountable for this performance; the indirect effect implies that external stakeholders require the organisation to improve its performance, which may motivate internal stakeholders to demand performance information for internal management. The influence of funding agencies, for example, may operate through both mechanisms, as these agencies encourage the recipient countries both to account for and to improve their performance (Smoke, 2001).

Both, the direct effect and the indirect effect can be linked to the public sector reforms that were discussed in Section 3. For a number a reasons, these reforms can be expected to give rise to an increasing demand for performance information. First of all, after the implementation of a decentralisation programme, central government may require lower-level governmental organisations to have a good performance (indirect effect) and to report on their performance (direct effect). Lower level governments that do not meet these requirements face the risk of losing their authority. Another characteristic of the reforms which induces a demand for performance information is marketisation. One aspect of marketisation – namely benchmarking – leads by definition to a demand for performance information (direct effect). But also other aspects, such as contract management and public-private partnerships, are likely to lead to such a demand; namely, a demand for performance information that can be used to assess whether the parties involved have lived up to the agreements that were made (direct effect). Moreover, marketisation also decreases the power positions of a public sector organisation’s bureaucrats and increases the power position of its clients (Sanderson, 2001). This, together with the introduction of general elections, implies that public sector organisations must pay more attention to their clients’ and voters’ satisfaction. This can be achieved by improving performance, for example through the use of performance information for internal management (indirect effect). Moreover, also clients and voters may demand information about organisations’ performance achievement in order to make more informed decisions about which service provider to select and what to vote (direct effect). A final aspect of the public sector reforms that explains the increasing demand for performance information is the anti-corruption programs. The donors that support such programs have several requirements to combat corruption, such as transparency and accountability (Leeuw et al., 1998). To meet these requirements, performance information seems to be an important instrument (direct effect).

4.2 Supply of performance information
It can be expected that the supply of performance information by public sector organisations in developing countries was, and probably is, rather limited. Given the low level of stakeholder involvement, there was not much pressure from stakeholders to provide adequate performance information. Most likely, public sector organisations provided performance information only to a restricted number of powerful stakeholders, such as the
House of Representatives. Nowadays, however, the involvement of some stakeholders, including central government and certain donors, is increasing. As we have seen in Section 4.1, this gives rise to an increasing demand for performance information.

In most developing countries, however, it seems quite difficult to satisfy this increasing demand for performance information. Apart from the more general complications in PSPM that were discussed in Section 2, also the specific characteristics of the public sector in developing countries are important here. More precisely, both the low-institutional capacity and the high level of corruption can be expected to keep the quantity and the quality of the performance information that is supplied at a low level. The low-institutional capacity affects the supply of performance information in two manners. On the one hand, it implies that organisations lack the human resources and facilities that are needed to produce (high quality) performance information. On the other hand, the low-institutional capacity may provide some stakeholders with incentives to hide the organisation’s failures by deliberately limiting the supply of performance information. In other words, public sector organisations may be reluctant to share performance information, because they are afraid that their internal failures will become public knowledge (Bell, 1996, p. 94). For the same reason, corruption may restrict the supply of performance information. That is, public sector officials and civil servants who are involved in corruption do not have a strong interest in being accountable to other parties (Caiden and Sundaram, 2004).

We can therefore conclude that specific characteristics of the public sector in developing countries, and recent reforms of this sector, can be expected to have contradictory implications for PSPM in these countries. More precisely, it is likely that nowadays there is a mismatch between the supply of and demand for public sector performance information in many developing countries. Recent public sector reforms give rise to an increasing demand for performance information, but it is quite difficult to have this increasing demand followed by a sufficient supply of performance information. The unbalanced position between the demand for and supply of performance information will put public sector organisations in a disequilibrium position; namely, a situation of unsatisfied demand.

Despite the difficulties in supplying performance information, several developing countries have tried to improve the supply of performance information. Some countries have focused their attention on the quantity of performance information. In Bangladesh, India, Nepal, Pakistan and Sri Lanka, for example, governmental organisations have tried to enlarge the scope of their performance measurement system by introducing indicators on growth, efficiency, competition, entrepreneurship, value-for-money and customer orientation (Haque, 2001, pp. 1419-20). These South Asian countries have used these performance indicators to justify recent changes in their governance structure. Other countries have focused their attention on improving the quality of their performance indicators; for example, by replacing rather vague indicators with more specific ones. Singapore, for instance, tried to achieve improvements by identifying more specific output quality indicators and by reducing the number of inappropriate indicators (Jones, 2000, p. 131).

5. Conclusions and research agenda
This paper examined whether in a developing country context a balance between the supply of and demand for performance information is likely to occur. The paper argues
that public sector organisations in developing countries are likely to face an unbalanced position; that is, disequilibrium between the demand for and supply of performance information. Public sector reforms are expected to lead to an increasing demand for performance information, which is not always followed by a sufficient supply of performance information. This leads to – what we have called – a situation of “unsatisfied demand.”

This final section of the paper concludes with an overview of our arguments, for which Figure 1 is shown. It also emphasises the need to deepen the insights provided in this paper, which leads to a challenging agenda for future research.

Next to other features, developing countries are characterized by a low level of average income per inhabitant. This characteristic has at least the following implications for the public sector in these countries. Because of the low-income level, the public sector cannot raise sufficient resources for an institutional capacity that can contribute to good governance and a reasonable level of organisational performance. Moreover, related to the absence of good governance, the control system of public sector organisations in developing countries is, generally speaking, rather weak. This aspect, combined with a large gap between the needs and incomes of public sector officials and civil servants, is regarded as an important source for both corruption and informality.

These implications of a low-income level are obstacles for the supply of performance information. As Figure 1 shows, insufficient resources will limit the institutional capacity for providing adequate performance information. Similar effects will come from the high levels of corruption and informality.

Historically, the involvement of stakeholders in the public sector of developing countries was low. As a result, the demand for performance information in these countries used to be rather limited. Also the high levels of corruption and informality contributed to this situation. However, Figure 1 shows factors that have recently stimulated the demand for performance information.

An important factor is the financial support provided by funding agencies and NGOs. This financial support often goes alongside with requirements for reform, including a decentralisation of responsibilities to lower governmental layers, a marketisation of the public sector, the implementation of anti-corruption programmes, and the introduction of general elections. Next to the impacts of donors, public sector organisations in developing countries can relatively autonomously start such reforms, also because of their wish to improve the current state of poverty. The public sector reforms, which are aimed at good governance and improved organisational performance, are likely to stimulate the demand for performance information.

However, we expect that the increased demand for performance information will not always be followed by an according rise in the supply of this information. This expectation is based on our observation that the main factors that limit this supply will not change significantly.

At this point, it should be noted that the above line of reasoning does not capture various aspects and relationships that can be observed in practice. Consequently, some of our assertions could be violated by contrasting impacts. Moreover, our assertions are formulated in very general terms, which ask for more nuance and elaboration. Therefore, an interesting research agenda emerges from our literature review.
Figure 1. Overview of factors influencing the demand for and supply of performance information in developing countries.
First, in which circumstances will the influence of the factors that stimulate the demand for performance information be followed by factors that stimulate the supply of performance information? The support of funding agencies and NGOs might, for instance, improve the income level of the inhabitants in developing countries directly, which could mitigate the influences of the above-indicated factors that hinder the supply of performance information. That is, a higher income level will probably decrease the levels of corruption and informality, and it will also increase the resources that are available for improving the institutional capacity. Whether these impacts are strong enough to attain an equilibrium position is an interesting research issue. Another example concerns the possible effects of marketisation on the supply of performance information. Marketisation strengthens the power positions of public sector organisations’ clients (as a specific form of stakeholder involvement). More powerful clients are expected to put more pressure on public sector organisations’ accountability, and this could increase the supply of client-oriented performance information.

Second, which circumstances explain why there are partial equilibrium positions for some types of performance information, which are demanded by certain stakeholders and supplied by the organisation, while at the same time and within the same organisation other areas are characterized by a situation of unsatisfied demand for or excess production of performance information? Until now we only very roughly classified an organisation’s position as either equilibrium or a disequilibrium position, but an organisation’s position might differ across relationships between the organisation and its stakeholders and across performance areas. Such differences might be due to differences in the power positions of stakeholders. Another explanation might be that in some performance areas it is easier to develop performance indicators and quantify performance than in other areas.

Third, under which circumstances will external pressures lead to a demand for performance information for internal management (i.e. for decision making and control)? It can be expected that the incentives to use performance information for internal management are not very strong if external stakeholders’ demand for information on certain performance indicators is not supplemented with pressures to establish and attain ambitious target levels for these indicators.

Fourth, how do historical and cultural circumstances influence the supply of and demand for performance information in a particular country or region? If a developing country has, for example, a long history of producing and using certain types of performance information because of traditions that date from earlier periods of colonization, this can explain higher levels of demand and supply than the levels observed in other countries. Also, cultural aspects such as religion may influence the demand for and supply of specific types of performance information.

Finally, also more pragmatic questions are interesting. For instance, which sets of performance indicators are simple but effective? Here, simplicity refers to both the content of the indicators (straightforwardly related to important organisational objectives) and the opportunities to measure them relatively easily. Generally speaking, there is a need for simplicity because of the low-institutional capacity.

Figure 1 shows several links between various variables, but this does not imply that other links do not exist or cannot be activated by public sector organisations or their stakeholders. Despite this limitation, our paper captures several impacts of important
characteristics of public sector organisations in developing countries on the demand for and supply of performance information. But, our research agenda shows that much work has to be done in this largely uncovered field of academic research. We hope that our paper will be a valuable starting point for that type of research.

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Corresponding author
Ni Putu S.H. Mimba can be contacted at: p.mimba@rug.nl

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