

Developing Key Performance Indicators for Effective Governance

By Tan Soo San and Andrew Kwok

Many non-governmental organisations like the World Bank, Transparency International, and Reporters Without Borders regularly rate countries on key areas of performance. They track aspects of governance, such as corruption, government effectiveness and the rule of law. Although these ratings can serve as useful indicators of the Public Service's performance, they should not all be uncritically accepted. Furthermore, it is important for Singapore's Public Service to develop its own indicators of effective governance for areas that matter most to the country.

This article is an adaptation of an IPD Research Unit study undertaken with the advice and guidance of Mr. Eddie Teo, then Permanent Secretary of the Prime Minister's Office. It surveys some of the performance measurement practices of various international organisations and governments and discusses the rationale and considerations in developing key performance indicators for effective governance. Finally, it proposes that a robust assessment which incorporates internal and external indicators, without creating an onerous exercise, can contribute to a sharper analysis of our performance and promote effective governance.

Good Governance and International Rankings

In 2005, media watchdog Reporters Without Borders ranked Singapore 140th among 167 countries in its survey of press freedom. The low ranking, behind countries like Sudan (133rd) and Afghanistan (125th), sparked public debate about the value and validity of such indicators.

Reporters Without Borders is only one of many international indexes that have proliferated. Established organisations like the United Nations, the World Bank and many other academic and non-governmental organisations have developed measures to quantify aspects of governance. Providing governments with a benchmark to rate their performance, they hope to promote the practice of "good governance" to more countries.¹ However, "good governance" is itself a relatively young concept, which is still very much in the process of being developed.

The term "good governance" emerged in the late 1980s and early 1990s primarily in the World Bank which was concerned with how governance influenced economic performance. This initial concept of good governance included factors such as public sector management, organisational accountability, the rule of law, transparency of decision-making, and access to information. The Organisation for Economic Cooperation and Development (OECD) and the European Union then integrated the concept into their requirements for development assistance.

Later, the United Nations Development Programme (UNDP) expanded the definition to incorporate a political dimension that includes government legitimacy, government accountability, government competence and the protection of human rights. In *Governance for Sustainable Human Development* (1997), the UNDP identifies nine core characteristics of good governance: Participation, Rule of Law, Transparency, Responsiveness, Consensus Orientation, Equity, Effectiveness and Efficiency, Accountability and Strategic Vision.

The European Commission has defined good governance as "the transparent and accountable management of a country's resources for its equitable and sustainable economic and social development".² Aspects of good governance

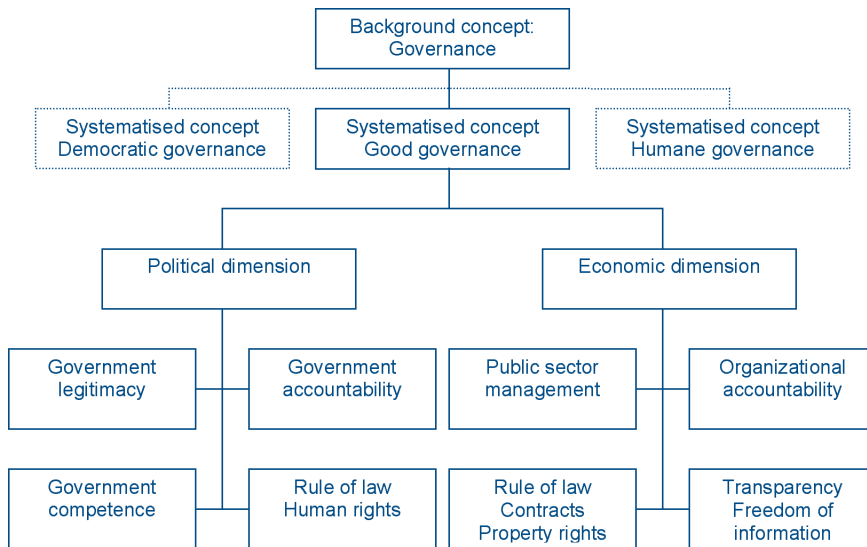


Figure 1: Schematic representation of governance³

include equity and primacy of law in managing and allocating resources; an independent and accessible judicial system; and transparency. Corruption is identified as a main obstacle to good governance.

In addition, a broader definition of “good governance” also looks at how well the government delivers on strategic outcomes that citizens expect of the government. These strategic outcomes can take the form of certain ideals, like a safe environment, a progressive economy or a healthy population.

Limitations of International Indicators

The broad scan shows that there is no authoritative definition of what constitutes good governance and how it can be measured. Given the various definitions, it is not possible to obtain consensus on the proxies for governance. The difficulties of measurement are further compounded by issues regarding data collection, methodologies and the inevitable subjectivity of interpretation.

Governance ratings by international organisations have some other limitations. For instance, they may not be sufficiently sensitive to the unique

contexts and circumstances faced by different countries and may assess them using a concept of governance that is western-centric. The importance of context was vividly manifested in the International Monetary Fund’s (IMF’s) response to the Asian financial crisis. The IMF required countries seeking aid to implement Western standards of fiscal and corporate governance, with mixed success.

Notwithstanding their limitations, international standards can be useful in developing a robust system for measuring governance. Firstly, they could act as useful benchmarks or stretch targets. Secondly, they provide a useful check against a country choosing only indicators that show up in their own favour.

Why Measure Governance?

In the context of the public sector, governance indicators can influence governments to rethink what they do and how they do it. Dr. Marie Besancon of Harvard University argues that “measurements of governance could set standards for improvements and achievement as well as indicate where funds could be of use and where policy might prove most effective”.⁴ International peer country rankings are also a way

- ¹ In 1998, United Nations Secretary-General Kofi Annan commented that “Good governance is perhaps the single most important factor in eradicating poverty and promoting development.” United Nations, *Annual Report of the Secretary-General on the Work of the Organization* (New York: 1998).
- ² European Commission, “Commission Communication to the Council and Parliament”, 12 March 1998.
- ³ T. Landman, “Map-Making and Analysis of the Main International Initiatives on Developing Indicators on Democracy and Good Governance,” Human Rights Centre, University of Essex, (Colchester, UK: 2003), Report for the Statistical Office of the Commission of the European Communities (EUROSTAT).
- ⁴ Marie Besancon, “Good Governance Rankings: The Art of Measurement,” *WPF Reports 36* (Cambridge, MA: World Peace Foundation, 2003).

Properly performed, performance measurement constitutes a watch on government, an assurance of the public's value for money, and an essential inquiry into the effectiveness of programmes and their contribution to the public good.

to show which states have improved and what sectors, on the international or domestic front, need more attention.⁵

In today's environment, driving forces that put pressure on government performance include not just budget constraints, but changing economic and political environments, increasingly complex problems, demands from citizens for higher quality services and engagement. Consequently, government performance management has to go beyond value-for-money audits, budgeting for inputs and outputs, to include outcomes and assess the impact of public policies on society.

A good set of governance indicators also gives a better understanding of why targets are, or are not, being achieved; the unexpected outcomes of government actions; and the underlying assumptions of policies to verify how variables impact the outcomes. Assessments therefore support systemic adjustments to improve performance and provide a key forward-looking instrument to support future decision-making.⁶

Properly performed, performance measurement constitutes a watch on government, an assurance of the public's value for money, and an essential inquiry into the effectiveness of programmes and their contribution to the public good. Published performance measures contribute to the dissemination of information about governments, and to the creation and maintenance of an informed citizenry and a vibrant civil society. They also underpin and reinforce professionalism in the public service against the image of self-serving bureaucrats. This will ensure internal control of government policies and external accountability to enhance public trust and legitimacy of decisions.

At the implementation level, the purpose of measurement has to be established before the instruments for data and information gathering are identified. Objectives could range from improving policy advice and increasing public and parliamentary accountability to priority setting across government, policy alignment and cost analysis. These objectives will determine what should be measured and the nature of indicators that should be chosen. For example, depending on the objective, different types of indicators—objective or subjective indicators, input (or process) or outcome indicators, etc.—can be adopted.

In developing a model to measure Singapore's governance, our approach should be two-pronged. First, we should distil useful key performance indicators (KPIs) and best practices from international organizations as well as other countries. In the long term these will help us in our performance on external assessments and international rankings. Secondly, we should consider our strategic national objectives and Whole-of-Government outcomes. The objective of measuring KPIs here is to set standards for improvement.

World Bank Aggregate Governance Indicators

An oft-cited project on good governance is the "unobserved components model" of combined measures used by Kaufmann, Kraay and Zoido-Lobaton (KKZ) of the World Bank.⁷ This uses a data reduction technique to get around the above limitation of specific aspects by aggregating the scores measured by various organisations, bringing together the most credible measurement tools of governance available.

⁵ Besancon. This method has inherent weaknesses e.g. it is unclear if a country's rankings have dropped because its performance has worsened, or simply because another country's has improved.

⁶ OECD, Public Governance Committee, "Measures for Promoting Integrity and Preventing Corruption: How to Assess?" (Paris: OECD, 2004).

⁷ D. Kaufmann, Aart Kraay and Massimo Mastruzzi, "Governance Matters IV: Governance Indicators for 1996-2004," Vol .1 (Washington, DC: The World Bank, 2005).

Covering 209 countries over the period 1996-2004, the World Bank report draws on 352 different underlying variables measuring perceptions of a wide range of governance issues. These variables are assigned to one of six indicators: Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption.

Singapore ranks well in most categories—most notably, it is first for Government Effectiveness, which measures the competence of the bureaucracy and the quality of public service delivery. The list also highlights a number of small nations like Iceland and Finland that show exceptional performance, ranking above Singapore in areas like rule of law and corruption.

The World Bank Report is probably the closest accepted proxy for measuring governance. On one hand, the model claims robustness in using so many original indicators to increase the validity and reliability of the indices and effectively reducing the chances for systematic measurement error.

But the report also identifies specific methodological problems with the existing measurement. First, there are ill-defined or broad concepts and poorly-worded questions. Next the available indicators provide poor measures for some key governance issues. Finally, the tendency to aggregate measures by combining indicators from different sources does not enhance precision.

Furthermore, not all the indicators cover the whole global sample of countries, i.e. different indicators cover different groups of countries. Hence, the combined score on one dimension of good governance for country X will be comprised of a different set of initial indicators than the combined score for country Y.

Performance Measurement in Other Countries

Governments of developed countries like Canada, the UK, Australia and the US currently employ a range of performance measurement frameworks. They vary in scope and focus, but are generally intended to monitor progress in aspects of effectiveness, efficiency and governance.

To simplify performance reporting, many countries adopt a framework that organises multiple performance indicators under key strategic outcomes. The President's Annual Report in Canada is one such framework that tracks the country's performance under six key areas: Canada's Place in the World; Canada's Economy; Society, Culture and Democracy; Aboriginal Peoples; the Health of Canadians; and the Canadian Environment (see Table 1 on page 12).

Governments typically focus on effectiveness and efficiency. However some go further. For instance, the annual State of Service Report produced by the Australian Public Service Commission includes assessment of a broad range of issues like the promulgation and internalisation of public sector values, diversity in the Service and the relationship between the civil service and politicians.

The environment scan suggests that none of these countries explicitly align their performance indicators with international standards. Most prioritise indicators which matter most to the country and the electorate. However, given the already strong commonality between the western developed countries and international organisations, there is little fundamental divergence in their principles and understanding on governance.

Good governance must engage all stakeholders in a society, including the public sector, private sector, civil society and citizens in general.

Table 1: Canada's Performance, Annual Report to Parliament 2004⁸**1. Canada's Place in the World**

Government of Canada Outcome	Indicator
A Prosperous and Sovereign Canada in a Safe and Secure North America	Total Trade Perceptions of Security
A Canada Committed to Multilateral Cooperation	Trust in International Institutions
A Canada Committed to Peace, Human Development and Human Security	Official Development Assistance
A World where Canada has a Positive Influence and Profile	<i>Indicator under development</i>

2. Canada's Economy

Government of Canada Outcome	Indicator
An Innovative and Knowledge-based Economy	Innovation Educational Attainment Literacy
Income Security and Employment for Canadians	Employment Rate Income Security
A Secure and Fair Marketplace	Barriers to Entrepreneurship
Strong Regional Economic Growth	GDP per Capita

3. Society, Culture and Democracy

Government of Canada Outcome	Indicator
Diversity as a Fundamental Canadian Value	Attitudes Toward Diversity
Safe Communities	Safety
Caring Communities	Volunteerism
A Vibrant Canadian Culture and Heritage	Participation in Culture and Heritage Activities
Sustainable Cities and Communities	<i>Indicator under development</i>
An Informed and Engaged Canadian Public	Political participation

4. Aboriginal Peoples

Government of Canada Outcome	Indicator
Full Aboriginal Participation in Life-Long Learning	Educational Attainment
Strong Aboriginal Economic Self-Reliance	Employment Rate Median Income
Healthy Aboriginal Communities	Health Status Housing
Effective Democracy and a Strengthened Aboriginal Relationship with Canada	<i>Indicator under development</i>

5. The Health of Canadians

Government of Canada Outcome	Indicator
A Healthy Population	Life Expectancy Self-Rated Health Infant Mortality Healthy Lifestyles
A Strong Health Care System	Waiting Times Patient Satisfaction

6. The Canadian Environment

Government of Canada Outcome	Indicator
Canada's Environment is Protected and Restored from Pollution	Air Quality Water Quality
The Risk of Climate Change is Minimized	Climate Change
Canada has a Sustainable Approach to its Natural Resources and Healthy Ecosystems	Biodiversity Natural Resources Sustainability

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Conclusion

Good governance must engage all stakeholders in a society, including the public sector, private sector, civil society and citizens in general. Hence, an assessment of effective governance should not be limited to the perspective of the public service, but also capture the views of stakeholders in various sectors of society.

Further, a comprehensive approach must incorporate both domestic and external assessments. How other international organisations measure Singapore is a tool for us to assess our rankings and scores relative to our key regional and global competitors. This will cause us to reflect constantly on what makes Singapore successful in the eyes of the world, prevent our public sector from being too inward-looking and guard us against complacency. Therefore, despite the limitations of international measures, we need to monitor the KPIs that are relevant and useful for our evaluation, without choosing only those that are in our favour.

Lastly, we should also bear in mind that in developing KPIs for measurement, we do not end up with a “numbers game”, or an onerous and expensive monitoring and administration scheme that will sap energies and resources at the expense of other worthwhile public initiatives. ■