

Chapter 2

The Need of a Dynamic Performance Management Approach to Foster Sustainable Organizational Development

2.1 Organizational Growth, Strategy and Performance

The concept of organizational growth concerns the strategic domain of management. It underlies the aptitude of an organization to attain a set of results leading to its long-term success and continuity.

Growth, strategy, and performance are strictly related concepts. Strategic decisions concern the constitution, improvement, or change of a set of structures, e.g. involving organizational, production, distribution, and cultural assets (Flamholtz 1996; Flamholtz and Hua 2002; Langfield-Smith 1997; Lorange and Vancil 1976; Mintzberg and Westley 1992; Schreyögg and Steinmann 1987; Wernerfelt 1984). Such decisions affect the relationships between an organization and its environment, to change performance (Henri 2006; Kloot 1997; Munro and Wheeler 1980; Simons 2000).

The strategic decisions' common denominator can be referred to the search of performance targets on a set of measures portraying a balanced and sustainable organization development (Fig. 2.1).

Organizational growth can be, first, considered as a qualitative—rather than purely quantitative phenomenon. In these terms, growth implies *development*, i.e. a learning process, enhancing synergies with stakeholders (Ackoff 1986; Coda 2010; Sorci 2007).

Organizational growth also can be studied under a quantitative (or dimensional) perspective. This can be framed under both a structural and operational viewpoint. Under the first viewpoint, growth is measured in terms of investment stocks, available in a given time. Under the second viewpoint, growth is measured in terms of flows—e.g. sales volumes or revenues, personnel turnover rate, change in machinery capacity or R&D investments. Such a different perspective of growth gauges the aptitude of an organization to increase its structural endowment of resources, over time (Fig. 2.2).

Fig. 2.1 Organizational performance, strategy, and sustainability

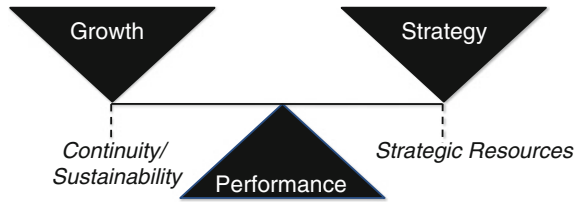
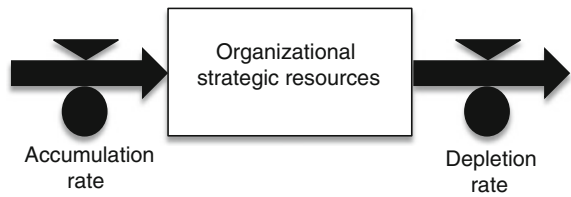


Fig. 2.2 Structural and operational viewpoints of organizational growth



Though an organization may be affected by a lack of dimensional growth over a long time span, its survival and lifelong existence cannot disregard a continuous search for qualitative growth, i.e. development (Greiner 1972). Particularly in times of discontinuity, pursuing a hypothetical stable condition is a symptom of decline.

Every organization needs learning, which is—in turn—a pre-requisite for development and growth. Managing sustainable organizational development underlies an aptitude to match short with long-term, to combine efficiency with effectiveness (Coda 2010).

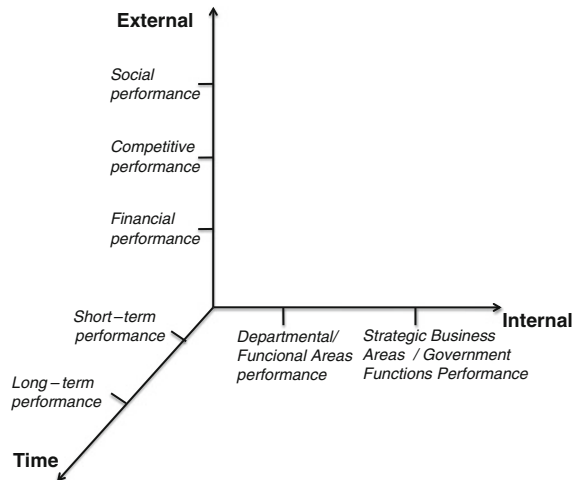
This chapter prepares the field for the analysis of a conceptual and methodological framework to support policy makers in framing and assessing performance within the perspective of sustainability. It emphasizes the need of a SD approach to enhance “intelligent” P&C systems so as to both manage performance and enhance sustainable development.

2.2 Three Perspectives of Sustainable Organizational Development

An organization’s growth rate is balanced if it crosses different perspectives (Fig. 2.3). With respect to the organization itself, growth can be both assessed under an internal and an external profile.

Under the *internal profile*, balanced growth emerges from the search for consistency between different subsystems, sectors, and departmental/functional areas of an organization, or of a system of organizations (e.g. an industrial network or a system of public sector institutions). Therefore, an unbalanced growth rate could be associated with either a size increase or improvement in operations in one area of engagement to the detriment of another. For example, the performance of a strategic

Fig. 2.3 Framing organizational growth: the search for consistency between the internal, external, and time perspectives



business area (SBA) in a company could be improved by diverting the resources invested in another SBA in the same company. Likewise, unbalanced growth in the public sector may imply a too intensive effort towards investments in an industry (e.g. chemical) to the detriment of another (e.g. tourism) in the same area.

Under the *external profile*, a balanced growth should be associated with performance rates crossing the three most relevant ‘dimensions’ of organizational success, i.e.: (1) financial; (2) competitive, and (3) social (Coda 2010). Such dimensions outline the physiological goals of an organization. The first dimension relates to the financial equilibrium and profitability, or at least to the balance between cash in-and-outflows in public and nonprofit organizations. The second one relates to the capability of an organization to satisfy its customers’ needs with its products or services at a reasonable price, and therefore to generate value to the users’ benefit. The third dimension expresses an organization’s capability of meeting the expectations of its different stakeholders, e.g., workers, funders, and community.

Another perspective in which to assess sustainable growth is *time*. As discussed in the previous chapter, an improvement in short-term performance should not be obtained to the prejudice of long-term results. For instance, the recovery of company losses by indiscriminate investment-reduction policies, i.e., related to discretionary investments such as advertising or R&D, can adversely impact company profitability in the long run. Linking and balancing the short with the long term in planning and decision-making implies the need to adopt a strategic view of management. A strategic perspective is strictly related not only to classical long-term strategic planning “capacity decisions” but also to an analysis of the impact of current and often inertial decisions on the change in both organizational structures and external environmental conditions (Hamel and Prahalad 1994, p. XI).

Framing performance inclusively under financial, competitive, and social dimensions provides a reliable measure of organizational growth rate and sustainability. Sustainable growth underlies a performance rate that is consistent with all three perspectives, i.e., short versus long term, a given business area versus another, and the results in financial versus competitive versus social terms.

Leveraging on P&C systems to manage growth under the three said perspectives implies that the following questions are raised:

- Is the P&C system able to support the coordination of different levels of analysis, decision-making and responsibility? Is performance management carried out on only a bounded viewpoint or is there also a concern on whether (and how) different viewpoints can be made coherent with each other? Are strategic goals consistently cascaded to the lower levels of the organization? Is there a strategic dialog (both vertically and horizontally) among different organization levels?
- To what extent are decision makers made accountable on the outcomes produced by their own actions?
- To what extent are back-office units aware of their contribution to the wider organizational performance and to delivered product/service levels?
- Is the P&C system able to broaden the scope of analysis and evaluation from financial variables to the value generated by the organization into the wider socio-economic system?
- How is discontinuity perceived and managed? Does the P&C system enable decision makers to promptly perceive weak signs of strategic change, and to deal with them?
- Is the organization able to match in its current decision-making processes the need to keep strategic position with that of detecting and creating new growth opportunities?

There is the risk that P&C systems are designed and used according to a mechanistic, bureaucratic, and static perspective. Such risk may determine an *illusion of control*, rather than an enhanced capability of organizational decision makers to manage sustainable development, to promptly detect symptoms of crisis, to look for the causes of financial results, to set sustainable restructuring policies, to search for consistency in different subsystems, sectors, departments or governmental functions.

This issue has specific connotations in the public sector, where many reforms are still struggling to tackle consolidated cultures and practices, which are mostly focused on only the accomplishment of tasks and compliance to regulatory frameworks, legal prescriptions and procedures (e.g.: data gathering and processing, reporting results, calculating variances, respecting deadlines). Even an excessive concern on single technical tools (e.g.: information systems, accounting, or statistical computations) runs the risk of confusing means with ends, and misplacing focus on the design and use of consistent and “intelligent” P&C systems.

Today, because of resource scarcity and the proliferation of citizens' needs and expectations towards the public sector, P&C systems should be also focused on the search for continuous process improvement, and the measurement/management of outputs and outcomes. The need to outline strong political directives leading to viable performance plans requires that P&C analysts facilitate the planning process. They should play an active role inside political cabinets in fostering a strategic dialogue with administrative levels and in identifying—with the collaboration of departmental managers and the support of management control units—the operational objectives, as well as performance measures on which administrators should be made accountable, to attain the strategic goals.

Unfortunately, lack of P&C staff and performance management skills are often a major cause of blurred and of disconnect/unclear operational objectives formalized in the performance plans. It is not uncommon for operational objectives to be defined merely as activity descriptions, rather than measurable targets (Bianchi and Rivenbark 2012; Bianchi and Xavier 2014).

2.3 Framing Organizational Growth Sustainability: The Institutional and Interinstitutional Levels

Although the origin of sustainability studies can be seen in the biological sciences, more than to the managerial ones, a growing interest in the application of sustainability principles to the management of organizations is evident now.

The literature on balanced scorecards and corporate social responsibility provides empirical evidence of this phenomenon (Kaplan and Norton 1996; Werther and Chandler 2006), which is due to the rising dynamic complexity of the systems in which decision makers now operate. It also can be associated with the scarcity of available resources, both inside and outside a single organization.

Also, the topic of evaluating organizational performance within a sustainability perspective is grabbing more and more attention in the field of P&C studies and applications (Dyson 2000; Radermacher 1999; Riccaboni and Leone 2010). One may envisage two related levels for managing organizational performance under the perspective of sustainability, i.e., an *institutional* and an *inter-institutional* level.

At the institutional level, performance is assessed primarily in relation to the effects produced by decision makers on their own institution. At the inter-institutional level, performance is assessed in relation to the effects produced by decision makers on the wider system, e.g., either a local area or the industry to which they belong (Bianchi 2010).

Assessing organizational performance on an institutional level maintains a traditional viewpoint when growth sustainability is evaluated for a business. With respect to an enterprise, performance is associated primarily with company results, e.g., sales orders, revenues, income, and cash flows. However, today, due to

increasing dynamic complexity in the competitive and social systems where businesses operate, firms perceive a growing need to assess their performance also at an inter-institutional level, e.g., when an enterprise takes a leading role in undertaking vertical or horizontal strategic relationships with other firms located in the value chain of its competitive system.¹

Assessing business performance at an institutional level is a first step toward assessing performance at an inter-institutional level. In fact, a business that is able to combine the generation of profits with the creation of new employment, or of creating new industrial knowledge while increasing product quality at a reasonable price, is likely to contribute positively to the generation of value for the wider system. Such value will be measured in terms of tax contributions, increasing employment, shared knowledge with business partners, etc. This wider-system value will provide the conditions for the generation of new value to the benefit of each institution, and hence will generate new growth on an institutional level. So business growth can be considered as sustainable in the long run only if the firm generates value to the benefit of its local area or industry.

The relevant system's boundaries for such analysis are much broader than those associated with an institutional perspective. In fact, other public and private institutions are involved in such a system.

In an inter-institutional system perspective, assessing performance sustainability requires not only a focus on the single organization's results, but also on how such results contribute to the wider system's performance, a factor that will affect the organization in the long run. Inside such a wider system, each organization can build or share with others a given endowment of strategic resources (e.g., infrastructures, human capital, capacity, image, and environment). Both the aggregate performance of a local area or industry and the specific performance of each organization inside it are significantly affected by the accumulation and depletion processes of social capital² and other strategic resources, e.g., infrastructures and image. For instance, an opportunistic business behavior oriented to maximizing profits in the short run (e.g., without taking into account environmental pollution or human capital development issues), will contribute to depleting the quality of the local area's social capital and other strategic resources. In the long run, this will reduce the attractiveness and productivity of the region itself. A lower attractiveness could be measured, for instance, in terms of a negative market labor-turnover rate (resulting from the loss of population); a lower productivity could be measured in

¹“Accountability may have to be interpreted as the development of mutual accountabilities between different organizational participants (*and indeed between different organizations*) rather than as solely a hierarchical process” (Otley 1994, p. 297. Italics added).

²Social capital refers to the connections among individuals and organizations, and to the norms of reciprocity and trustworthiness arising from them (Putnam 2000). Social capital is not just the sum of the institutions in a society; it is rather the glue that holds them together.

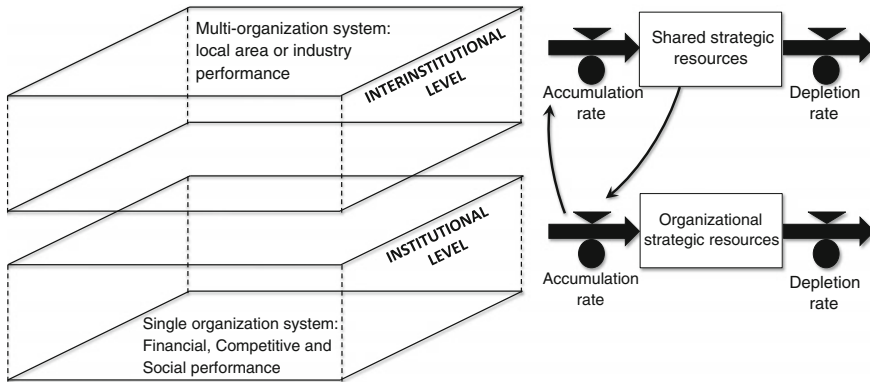


Fig. 2.4 The institutional and inter-institutional levels for analyzing organizational growth sustainability

terms of yield reduction in the exploited local resources (e.g., labor, raw materials, suppliers, and funders), and a drop in the level of synergy/collaboration between different actors in the system. A reduction in the local area's performance will also determine—sooner or later—a reduction in the performance of the opportunistic firm.

Figure 2.4 shows that strategic resources can be modeled as stocks of available tangible or intangible assets at a given time. Their dynamics depend on the value of corresponding in-and-outflows over time. Such flows are modeled as “valves” which decision-makers can regulate through their policies, to influence the dynamics of each strategic asset and therefore—through them—organizational performance at both the institutional and inter-institutional levels (Morecroft 2007; Warren 2008).

Managing strategic resources to affect performance is a dynamic and complex task. In fact, intangible resources (e.g., organizational climate, trust, knowledge, and image) are difficult to identify and measure. Furthermore, processes of accumulation and drain affecting the dynamics of strategic resources are inertial, since delays underlying them are difficult for decision-makers to perceive, and also because effects generated by actions taken (or not taken) in a recent or remote past are intertwined with each other, and single causes cannot be easily matched to related effects.

A tipping point in managing strategic resources to affect organizational performance is associated with the capability of policy-makers to (a) identify those strategic resources that most determine success in the environment (i.e., competitive and social systems) where an organization or different organizations operate, (b) insure that the endowment of such resources is satisfactory over time, and (c) keep a proper balance between the different relevant strategic resources.

2.4 Framing Sustainable Growth Within the Inter-institutional Level: Implications for Public Management

Framing organizational growth sustainability at an inter-institutional level should be a fundamental viewpoint to assess policy outcomes in public sector organizations. Particularly, implementing performance management in local government requires that an outcome view be adopted. This may allow local governments: (1) to assess the sustainability of their strategic plans and budgets, (2) to evaluate service delivery, and (3) to explore possible collaborative partnerships between different institutions in the same region for generating overall public value.

The path toward an outcome-based performance management in the public sector, however, is still difficult both from a theoretical and practical perspective, given the amount of effort involved in designing and operating performance management systems that may frame the public sector's specific complexity (Rainey and Han Chun 2005).

Concerning this issue, while performance management provides a wide area on which both research and practice have been working with specific reference to the private sector since a long time ago, it seems that many experiences matured over the years from success and failure in this field cannot be easily transposed to the public sector (Talbot 2005). In fact, the public sector is a complex and dynamic system, which is characterized by specific features. It is complex since several institutions (whose roles and competences cover different inter-related domains) affect performance. Complexity also stands into the constraints imposed to the public sector decision makers by the existing legal framework. Their decisions must always comply with such framework, although diverging from them could imply the achievement of better performance levels—e.g. in terms of efficiency and effectiveness.

The public sector is also a dynamic system, since the effects produced on performance by decisions made by the several (public and private) actors having a stake on the system itself, can be often observed after long delays. Such delays are due to the time it generally takes public sector decisions to generate their own outcomes on the community. They also depend on the huge net of feedback relationships between different subsystems (for instance, infrastructures may affect commerce or tourism, and in turn commerce or tourism can affect banking and—through this last subsystem—infrastructure funding, in a given Urban Metropolitan area).

Public sector performance has a major impact on the quality of life and may constitute either an acceleration factor or a constraint for the growth of the socio-economic sectors profiling a local area. A higher accountability of the public sector, and capability to deliver better services and rules to the private sector and the community, may generate economic and social value, in the system (Moore 1995). Such value corresponds to an increase in tangible and intangible strategic resources (e.g., infrastructures, funding, local area image, skilled workforce) that are available

to the private sector. An improvement in such resources may result into a multiplier of the private sector performance, i.e. can determine suitable conditions to deliver products and services that can generate new value. Part of this value may, in turn, feed back to the public sector again, not only in terms of taxes and other financial contributions but also in terms of consensus, image, etc.

Figure 2.5a³ shows how both the public and private sector are part of a same system, and how the rules underlying the survival and development of both sectors lie behind their own capability to generate value, to make growth sustainable. This depends on the capability of public and private sector organizations to generate results (e.g. in terms of products, services or rules), which tend to produce an outcome whose value corresponds to an increasing endowment of available resources.

Figure 2.5a also shows how public sector performance does not only feed back under the form of taxes and financial contributions from the community to the benefit of which a given set of services and rules is delivered, but also in terms of external contributions.⁴

So, the private sector feeds back to the public sector: public opinion is primarily affecting the political level, and income primarily affects the funds that the public administration will be able to raise through taxes and other sources, to provide the administrative level with resources to afford public expenditures.

In the described context, a public institution often takes a coordinating role in a system characterized by multiple actors, i.e., public and private institutions. In particular, if we aim to evaluate policy outcomes in such setting, the inter-institutional system's performance would not result from a mere sum of the performance levels produced by each single institution. It would be, rather, the effect of the net relationships and synergies among the different institutions linked to each other.

For instance, to evaluate the outcomes of industrial district policies, a public decision maker (e.g. a regional planner) needs to move the focus of analysis from an institutional to an inter-institutional perspective (Bianchi 2010, pp. 378–381).

³Though Fig. 2.5 may look like a causal loop diagram, this is not properly the case here. In fact, it tries to capture both the public and private sector into a single and abstract framework. Such framework remarks the role of the public sector into the wider system where it operates, and therefore underlies the main conditions for assessing its performance.

⁴Such additional resources correspond to those that a single public sector institution (or a group of them) ruling a local area is able to procure from third actors (e.g. the Union funding for infrastructure building to the benefit of European Regions). It is worth remarking that this analysis is relevant not only for those public services generating a financial value (e.g. in the case of infrastructures, education, enterprise funding, local area marketing) but also for those generating a qualitative value (e.g. in the case of health care, police or environmental care services, whose indirect outcomes have, however, an economic value too).

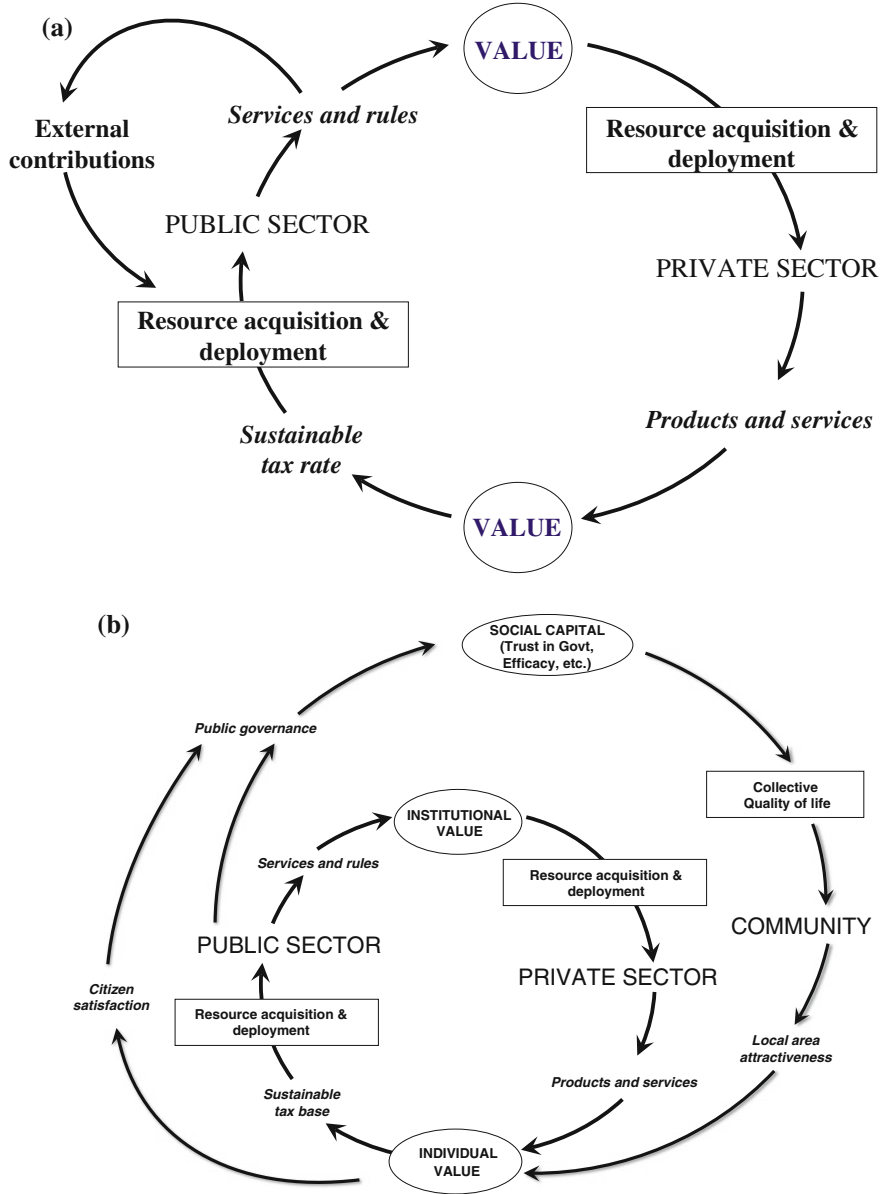


Fig. 2.5 **a** A systemic framework embodying both the public and private sector: value generation as a focus for assessing performance and a prerequisite for sustaining growth. **b** Combining service delivery improvement with public governance to generate value and trust in government, to deal with ‘wicked’ problems and to pursue sustainable development of a community’s quality of life

2.4.1 Framing Sustainable Growth Within the Inter-Institutional Level (Continued): The Governance of ‘Wicked’ Problems

The conceptual framework portrayed in Fig. 2.5a advocates the relevance of a value generation and outcome-oriented performance management perspective as a prerequisite to pursue sustainable growth in a local area. Since the 1980s’ and 1990s’, this model has inspired most international public sector reforms, aiming to pursue excellent public service delivery as a means to generate value for a community. Though such perspective is still today crucial for the pursuit of social and economic sustainable development, it may not be sufficient. In fact, the dynamic complexity characterizing nowadays’ societies is a major cause of amplifying “wicked” problems, whose solutions cannot be found only by service improvement in each of the agencies concerned (Bovaird and Löffler 2003).

“Wicked” problems characterize most of governmental planning, with a specific concern with social issues (Bovaird and Löffler 2007; Rittel and Webber 1973, p. 160). These are complex policy problems featured by high risk and uncertainty and a high interdependency among variables affecting them. “Wicked” problems cannot be clustered within the boundaries of a single organization, or referred to specific administrative levels or ministerial areas. They are characterized by dynamic complexity, involving multi-level, multi-actor and multi-sectoral challenges.

Examples of such problems include social cohesion, climate change, unemployment, crime (Bianchi and Williams 2015), homelessness, healthcare, poverty, education, societal aging (Bianchi 2015), and immigration (Laegreid and Rykkja 2014).

These problems are usually ingrained in major social issues of modern life, whose interpretation is not univocal, because it depends on the adopted value perspectives. Therefore, by simply gathering more information can be insufficient to understand and resolve them. This implies that there is not a definitive (i.e. true or false) solution to them; there can be rather a ‘good’ or ‘bad’ way to frame them and to profile one or more consistent (or inconsistent) alternative decision sets (Head and Alford 2013). Wicked problems also imply a multitude of stakeholders. Both the different interests and the multiple mindsets or cultures related to the policy makers who may affect a wicked problem imply that—in order to effectively deal with it—decisions should be made based on a strategic learning process, focused on conflict resolution and dialogue among the players.

Even material and information delays play a major role in characterizing the hidden feedback structure underlying wicked problems’ behavior. Therefore, enabling decision makers to promptly perceive weak signals of change and to provide reliable keys to frame them is an important attribute for diagnostic and interactive control systems (Simons 2000, pp. 207–229) in those public sector organizations that should address wicked problems.

Public Administration has always experienced difficulties in dealing with such problems: specifically with respect to its capability to support planning, policy

design, decision making, results measurement, assessing policy outcomes, coordinating decision makers and making them accountable to targets. Examples of such difficulties are witnessed by hierarchical forms of organization and systems of control, focused on input monitoring or process compliance, resulting into sharp disconnections between different institutions and among agencies.

Although, since the 1980s, ‘New Public Management’ (NPM) reforms were designed to fix the described limitations of traditional Public Administration (Meier and Hill 2005, p. 55), their emphasis on decentralization of power has produced unintended effects on the capability of the public sector to affect the outcomes associated with wicked problems. In fact, such reforms have been a major cause of governance fragmentation (Christensen and Laegreid 2007a) and lack of communication in and among agencies.

Policy makers are prone to take symptomatic solutions to wicked problems. For instance, in order to deal with crime, they may focus only input (e.g. police staff) or volume targets (e.g. number of stop-and-frisks), rather than also outcomes; likewise, in order to counteract societal aging, they can be inclined to increase retirement age.

The use of a short-term perspective and a sectoral approach in the formulation and implementation of strategies lead to a static view of the system and to a lack of coordination in policy-making between different public agencies, non-profit and other private stakeholders. This approach may not support governments to identify sustainable actions, whose policy-making usually refers to several jurisdictions, both in terms of level (e.g. national, regional, local) and domain (e.g. policing, welfare, education, justice).

In the last decade, a number of countries have started to develop new approaches that may enable them to improve cohesion, to effectively deal with wicked problems, and pursue a sustainable development of local areas under an inter-institutional perspective. To describe and implement these processes, both the scientific literature and practitioners have coined different terms. Among them are the following: joined-up government⁵ (Christensen and Laegreid 2007b, 2013; Christensen et al. 2014),⁶ whole-of-government (OECD 2005), integrated governance, outcome steering (Hood 2005), holistic governance, horizontal management (Peters 2015), and new public governance (Osborne 2010).

⁵According to Pollitt (2003, p. 35), “‘Joined-up government’ is a phrase that denotes the aspiration to achieve horizontally and vertically coordinated thinking and action. Through this coordination, it is hoped that a number of benefits can be achieved. First, situations in which different policies undermine each other can be eliminated. Second, better use can be made of scarce resources. Third, synergies may be created through the bringing together of different key stakeholders in a particular policy field or network. Fourth, it becomes possible to offer citizens seamless rather than fragmented access to a set of related services’.

⁶Christensen and Laegreid (2013) describe the Norwegian experience in dealing with such wicked problems, with a specific reference to welfare services. In 2005, Norway merged the central pensions and employment agencies and creates a partnership with locally based welfare services. In the years 2006–2009, Norwegian municipalities established local one-stop-shop welfare offices. In 2008, regional pension units and administrative back offices were established in the counties.

To implement such processes, three main sets of levers should be synergetically managed by governments, that is, (1) institutional reforms, (2) organization structures and performance management systems, and (3) cultural/social systems (Borgonovi 1996, p. 105).

The idea is to design and implement more flexible and pervasive governmental systems that may foster a more pragmatic, less formal and intelligent collaboration among different stakeholders, not only in the public sector sphere.⁷

The implementation of such reforms also implies the use of an outcome-oriented view of performance to frame and assess the desirability of the effects produced by the adopted policies. This approach does not only consider effects in the short run but also in the long run. Furthermore, it does not only focus them in the perspective of a single unit or institution but also under an inter-institutional viewpoint, i.e., that of the relevant system structure generating observed behavior.

By focusing only single (i.e. isolated) input and output measures (e.g. pension or long-term care expenditures, number of retirees, number of working hours), policy makers may be inhibited to assess the aptitude of their own actions to find sustainable solutions that may deal with wicked problems. On the other hand, by combining such measures with outcome performance indicators—for instance related to the community's quality of life (e.g. change in life expectancy from the prevention of unhealthy behavior), labor participation, stakeholders' perceptions and public support to government policies—governments might better assess their own policies' sustainability in both time and space.

A third lever to implement such reforms refers to cultural/social systems. A fundamental change, in terms of cross-sectoral collaboration and coordination, is possible if a strong sense of values, team building, inclusion and trust is fostered among stakeholders. Changing culture and building trust is not an easy and fast process; it requires that a learning-oriented and systems approach can be adopted to support the performance management cycle of each unit.

Figure 2.5b provides a synthesis of the discussion developed so far. It shows that, in order to pursue sustainable growth, 'wicked' problems require that public administrations adopt an outcome-oriented and inter-institutional perspective of performance management, aiming to generate not only value to the benefit of individual institutions (e.g. enterprises or households), but also community value. Such value does not only depend on excellent public service delivery (as remarked in Fig. 2.5a). It also requires that both public and private sector institutions collaborate in public governance, i.e. "the ways in which stakeholders interact with each other in order to influence the outcomes of public policies" (Bovaird and Löffler 2003, p. 316). Therefore, 'good governance' can be meant as "the

⁷For instance, in the UK, the Blair government implemented intensive whole-of-government programs, which led to a stronger role of the center (Christensen and Laegreid 2013). Australia and New Zealand governments established new organizational units (e.g. cabinet committees, inter-ministerial or inter-agency collaborative units, inter-governmental councils, task forces, cross-sectoral programs) to foster coordination among different decision makers (Halligan and Adams 2004).

negotiation by all the stakeholders in an issue (or area) of improved public policy outcomes and agreed governance principles, which are both implemented and regularly evaluated by all stakeholders” (Bovaird and Löffler 2003, p. 316).

Likewise good services and rules provided by the public sector may generate new value to the benefit of the private sector (as shown in Fig. 2.5a), good public governance and public service “co-production” (Bovaird 2007) may improve citizens’ trust in government and—more broadly speaking—social capital. This is a different kind of public value—in respect to the one that is produced by good public services—since it refers to the quality of community participation to governance and to the ability of a community to generate mutual benefits coming from the aptitude of each player to listen to the others. Such value is a prerequisite to improve a community’s quality of life, which is a strategic resource affecting the attractiveness of a local area. Improving the attractiveness of a region may generate further public value, since it may foster more and better economic and social activities, leading to local area sustainable development.

Such perspective of outcome-based performance management in the public sector emphasizes the role of public governance as a means—i.e. as a policy—to improve a community’s quality of life and local area attractiveness. In this perspective, both products and services delivered by the private sector (through the support of the public sector) and local area attractiveness (as a local community “product”) are able to affect the value each individual can earn in the society, both in financial and non-financial terms. Fostering such value may both increase sustainable taxation and citizen satisfaction and participation to public governance (virtuous sustainable development circle).

2.4.2 *Framing Sustainable Growth Within the Inter-Institutional Level (Continued): Financial Restructuring Planning in Local Government*

Financial restructuring planning in local government can provide a second example of how an outcome and inter-institutional perspective may foster sustainable development through performance management in the public sector. The topic of financial crisis and growth sustainability in local government has become increasingly significant in the last decade, for Public Administrations. States are struggling to balance objectives such as: GDP growth, employment, quality of life, and financial equilibrium. Municipal bankruptcies and the need to outline sustainable restructuring plans are today crucial in many countries of the world.

The many targets Public Administrations attempt to address may look as diverging from each other, if framed on a static and sectoral perspective. Such view is often adopted by both law prescriptions and the professional practice. Often the primary focus of analysis is on only financial statements and on the adjustment of debts.

In such perspective, the search for the causes behind the crises is primarily done in financial and juridical terms, strictly related to the institutional dimension of the perceived problems. Such approach may not support policy makers to understand how social and managerial phenomena in the wider system have affected the current insolvency state of an institution. Therefore, it may not support them to outline sustainable policies in the long run, to counteract the financial crises at their own roots.

Most of such factors can be outside the institutional domain and the control of local government. Examples of such factors are: the rates at which the stocks of population and enterprises change over time, employment rates, crime rates, perceived public service levels (e.g. health care, education, transportation), image and attractiveness of an urban area, trust and loyalty towards government, social capital, quality of infrastructures, capability to network with other public and private sector organizations. Public policy makers often misperceive even the delays affecting the accumulation and depletion processes of local strategic resources. The endowment and deployment of the strategic resources in a region may differently affect the drivers of unsuccessful financial results.

Therefore, the identification of the leverage points on which to act in order to design and implement sustainable restructuring plans in local governments should go beyond the financial and the institutional dimensions (e.g. increasing tax rates, selling property, negotiating new loans, or bargaining debts maturity extensions).

In order to recover financial equilibrium and competitiveness, many New Public Management (NPM) reforms have been characterized by a sectoral and too partial approach. If one considers the current practice in local strategic planning, one may perceive how urban planners can be inclined to over-emphasize the architectural and land-use perspectives associated with the development of metropolitan plans; sociologists may devote more attention to the effects of group behavior and culture on local performance; accountants and financial experts may be too focused on the technical aspects related to the drawing up of budgets and reports, often linked to the formal procedures through which public sector decision makers are legitimated to obtain the resources to implement policies; experts in regional studies may over consider macro-economic aggregates (e.g. consumption rates, savings, employment); political scientists and lawyers may overweigh the role of rules and formal institutional systems.

Though the viewpoint of each discipline may be considered as consistent with the analyzed topic—if observed within the framework of a specific study-area—a sectoral approach runs the risk not to be able to capture the systemic, complex and dynamic structure of the problem context. Therefore, an inter-disciplinary and learning-oriented system perspective is needed.

There is a gap, in both professional and organizational terms, in today's Public Administration between its current and expected capability to deal with dynamic complexity. The use of SD modeling may significantly enhance the capability of governments to fill such gap. SD can successfully support the drawing up of restructuring and reorganization plans, at both local and central government, to outline sustainable policies that look beyond a 'debt adjustment' perspective, and

may support decision makers' learning processes about a local area's capability to build up and preserve a sustainable competitive advantage and community development.

2.5 Fostering Sustainable Organizational Development: From Balanced Scorecards to Dynamic Performance Management Systems

From the previous discussion, it is possible to observe two issues.

First, though different organizations may sharply differ from each other because of various structural factors, the same conceptual framework should support their own performance management cycle. In fact, performance should be evaluated according to the aptitude of an organization to pursue a growth rate that balances the short with the long term and is also consistent with the physiological goals of the organization. These goals compose elements in a wider socio-economic system to which an organization belongs and to whose continuity and sustainable growth it must therefore contribute.

And second, the current knowledge and practice in strategic planning and performance management are not able properly to deal with sustainable growth.

In particular, conventional financially-focused P&C systems have been considered lacking in relevance (Johnson and Kaplan 1987; Kaplan and Norton 1996), since they are not able to provide information that can support either dynamic complexity management, the measurement of intangibles, the detection of delays, adequate understanding of the linkages between the short and the long term, and the setting of proper system boundaries in strategic planning.

To cope with such problems, the Balanced Scorecard (BSC) has been used by many organizations both in the private and public/non-profit sectors. The two main concepts underlying the BSC framework are:

1. Organizational performance cannot be managed by focusing only on end-results: one should understand how such results are generated, which factors affect them, and how decision-makers can be made accountable for them.
2. Performance cannot be gauged only in terms of financial measures. Also, a "customer", a "process", and a "learning and growth" perspective is needed. These three additional BSC perspectives on performance may allow one to understand to what extent financial performance is sustainable in both time and space.

According to Kaplan and Norton, the BSC enables companies to measure financial results while simultaneously monitoring progress in building capabilities and acquiring the intangible assets they need for future growth (Kaplan and Norton 1996). Therefore, they explicitly recognize the BSC as a strategic tool for the control of both lag and lead indicators (Norton 2001, p. 4).

The increasing popularity of the BSC is due to the support it gives to management in avoiding disconnections between strategy and implementation. The BSC also stresses the idea of cause-and-effect relationships between measures, in order to avoid the possibility that performance improvement in one area may be at the expense of performance in other areas. Kaplan and Norton, indeed, explicitly stated the systemic interrelationships within and between the four key BSC perspectives, incorporating both lead and lag indicators, which impact on organizational performance (Martinsons et al. 1999, p. 83).

This approach aims at offering a systematic and comprehensive road map for organizations to follow in translating their mission statements into a coherent set of performance measures. These measures are not only intended to control company performance, but also to articulate and communicate the organization's strategy (Mooraj et al. 1999, p. 490) and to help align actions from different levels of management for the achievement of a common goal (Malina and Selto 2001, p. 54).

Furthermore, the BSC enhances managers' understanding of strategies and stimulates the creation of a common company vision. The BSC, indeed, forces managers to elicit, compare and discuss their implicit assumptions and beliefs and to articulate them for the formulation of company's strategy (Malmi 2001, p. 210–214). In fact, managers are requested to contribute to the implementation of the BSC by identifying a set of objectives that are connected by causal relationships that are consistent with the vision and mission of the company.

However, it has been remarked how—in order to encourage openness and frankness of expression (Wisniewski and Dickson 2001, p. 1065)—the support of an external facilitator leading the BSC construction process is often necessary. This would also allow the elicitation of managers' mental models.

In spite of its widely recognized advantages, even the BSC presents certain conceptual and structural shortcomings. Linard et al. (2002) assert that the BSC fails to translate company strategy into a coherent set of measures and objectives, because it lacks a rigorous methodology for selecting metrics and for establishing the relationship between metrics and corporate strategy.

Sloper et al. (1999) remark that the BSC is a static approach. Although Norton and Kaplan stress the importance of feedback relationships between BSC variables for describing the trajectory of a given strategy, the cause-and-effect chain is always conceived as a bottom-up causality, which totally ignores feedbacks, thereby confining attention only on the effect of variables in the lower perspectives (Linard and Dvorsky 2001).

In particular, the BSC approach does not help one to understand:

- How strategic resources accumulation and depletion processes triggered by the use of different policy levers affect performance drivers;
- How performance drivers affect end-results (both output and outcome measures);
- How end-results will affect strategic resource accumulation and depletion processes.

In order to provide decision-makers with proper lenses for interpreting such phenomena, understanding the feedback loop structure underlying performance, and identifying alternative strategies to adopt so as to change the structure for performance improvement, SD modeling has been used (Bianchi and Montemaggiore 2008; Kaplan and Norton 2001, pp. 311–313; Linard and Yoon 2000; Morecroft 2007; Richmond 2001; Ritchie-Dunham 2001; Warren 2008). SD models can be properly linked to either accounting or financial models to support strategic planning and control (Bianchi 2002) and, also, to implement dynamic performance management.

This topic will be illustrated in the next chapter of this book.

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