

PERFORMANCE MANAGEMENT: A TOOL FOR SUCCESS

I DU PLESSIS Hons. B. Com.

12077569

Mini-dissertation submitted in partial fulfilment of
the requirements for the degree M.Com in
Management Accounting at the North-West
University

Supervisor: Prof. SS Visser

2005

Potchefstroom

ACKNOWLEDGEMENTS

I hereby wish to express my sincere gratitude and appreciation towards the following persons for their assistance and support throughout this study:

My Heavenly Father who blessed me with the opportunity, wisdom and strength to complete this study, as well as with the capacity to reach my dreams and for surrounding me with supporting family and friends.

Professor S.S. Visser, my supervisor, for her guidance, support, encouragement and patience in the supervision of this study. I would not have been able to complete this study without her advice, time and interest. Thank you.

The personnel of the municipality, for their time and consideration given to the issues under review and for completing the questionnaires.

Louisemarié Combrink for the language editing of the mini-dissertation.

Mrs. E. Roodt from the Ferdinand Postma Library for her assistance with literature searches.

Mrs. Wilma Breitenbach of statistical consultations services for her help and advice on the questionnaire.

My parents, Duppie and Ronell du Plessis; thank you for your love and support. Thank you for believing in me and always being there for me. Thank you also for the financial support throughout my studies.

Johan, Amorie and Dawie for your motivation and understanding. Thank you for the encouragement and your loving support.

My family, colleagues and friends for their interest, encouragement and support.

Ephesians 1:3

Let us give thanks to the God and Father of our Lord Jesus Christ! For in our union with Christ he has blessed us by giving us every spiritual blessing in the heavenly world.

ABSTRACT

Section 38 of the Local Government: Municipal Systems Act (32/2000) states that a municipality should establish a performance management system that corresponds with its resources, circumstances as well as with the objectives, indicators and targets as stated in the municipality's integrated development plan. The Act further states that a culture of performance management should be promoted amongst all stakeholders and that municipalities' actions should be governed efficiently, effectively and economically.

Municipalities function without market competition, and therefore performance measurement can be used as a substitute for market pressures with a view to increasing a municipality's efficiency and effectiveness. This is necessary because at present, it seems as if local communities are questioning the accountability of their municipalities and its actions.

The primary objective of this research was to develop a performance management framework within a municipality and to make recommendations regarding an appropriate performance management system that managers can use to enable the municipality to be more economical, effective and efficient in its actions, and to increase its accountability towards the local community. To reach this primary objective, a number of secondary objectives were relevant.

The research was conducted at a local municipality A in the Western Cape with reference to the standards as set by the national treasury. The research comprised a literature study and an empirical survey using a questionnaire to establish the relevance of a performance management system. The empirical survey was further extended by means of unstructured interviews with the directors from the various directorates.

The results of the interviews and a study of the municipality's integrated development plan were used to develop a performance management framework for the municipality under review, and to assist the municipality with the implementation of a performance management system in line with current legislation. This will make the municipality more accountable towards its local community and will render its actions more transparent. Further recommendations were made such as the conceptualisation of performance management, best practices in local government, performance management models such as the balanced scorecard and the steps in developing a performance management plan.

UITTREKSEL

Seksie 38 van Wet (32/2000) met betrekking tot die Plaaslike Regering: Munisipale Stelsels verplig munisipaliteite om 'n prestasiebestuurstelsel te gebruik wat in lyn is met die munisipaliteit se hulpbronne en omstandighede asook die doelwitte, indikatore en mikpunte soos vervat in die geïntegreerde ontwikkelingsplan. Die wet verplig ook munisipaliteite om 'n kultuur van prestasiebestuur onder alle belanghebbendes te bevorder, en om te verseker dat aksies doeltreffend, doelmatig en ekonomies uitgevoer word.

Aangesien munisipaliteite sonder enige markverwante kompetisie funksioneer, kan prestasiebestuur aangewend word as plaasvervanger vir markdruk met die oog daarop om doeltreffendheid en doelmatigheid te verhoog. Dit is veral noodsaaklik aangesien plaaslike gemeenskappe tans blyk om die toerekenbaarheid van hul munisipaliteite en die aksies wat uitgevoer word, te bevraagteken.

Die primêre doelwit van hierdie navorsing was om 'n prestasiebestuursraamwerk vir 'n munisipaliteit te ontwikkel en om aanbevelings te maak aangaande 'n prestasiebestuurstelsel wat bestuurders kan gebruik om munisipaliteite meer doeltreffend, doelmatig en ekonomies te maak, en om die verantwoordbaarheid teenoor die plaaslike gemeenskap te verhoog. Om hierdie primêre doelwit te bereik is 'n aantal sekondêre doelwitte ter sprake.

Die navorsing is by 'n plaaslike munisipaliteit A in die Wes-Kaap uitgevoer, met verwysing na die standaard soos opgestel deur nasionale tesourie. Die navorsing het bestaan uit 'n literatuurstudie en 'n empiriese ondersoek deur middel van 'n vraelys om die toepaslikheid van 'n prestasiebestuurstelsel vas te stel. Die empiriese ondersoek is verder uitgebrei deur ongestruktureerde onderhoude met direkteure van die verskeie departemente.

Die resultaat van die onderhoude en 'n studie van die munisipaliteit se geïntegreerde ontwikkelingsplan is gebruik om 'n prestasiebestuursraamwerk vir die betrokke munisipaliteit saam te stel om sodoende die bestuur by te staan met die implementering van 'n prestasiebestuurstelsel soos vereis deur huidige wetgewing. Dit sal die munisipaliteit meer verantwoordbaar maak jeens die plaaslike gemeenskap en aksies sal ook meer deursigtig wees. Verdere aanbevelings is ook gemaak, soos die konseptualisering van prestasiebestuur en prestasiemeting, beste praktyke in plaaslike owerheid, prestasiebestuursmodelle soos die gebalanseerde telkaart, asook die stappe wat nodig is om 'n prestasiebestuur plan te ontwikkel.

LIST OF ABBREVIATIONS USED

ABC – Activity Based Costing
BARS – Behaviorally Anchored Rating Scales
BPR – Business Process Reengineering
BSC – Balanced Scorecard
CSF – Critical Success Factors
DPLG – Department Of Provincial and Local Government
EVA – Economic Value Added
GAAP – Generally Accepted Accounting Practices
GRS – Graphic Rating Scales
HR – Human resources
IDP – Integrated Development Plan
IT – Information Technology
KPI – Key Performance Indicators
KPA – Key Performance Areas
LED – Local Economic Development
MBO – Management by Objectives
MCE – Manufacturing Cycle Efficiency
MEC – Member of a Provincial Executive Council
MFMA – Municipal Finance Management Act
MVA – Market Value Added
PHC – Primary Health Care
PM – Performance Management
PMP – Performance Management/Measurement Plan
PMS – Performance Management/Measurement Systems
PPM – Process Parts-per-million
RI – Residual Income
ROI – Return on Investment
SWOT – Strengths; Weaknesses; Opportunities; Threats
TSR – Total Shareholder Return
UK – United Kingdom

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CHAPTER 1: INTRODUCTION AND PROBLEM STATEMENT

1.1 BACKGROUND AND CONTEXTUALISATION

As a result of changes in the legislation that regulates the affairs of municipalities, municipalities in South Africa are now compelled by the Municipal Systems Act (32/2000) to report on their performance. In order to report on performance, chief financial officers need to measure performance when budgets are prepared, as well as during the financial year. By the end of the financial year, they will need to confirm to what extent their targets have been met.

This fundamental aspect of the new local government system entails active engagement by communities in the affairs of those municipalities of which they are an integral part, and in particular with regards to planning, service delivery and performance management. Furthermore this new system requires efficient, effective and transparent local public administration that conforms to constitutional principles.

Chapter 6 (section 38) of the Local Government: Municipal Systems Act (32/2000) states the following concerning performance management:

A municipality must establish a performance management system that commensurate with its resources; is best suited to its circumstances; and in line with the priorities, objectives, indicators and targets contained in its IDP. The system must promote a culture of performance management among its political structures, political office bearers and councillors and in its administration and also administer its affairs in an economical, effective, efficient and accountable manner.

Section 39 – 49 of the Municipal Systems Act (32/2000) deals with the development of a performance management system; the monitoring and review of the performance management system; its core components; community involvement; general key performance indicators; notification of key performance indicators and performance targets; audit of performance measurements; annual reports; reports by MEC; reports by the minister, and regulations and guidelines.

It is therefore imperative that a performance management system should be established, maintained and audited. In order to measure performance, key performance indicators (KPI's) must be set. These KPI's must be measurable, relevant, objective and precise, and measurement must take place at least once a year.

The South African Local Government Association (SALGA) (2003:37) claims that performance management can contribute towards accomplishing a municipality's employment equity strategy in the following ways:

- The municipality can ensure that all levels of management take responsibility for meeting their employment equity objectives, by stating employment equity as a key objective for all the managers or supervisors.
- The individual learning plan must enhance the potential of employees to carry out higher level assignments. Thus, the plan must reflect tasks which are relevant to assist selected employees in their development towards senior positions.
- The objectives that are set for certain employees during the planning phase of the performance management cycle should expose them to more demanding and difficult tasks so that they will be able to occupy higher level positions when they are promoted.

Therefore, all municipalities in South Africa are required to develop a performance management system which entails that they need to develop a performance management plan, and also monitor, review and improve the plan, together with their citizens and communities.

1.2 MOTIVATION

Performance management is a result-orientated management form. It focuses on service, rather than on input. The objective of performance management is to manage more with less, thus it can be used to make municipalities more efficient and effective by relating the services that must be delivered to the effects that these services have in society, while at the same time cutting on expenses. Performance management does not only measure performance; rather, it is a new form of management (Trappenberg, 2004).

Since municipalities do not have rivals they can use performance measurement as an alternative to competition. Performance management is an ongoing communication process where the performance manager and the employee identify and describe essential job functions and relate these to the mission and objectives of the company. They then develop realistic and appropriate performance standards; provide and receive feedback about performance; communicate constructive performance appraisals; and plan education and development opportunities to sustain, improve or build on employee work performance. Performance management should be regarded as an ongoing process throughout the year, year by year (SALGA, 2003:7; Radnor & McGuire, 2004).

Performance management is a measurement and reporting system that provides information which can be used, to evaluate municipal services, by all stakeholders. Performance measures can be used

to ensure that municipalities deliver the best services at the most efficient cost. Management can use performance management to increase the organisation's overall performance by increasing their accountability, enhancing their productivity and by improving the budget processes which they follow. This will enable them to provide a quality service at a lower rate. (Burke, 2005:23; Ministry of municipal affairs and housing, 2003:4, 5).

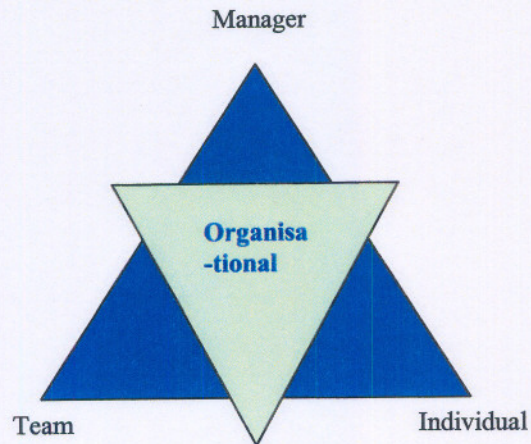
Performance management can assist managers in the development of effective organisational priorities and objectives. It will change the municipality's view and promote creativity and innovation. With the use of performance measures, the accountability towards taxpayers, council and other stakeholders will be improved, since they can be informed about the performance of a specific department, team or individual. With the use of performance management, municipalities can now use performance measures to make comparisons with other municipalities, which they consider to be similar to themselves (Ministry of municipal affairs and housing, 2003:16, 27).

The organisation's mission, objectives and targets can be cascaded down to the different departments' objectives and targets, from which every employee's objectives and targets can be cascaded. *A plan of action should be developed to help employees to achieve those targets.* Performance measurements assist managers and employees to set targets as well as to monitor and evaluate the performance on those targets. Clear, understandable and measurable targets will help and motivate employees to improve their performance; since they will know what is expected of them (Ministry of municipal affairs and housing, 2003:27).

Joubert and Noah (2000:18) assert that performance management is a formal management tool whereby human endeavour, capability and talent are controlled, guided, evaluated and awarded to complement the core values of a company's mission and vision. Strategic and business planning, budgeting, setting objectives for individuals and departments, and measurement are all integrated into a dynamic process.

Jones (1999:3) regards performance management as a goal-orientated or outcomes-based management approach with managers helping and motivating employees to reach their potential, thus assuring their best performance.

Figure 1.1: Organisational performance management



(Jones, 1999:3)

By means of performance management, an organisation can achieve a shared vision of the purpose and aims of that organisation. It is concerned with helping employees and project teams to achieve their objectives in order to contribute towards the goals of the organisation (Jones, 1999).

To implement performance management successfully, organisations need to have a clear picture of where they are going and what they want to achieve. This means that managers must communicate the purpose of the organisation, the strategy, the values they adhere to, and the standards of behaviour they expect from their employees. If an organisation is clear about these issues, it can easily communicate them to employees by means of its performance management system (Jones, 1999).

Barret (2005:34) points out that companies tend to view new laws as obstacles to overcome. They revert to short-term solutions which will not lead to potential future returns, but which will meet the requirements that the laws demand. Companies that make this mistake will not reap the rewards, despite incurring cost and expenditure in their efforts to comply.

Performance management entails the activity where performance is measured over a period of time against specific targets while looking for opportunities to improve. The purpose of performance management is to improve performance in critical areas by creating accountability to goals and objectives. Thus, performance management can be used to improve municipal services, through increased economy, efficiency and effectiveness in service delivery, and to hold the municipality accountable for the use of resources.

A performance management system will help a municipality's employees to understand their duties and purpose in contributing towards the strategic objectives of the municipality. Performance managers should use performance management as a tool to motivate a municipality's employees to achieve high standards in their own work, which will, in turn contribute towards the efficiency and effectiveness of that department, and thus also towards a more successful municipality as a whole (SALGA, 2003:4; Jansen, 2003:8).

Efficiency ensures that internal processes utilise resources to the fullest to meet the highest productivity expectations, while effectiveness ensures that the strategies and organisational priorities are translated into the expected results. Horngren *et al.* (2003:228) state that efficiency is the relative amount of inputs or effort used in order to reach a given level of output. The highest degree of efficiency is reached when minimum input produces maximum output. Effectiveness is the degree to which a previously set target is met. Covey (1994:54) states that: "true effectiveness is a function of...what is produced...and the producing asset or capacity to produce." Thus, economy is the ratio of input to cost, while efficiency is the ratio of output to input and effectiveness is the ratio of outcome to output (Moodley, 2003:15).

1.3 PROBLEM STATEMENT

From the contextualisation above, the following problem statement can be formulated: *Due to changes in legislation from the national treasury, a need has arisen for the adoption of a performance management system in Local Government organisations with a view to increase a municipality's efficiency and effectiveness. Municipalities also need to be more accountable towards their local communities and their actions need to be more transparent.*

1.4 OBJECTIVES

1.4.1 Primary objective

The primary objective of this study is to develop a successful performance management framework within a municipality and to make recommendations regarding an appropriate performance management system. To reach this primary objective, the following secondary objectives are relevant:

1.4.2 Secondary objectives

- (i) To conceptualise performance management and performance measurement by means of a literature survey, this will be addressed in chapter 2 on page 9.

- (ii) To discuss best practices within local government, as will be discussed in chapter 3 on page 36.
- (iii) To research performance management models as available in theory with specific reference to the balanced scorecard, this will be addressed in chapter 4 on page 50.
- (iv) To investigate the theoretical background regarding the different steps required to develop a performance management plan, as will be discussed in chapter 5 on page 76.
- (v) To determine the extent to which performance management systems are applied by means of an empirical survey, this will be addressed in chapter 6 on page 99.

1.5 HYPOTHESIS

Municipalities are not implementing performance management systems. Performance management can contribute towards the success and long-term survival of a municipality.

1.6 FIELD OF RESEARCH

This research will be conducted at a local municipality A in the Western Cape with reference to the standards as set by the national treasury. (The municipality's name is withheld for confidentiality reasons.)

1.7 METHOD OF RESEARCH

In order to reach the primary and secondary objectives as discussed in paragraph 1.4 on page 5, relevant literature on performance management will be reviewed and a questionnaire will be distributed to management and other employees of the municipality. A set of unstructured interviews will also be conducted with the directors from the various directorates in an attempt to validate and further explain the findings extracted from the literature.

1.7.1 Literature study

The literature study will be based on the research of literature on performance management and local government; this study will involve books, magazines and journals, internet articles, financial journals and the Municipal Systems Act on performance management. Information will be evaluated to reach a number of conclusions regarding performance management.

1.7.2 Empirical study

In accordance with the theoretical assumptions made in the first part of the study, 120 structured questionnaires (Appendix B on page 154) will be distributed to senior management and other employees from different levels within the municipality. Employees from different ages, genders and work history will be used in this research. A set of unstructured interviews will also be conducted with the directors of the municipality as well as with other personnel involved with performance management.

The questionnaires will be designed to motivate the respondent to provide the necessary information and responses will be handled with the strictest confidence. After the completed questionnaires have been processed and the interviews have been taken into account, final recommendations and conclusions will be drawn and these will be included in the study.

1.8 SCOPE

In Chapter 2, a theoretical framework of performance management as a system, as well as performance measurement will be provided, and the need to manage performance within local government will be emphasised. This will include critical success factors and key requirements which are necessary for performance management to be effective. The performance management cycle will also be discussed. The connection between the municipality's integrated development plan and the performance management system will be explained, and the advantages and disadvantages of a performance management system will be evaluated.

In Chapter 3, a theoretical consideration of benchmarking with performance management systems will be provided. The reasons for using benchmarking and the steps necessary to identify best practices will be explained. Different types of benchmarking will be defined and the benchmarking process will be discussed. Lastly, there will be an evaluation of benchmarking and the challenges, benefits and drawbacks of this process will be addressed.

In Chapter 4, certain performance management models that can be used will be discussed and the best model to be used within a municipal context will be described. The strategy will then be evaluated and the model will be developed. There will also be a more detailed theoretical discussion of the prescribed model as well as the challenges which may occur during the implementation phase. Different types of performance measures for service organisations will be tabled.

In Chapter 5, the different steps required to successfully develop and implement a performance management plan will be discussed. The components of the plan and the process of developing key performance indicators will be explained. The collection of information, the setting of targets, the processing, analysis and auditing of that information; and the reviewing of performance are different steps in the process.

In Chapter 6 the method and analysis of the empirical study will be provided. These entails that questionnaires will be distributed to employees from all levels, ages, races and so forth, and the responses will be evaluated and reported on by means of tables and diagrams. Different recommendations will also be made and the need for performance management will be confirmed.

Chapter 7 contains recommendations and conclusions on the performance management study within local government as well as recommendations for further study.

CHAPTER 2: PERFORMANCE MANAGEMENT AND PERFORMANCE MEASUREMENT IN THEORY

2.1 INTRODUCTION

The objective of this chapter is to conceptualise performance management and performance measurement, as stated in 1.4.2 (i), page 5. Performance management is the process where performance data is used in order to make managerial decisions with a view to improving the quality or effectiveness of an organisation and its outcomes. Managing change and setting the strategic direction for any organisation is generally a formal process. It entails the strategic use of performance measures and standards in order to establish performance targets and goals, to prioritise and allocate resources and to inform managers whether any changes are necessary to meet the specified goals. The performance management system should be integrated into the organisation's core operations. The vision and strategy of an organisation are the driving force for performance management, which comprises the regular use of performance standards, performance measures, reporting and quality improvement (Landrum & Baker, 2004).

Performance measurement can provide feedback on the efficiency and effectiveness of an organisation's strategic plans and their implementation. Reporting on an organisation's performance during the previous period is one of the fundamental uses of a performance measurement system. The focus of performance measurement has typically been on financial measures such as growths, profits and cash flows, but managers were concerned with the over-reliance on these measures in performance evaluation and are increasingly placing greater emphasis on forward-looking, non-financial measures such as satisfaction ratings and innovation. Performance measurement is the process of quantifying the operation of a process, programme or any other activity through which a public agency delivers products or services to its customers. Performance measurement is merely a tool, and performance measures will not automatically lead to improved performance (Chan, 2004).

Through the use of performance measures, one should be able to identify what the organisation is doing. Performance measures should be consistent with, and linked to a department's goals and objectives. Performance measures should, furthermore, measure the quality and outcomes of services provided rather than the resources used to accomplish that goal. Also, performance measures should be community 'friendly' and they should emphasize effectiveness regarding meeting customer expectations and the efficiency of service delivery.

Financial measures describe an organisation's previous or current performance with regard to operating efficiency, but do not necessarily reflect the organisation's effectiveness and potential in

achieving set objectives. Performance measures are the steering mechanisms that guide the organisation regarding the activities that are evaluated.

Simons (2000) declares that performance management systems can be classified into the following groups:

- *diagnostic control systems* such as budgets or profit plans;
- *interactive control systems* such as project management or profit planning;
- *boundary systems* such as methodical internal financial controls, and
- *belief systems* such as the audit of organisational vision and mission systems through employee surveys.

Renton (2000:43) states that managing performance actually means managing people. He further states that, if an organisation regards its employees as an important link in achieving the organisational strategy, then the management of their performance becomes a key element in the success of the organisation.

In supporting this view, Cushway (1994:93) talks of what he calls 'useful principles' to adhere to when managing performance. These can be summarised as follows:

- The performance management system should link with, and support the organisation's vision and objectives and it should relate closely to its strategic plan;
- Performance management must be in line with the organisation's corporate culture;
- Top management must be committed to the performance management process and it must be owned by line managers;
- Employees should be involved in the development of the performance management system and the training regarding the system. Regular discussions and proper communication of the system are necessary;
- The performance management system should be reviewed on a regular basis and changes must be made accordingly;
- The individual development aspect of performance management should be kept separate from reward considerations, and
- No financial rewards should be linked to performance until the system has been running effectively for some time and is generally accepted throughout the organisation.

2.2 PERFORMANCE MANAGEMENT AND PERFORMANCE MEASUREMENT

Without performance measurement, there cannot be performance management. Thus, measures are needed in order to be able to manage. Measurement is an important concept in performance

management. It is the basis for providing and generating feedback and it identifies areas where things are going well to provide a basis for improving on that success. Measures indicate the effectiveness of the organisation. Performance measures should be regarded as the basis of management systems, which communicate the strategy and align individuals and teams to the strategy (Motsomi, 2002:30).

Jansen (2003:65) defines performance management as the process where performance measurement information is used in order to assign and prioritise resources, to help develop performance targets, to warn managers when current policy or programme directions should change in order to meet the targets set, and to report on the success when these goals are met.

Ammons (2001:8) defines performance management as a means whereby employees are held accountable for their contribution to the operational and strategic goals of the company and where these contributions are measured impartially. Further objectives and needs are based upon the results of this information. The results must improve the quality of services rendered, encourage a culture of performance, and must be in line with members' needs and wants.

Managers should use performance management to establish a culture within the organisation where every employee assumes responsibility for achieving their own goals in order to improve and meet organisational objectives (Sewell, 2000:33).

Walters (1995:20) formulates some questions to express the goals of performance management:

- What are the objectives that we want to achieve over a certain period?
- How are objectives prioritised, and will these change in future?
- What kind of skills, styles and values are needed to achieve these objectives?
- What kind of assistance is needed from the different parts of the organisation?
- What strengths and weaknesses do we have to achieve this objectives, and what needs to change?

Performance measurement involves the determination of the extent to which objectives are achieved through the development of indicators and by linking these to targets and related standards. Performance measures should bring about changes in staff behaviours, changes in organisational culture, cost savings and service performance improvements. Measures must be clear, comprehensible, understandable, result-orientated, useful, valid, verifiable and accurate. The quality of performance measures is critical in establishing the credibility of measurement processes, and is therefore critical to the confidence local government officials may have in using measures to assess and evaluate programmes. Municipal performance measures will help to improve the quality

and the cost of local government activities (Ammons, 2001:15; Jansen, 2003:15; Motsomi, 2002:15; Trappenberg, 2004).

Performance measures are used to monitor strategic initiatives, to guide the budget process and to allocate resources that produce specific strategic results in order to produce a clear, organisational consciousness for accountability. Measures must be established that guide resource allocation and at the same time communicate the goals, objectives and effectiveness of a programme to the local community and all other stakeholders (Jansen, 2003:105).

Performance measures are very important as illustrated by Bredup, in Motsomi (2002:35). These include:

- *The effect of strategic plans.* The implementation of the organisation's strategic plans has to be monitored in order to be able to make the necessary corrections to ensure the achievement of the objectives that were set. The measurement should be an indication of where to act in order to provide the necessary information for effective decision-making.
- *The evaluation of performance.* Evaluation of individual and organisational performance is required to show where performance improvements are needed and to set new targets. The measurement system should be like an early warning system to warn managers if the targets are not going to be met and it should provide some corrective measures.
- *Motivation.* Measuring of progress towards organisational objectives is necessary to justify further effort in the improvement of progress. A continuous improvement process provides assessment for cost incurred and value for the organisation.

The objective of performance measurement is to monitor priorities as identified in the municipality's integrated development plan, which ultimately aims to increase the overall delivery standards of local authorities. The rationale behind this is to ensure that service delivery becomes increasingly more output-based, with the emphasis on increasing accountability of local authorities to the various needs of their communities. This expectation of the local community that all local government resources should be used efficiently in providing the highest level of public services, together with the fact that local authorities have the responsibility of ensuring that the programmes, as identified, meet their stated objectives (Jansen, 2003:102; Moodley, 2003:30).

Performance measurement is a tool that enables municipalities to track progress and direction toward strategic goals and objectives, which ultimately align with what was identified in the integrated development plan as needs and priorities agreed upon through the process of public participation.

Performance management, coupled with the municipality's integrated development plan, encourages councils to see that short-term solutions to redress financial backlogs create more financial and social disparities if there is no developmental planning for a better future (Jansen, 2003:71).

2.3 THE PERFORMANCE MANAGEMENT CYCLE

The performance management cycle comprises three phases with several components in each phase. The first phase is the contracting and planning of the organisation's performance management system. This planning and contracting will be conducted annually. The second phase, which must be conducted quarterly, is the monitoring of the systems progress and the last phase where actual performance will be evaluated will be done on a yearly basis. DPLG (2002:108-113) give a description of the different phases as follows:

Phase 1: Planning and contracting

Strategic plan: This plan consists of the strategic choices that the organisation made in order to be efficient and effective. The organisation's vision, strategic focus statement, strategic objectives and measures of success will all be stated in the plan.

Business plan: The business plan will be on the organisation's operational level and will describe how the organisation and its different departments plan to achieve the strategic objectives that have been set in the strategic plan. That plan will consist of specific actions that will be executed during the following year in order to achieve certain objectives.

Departmental business plan: Each department will have its own unique business plan. These plans will outline the areas of performance of each department, and will indicate the strategic objectives to which they will contribute. They will specify certain actions and how they will use the resources that are budgeted for.

Team delivery plans: These plans will be for a specific group of employees who will be working on a specific project and only for the duration of that project. Project teams must monitor their performance as well as those of individual members in these groups. Teamwork requires close relationships. The relationships that develop among team members drive performance levels, and the more effectively team members interact, the better the team will perform.

Individual performance plans: Every employee, regardless of the level, should have his or her own unique performance plan. Each employee's objectives should have a direct relation to the departmental objectives, which should have a direct relation to the organisational objectives. Included in these plans should be an analysis of the employee's skills for development purposes.

Phase 2: Monitoring progress

Self review: Each employee needs to review his or her own performance before performance evaluation takes place. This will help employees to take responsibility for their development. Employees should begin to develop a reflective framework in which they evaluate their own performance on an ongoing basis.

Management progress review: Feedback on performance should be shared between team leaders and employees. Informal reviews will enable team leaders and employees to provide feedback on a regular basis. Formal reviews should be held quarterly, and all the information shared should be documented. Changes in performance agreements must be discussed if necessary.

Customer review: Feedback from the community and other stakeholders should, where possible, be included in the review process. Feedback from customers will show organisational performance from a different perspective.

Phase 3: Evaluating performance

System maintenance and development: Managers and their teams which are responsible for the monitoring of the performance management system should collect data on the outcomes of performance evaluations, and they must ensure that consistency and equity apply in all cases.

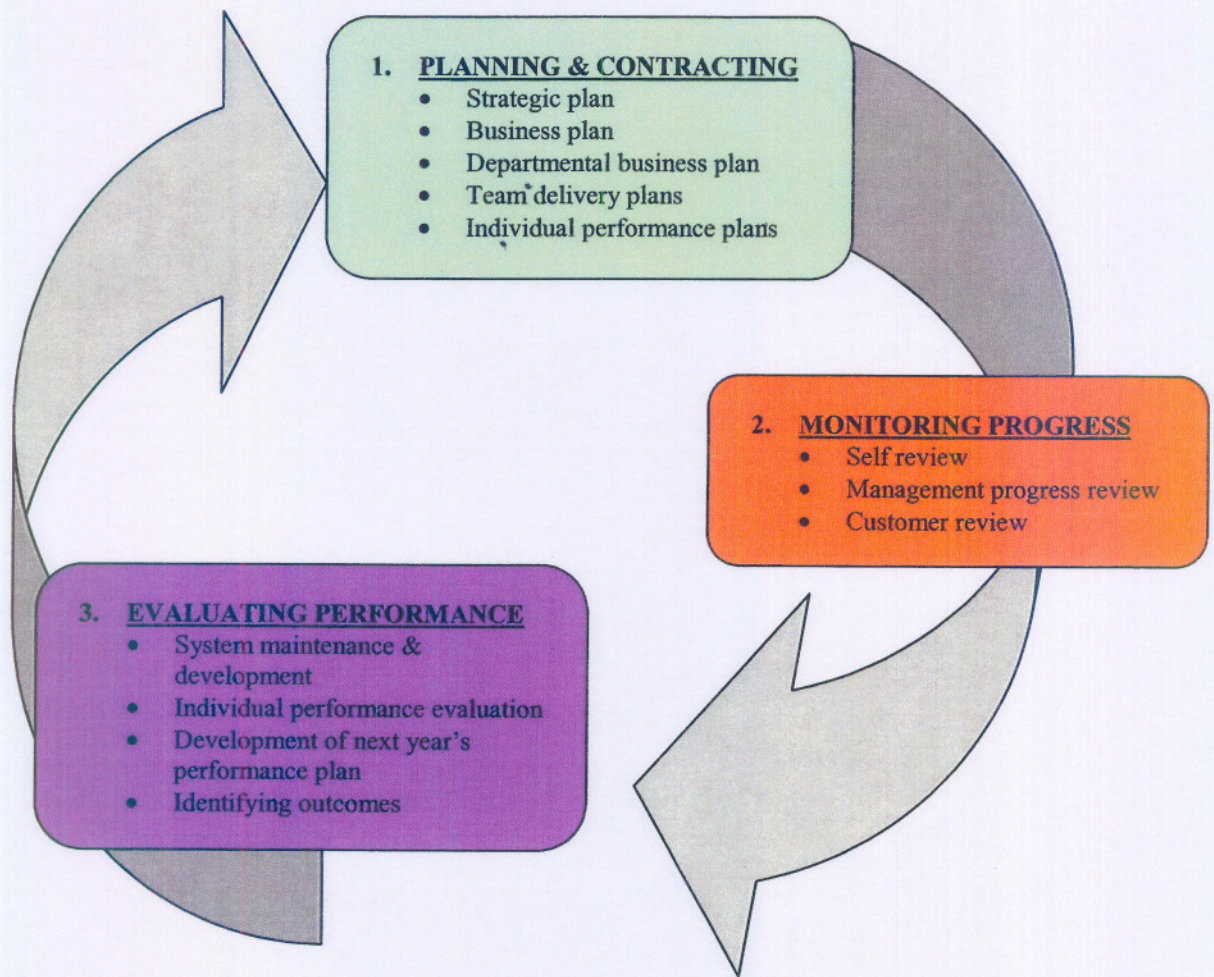
Individual performance evaluation: Performance evaluations are conducted for every employee to assess the performance level of a specific individual during the previous performance period. This evaluation should be done by the employee's supervisor, but other employees or representatives may also join in the process.

Development of next year's performance plan: As soon as the evaluation process has been completed, a performance plan for the next year must be developed. It can be a new plan or may simply entail some changes to the previous one. Developmental requirements and individual training needs for every employee must also be defined.

Identifying outcomes: Outcomes should be linked to the completion of each round of performance evaluation. Performance improvements are needed where employees require further training and development in certain areas. Outcomes in the form of recognition may be linked to remuneration or other non-financial rewards. Corrective action may be needed where a specific employee is performing poorly although he/she has had some training, and whose performance should have improved.

The performance management cycle can be presented as follows:

Figure 2.1: Performance management cycle



(Source: Own research)

2.4 FACTORS THAT ARE CRITICAL TO THE SUCCESS OF A PERFORMANCE MANAGEMENT SYSTEM

The following critical success factors (CSF) are recommended (Anon., 2004b) as a basis for the establishment of an effective performance management system:

- *Mirror your corporate culture and value:* Make sure that the culture, values and beliefs of the organisation are noticeable in the performance management system.
- *Design development and planning phase:* Senior managers should support the system, and management and employees should be directly involved with the development of the system. If employees are actively involved, they will have a clear understanding of the system.
- *Focus on the right company performance measures:* Managers must agree on the most important measures that are necessary to provide the organisation with a clear line of sight in achieving their objectives. Managers will use these measures to evaluate how the organisation is doing in achieving the objectives.
- *Link job descriptions to the performance management system:* Managers must ensure that the employees' job descriptions and necessary competencies are in line with the objectives of the performance plan. Employees should be aware of the link between their jobs and organisational goals.
- *Differentiate performance fairly and objectively:* Managers should remember that employees' performance levels will differ from each other and they should keep that in mind when assessing the competencies of their employees. The desired results will more likely be achieved when an organisation is fair and objective in the assessment of their employees' talents. Thorough assessment must be conducted in accordance with clearly defined standards of performance and/or in terms of comparative involvement.
- *Train managers in performance management:* Managers should be fully informed regarding the performance management process to ensure that they will participate in the planning phase of the system, and also to ensure that they will be able to manage performance according to the system.
- *Link compensation to the performance management system:* There should be a relationship between the evaluation of performance and rewards. Rewards in the form of salary increases or bonuses are great motivators for employees to perform.
- *Differentiate linkage to total rewards system:* For the rewards system to have an effect on employee performance, it is necessary for management to communicate the rewards system to employees. Employees should have a clear understanding of that system before it can be used as a motivator for performance.
- *Hold managers accountable for the communication process:* Managers will be operating as instructors or teachers to their employees, by showing the way in the ongoing communication

process and by demonstrating the desired behaviour to make the system work effectively and efficiently.

- *Set clear expectations for employee development:* The success of the performance management system will also depend on employee development. It is essential that employees are competent to perform their job. The organisation can have an employee development policy, which states that employees should have a minimum number of development hours per quarter/annum. Employee development can assume the form of formal training or education; projects; assignments; leadership opportunities and so forth.
- *Track effectiveness of performance management system:* Evaluation of the performance management system is necessary in order to track its effectiveness. Performance goal alignment should be confirmed at any phase during the performance management cycle. Furthermore the probability that certain targeted performance objectives will be met, should be calculated.
- *Adjust performance management system as required:* The system should be revisited at least once a year or after every performance period, in order to keep track of the changing strategies of the organisation. These changes should then be communicated to all the employees and they should have a clear understanding of their new performance requirements.

The secret to the success of any organisation is the involvement of all the employees in the organisation, as far as possible (Motsomi, 2002:28).

2.5 KEY REQUIREMENTS FOR AN EFFECTIVE PERFORMANCE MANAGEMENT SYSTEM

According to Renton (2000:44) there are twenty key requirements that are essential for an effective performance management system:

1. Line managers must own the performance management system and it must be driven from the top of the organisation.
2. Performance must be measured at all the organisational levels in a consistent way.
3. Managers must accept the need for a performance management process in their organisation.
4. Managers will need to have the necessary knowledge and skills to manage their employees.
5. The way that consequences and rewards are managed in the organisation reinforces this process in a consistent and positive manner.
6. There should not be any other management processes or policy in place that conflicts with the performance management processes.

7. The performance management process should be transparent and consistent, and managers should be able to defend it.
8. The job description of every employee should be defined in output terms without any gaps or overlaps.
9. Every team should develop measurable targets for the next performance period that will reflect their contribution to the implementation of the organisation's strategy.
10. The performance targets that have been set by the different teams should add value to the organisation and its processes, and these should be challenging but achievable.
11. Performance targets should be structured according to every individual's specific job.
12. If there are more than one team working on a target, managers should negotiate with each other and discuss the commitment of every team and team member.
13. Every team member sees the targets that they have personally accepted as contributing towards the team's targets which, in turn, will contribute to organisational targets.
14. Managers and employees should accept that their rewards reflect their achievement of the targets that they have accepted.
15. Managers should regularly review the individual and team performance with those concerned and take appropriate action, where necessary, to ensure that targets are reached or revised.
16. Managers, jointly with each of their team members, assess each other's performance for the full period under review.
17. Both manager and employee must accept and sign the employee's performance assessment as valid, balanced and fair.
18. The performance assessments for each unit should clearly state the more effective and less effective performers.
19. Consequences and rewards for every employee must be accepted as fairly reflecting the team's results and their own individual performance.
20. The effectiveness of the performance management system should be evaluated formally at least once a year and appropriate improvements should be made for the next performance evaluation period.

Sanderson (in Moodley, 2003:18) states that performance management within the local government context needs to move beyond managerial forms of responsibility which highlight control and observation. Then performance management can contribute towards:

- A municipalities' capability to solve multifaceted social and economical problems, where it seeks to capture the complications of certain quantitative and qualitative outcomes and aspects. There is also the need for performance management within local government to deal effectively with the equity effects of policies, procedures and service delivering.

- It can also contribute towards the development and improvement of 'learning authorities', where the municipalities will want to identify why and how successes and failures happen. Municipalities will also need feedback on the lessons learnt to work these into policies and management processes. That way they can encourage continuous improvement in service delivery to the public.

If individual employee performance were linked to strategic goals, there would be a coherent effort towards the performance of the organisation as a whole. Until performance can be directly related to the individual employee programmes and activities through which services are delivered, and on which decision-makers and directorate managers focus every day, the performance will be of little practical use. Once a relevant and appropriate model or a framework policy has been developed and agreed upon, individual employee performance should be linked to the strategic goals of the department. By linking the performance of each employee with the business plan, the goals of the department are translated into an action plan. Employees have an understanding of what is expected of them. They are also held accountable for those expectations. Performance management should be a process where staff is involved in the planning, assessing and improving of organisational achievement in relation to goals. This will be achieved through an organisational and management framework of processes for linking individual employee performance to organisational performance (Motsomi, 2002:25, 38).

2.6 FACTORS THAT PLAY A ROLE IN MANAGING THROUGH MEASURES

Managers used to be concerned with questions on their strategic success map and the type of measures that should be used. These days, they are concerned with how to manage with measures and how to use the information that they have collected (Franco & Bourne, 2003).

How can organisations guarantee that employees are using the data they have received to assist them in effective decision-making? The key is in the action where performance data are translated into understandable information for effective decision making. Different organisations use different approaches in the management of performance measures (Franco & Bourne, 2003).

Franco and Bourne (2003:700) set out the key aspects of the use of performance measurement systems as follows:

1. *Corporate culture:* The organisational culture should promote working in teams, employee ownership and the courage to take risks. The culture should also promote the use of a performance management system and it should motivate employees to constantly improve their skills, knowledge and work.

2. *Alignment:* There should be a link between the performance measures of the department and the organisation as a whole. There should also be a connection between employee's individual strategies and goals and the relationship between the tasks of the managers and the performance management system.
3. *Review and update:* Senior managers should review and update the PMS measures and strategy. There should be a focus on internal management and control aspects as well as on the use of measures to drive action for the enhancement and learning of employees, rather than controlling them. Action plans should also be developed to close the gaps between measures, and to review the progress on closing these gaps.
4. *Communication and reporting:* Performance measures should be communicated on a regular basis. Thus, managers will need to give timely and formal feedback to all the staff involved.
5. *Involvement of employees:* All the employees should be able to participate in the development of their performance measures and targets. This will improve their usage level of performance measures.
6. *Management understanding:* In order for managers to have a better understanding and acceptability of the PMS and its measures, there needs to be formal learning and teaching processes.
7. *Compensation link to the strategic performance measurement system:* There needs to be a relationship between performance measures and motivational rewards.
8. *Management leadership and commitment:* Measures and results are the responsibility of managers. Managers should provide support, leadership and commitment to their employees.
9. *Clear and balanced framework:* The PMS should consist of financial and non-financial performance measures. A balanced performance management framework will have six performance dimensions, namely financial performance, operating efficiency, customer satisfaction, employee performance or internal processes, innovation and improvement, and community or environmental issues.
10. *Agreement on strategy and success map:* It is important that senior management agree on the strategy as well as on measures for strategic success.
11. *Data processes and IT support:* For the collection of data as well as for the evaluation, interpretation and reporting on that data, there needs to be sufficient information technology infrastructure.
12. *Target setting:* Targets should be set for performance measures among the aspects that facilitate municipalities to manage their performance through performance measures.
13. *Budget link:* There should be a link between the PMS of the municipality and the budget setting process.

14. *Management support systems*: Managers can use management support systems, tools and processes to help them deal with measures.
15. *Industry and business*: For the selection and use of performance measures, the competency and the structure of the organisation's industry are essential.

Traditional cost-related performance measures such as cash flow, profit margin and return on investment are what many companies still rely on. The number and type of performance measures available still continue to grow, which makes the task of deciding which particular performance measure to use, more complex.

Osborne and Gaebler (quoted by Jansen, 2003:63), state the following regarding the measurement of performance:

“What gets measured gets done
If you don't measure results, you can't tell success from failure
If you can't see success, you can't reward it
If you can't reward success, you are probably rewarding failure
If you can't see success, you can't learn from it
If you can't recognize failure, you can't correct it
If you can demonstrate results, you can win public support.”

Measurements are more successful when they secure the input and ongoing support of supervisors and their employees. When managers understand and support the performance management systems, they will measure the right things fairly. Employees will resist the fact that their work can be measured because it has never been measured in the past. Performance managers should take care not to measure unimportant or unnecessary things, which may require a great deal of time or money, but do not mean anything in the end. The one who is doing the job and/or the community to which the services are rendered, should be involved in the assessment of meaningful performance measures. Managers who complain that they don't have enough employees and/or time and/or money to collect and analyse the necessary performance information on a regular basis, should understand the value of performance measurement as a quality management tool to improve their services, to make informed decisions on how to make better use of organisational resources (Ammons, 2001:19; Jansen, 2003:76; Blizzard, 2003).

2.7 FREQUENTLY USED PERFORMANCE MEASURES

Suitable performance measures will help management to adopt a long-term view and to assign the organisation's limited resources to the most appropriate improvement activities. Many

organisations are only using traditional cost-related performance measures such as return on investment, profit margin and cash flow. The performance measures that organisations should use will differ according to the type of organisation and the services that it provides (Tangen, 2003).

Tangen (2003) suggests the following regarding effective performance measures:

- The measurement process should be understood by those whose performance is being evaluated.
- Timely, relevant and accurate feedback on a short and long-term perspective should be supplied by the measures.
- To ensure that employee's behaviours are in line with organisational objectives, the measures must be developed from the strategic objectives.
- A limited number of financial and non-financial performance measures should be used.

Performance measurement is the process whereby action is quantified, and since each performance measure has its own strengths and weaknesses, managers should - instead of searching for a perfect performance measure (or set of measures) that is applicable to all situation -, use performance measures which are appropriate to a specific situation. Thus, they must decide on a performance measure which can quantify the efficiency and effectiveness of an action (Tangen, 2003).

2.7.1 Financial measures

Traditionally, the success of an organisation has been evaluated by means of financial measures (Tangen, 2003). Financial measures appear in several different forms and some of the frequently used financial measures are discussed below:

2.7.1.1 Return on investment (ROI)

ROI is a measurement that does not only focus on the size of a certain department's profit, but on the return that certain investments give. ROI measures a department's profit as a percentage of the assets employed in that department, and can be calculated as follows (Drury, 2004:844):

$$\text{ROI} = \text{Divisional profits before interest and tax} / \text{Capital employed}$$

Where capital employed = book value of net assets employed

or

$$\text{ROI} = \text{Net operating income} / \text{Average operating assets}$$

or, according to the Du Pont Perspective:

$$\text{ROI} = \text{Margin} \times \text{Turnover}$$

$$\text{Margin} = \text{Net operating income} / \text{sales}$$

$$\text{Turnover} = \text{Sales} / \text{Average operating assets}$$

According to Drury (2004:845) managers want to determine whether the return on a capital investment will exceed that department's opportunity cost of capital. ROI provides a useful estimate of a company's previous investment policy's success, by the provision of a summary measure. The measurement of returns on invested capital will focus managers' attention on the impact of the different levels of working capital on the ROI.

Managers prefer ROI, since the ratio can be used for inter-departmental comparisons as well as for comparisons with other companies, and it also presents all the ingredients (revenues, costs, investments) of profitability into a single percentage. The ROI can also be compared with the rate of return of opportunities inside or outside of the company.

The problem with ROI, however, emerges when the performance of departmental managers must be evaluated and the use of ROI to measure that will not encourage goal congruence (Drury, 2004:845).

For best results, the return on investment measure should be used in conjunction with other financial measures such as residual income (RI).

(Firer *et al.*, 2004:64; Garrison *et al.*, 2006:556; Scarlett, 2004:455; Horngren *et al.*, 2003:788-789)

2.7.1.2 Residual income (RI)

For the purpose of evaluating the performance of divisional managers, Drury (2004:846) defines residual income as: "controllable contribution less a cost of capital charge on the investment controllable by the **divisional manager**", but for the evaluation of the **economic performance** of a division, the residual income can be defined as: "divisional contribution less a cost of capital charge on the total investment in assets employed by the division."

Managers prefer RI over ROI since it is more flexible and different cost of capital percentages can be used to evaluate capital investments with different levels of risks. It can be calculated as follows:

RI = Income – (required rate of return x Investment)

- where **required rate of return = cost of capital rate of return**

- and **(required rate of return x Investment) = Imputed cost of the investment**

Horngren *et al.*, (2003:561) formulates the RI as follows:

$$\text{RI} = \text{Net operating income} - (\text{average operating assets} \times \text{minimum required rate of return})$$

With the use of residual income as a measure to evaluate the performance of divisional managers, goal congruence will be encouraged.

The problem with RI, however, is that it is an absolute measure and thus it will be difficult to compare the performance of departments with other departments' and companies' performance, if they are not the same sizes.

Botten and Sims (2004:395) indicate that when ROI or RI is used for departmental control, the following can be experienced:

- Geographical situation and the type of business will have a varied effect on investment costs and financial returns.
- The measures are not suitable for divisions in the early stages of the product cycle, and this leads to:
 - Additional measures of performance being necessary to shape the department's performance and strategy.
 - They will not invest in new products or processes, because current-year earnings will be reduced.
 - The encouragement of investment in old products, regardless of the lack of long-term future, because earnings can be raised in the short term.
 - Measures are backward-looking. The focus should be on the value that can be added in the future, when decisions on investment, disinvestments and evaluation of managerial performance are made.
- Departments with older assets may show, on account of depreciation effects, better financial performance than departments with newer assets.
- To increase ROI or RI, managers will reduce the capital assets of the company through depreciation.
- Conventions surrounding financial reporting distort them. There are many distortions:

- Profits are reduced by the treatment of promotion and training investments and these are thus avoided in the short run.
- Decision-making and comparisons are distorted by different bases of asset valuation between divisions.

(Garrison *et al.*, 2006:561; Kaplan & Atkinson, 1998:507; Scarlett, 2004:458)

2.7.1.3 Shareholder value

Residual income has been modified and renamed as economic value added. Drury (2004:848) propounds that: “The EVA™ concept extends the traditional RI measure by incorporating adjustments to the divisional financial performance measure for distortions introduced by GAAP.” It was developed with the purpose of producing an overall financial measure that will support managers in delivering shareholder value. Shareholder value is the increase in shareholders’ wealth as a consequence of investing in the company. It is an internal performance measure which assesses whether managers are increasing the shareholder value of their departments. Market value added (MVA) is an external measure, monitored by investors, of how much better off the shareholders are as a consequence of a manager’s performance. It can be calculated as follows:

$$\begin{aligned} \text{EVA} &= \text{Conventional divisional profit} \pm \text{accounting adjustments} - \text{cost of capital} \\ &\quad \text{charge on departmental assets} \\ &= \text{After tax operating income} - [\text{Weighted average cost of capital} \times (\text{total} \\ &\quad \text{assets} - \text{current liabilities})] \end{aligned}$$

$$\text{MVA} = \text{Rise in market capitalisation during period} - \text{Increase in capital invested during the period}$$

Botten and Sims (2004:402) state the problems of EVA and MVA as follows:

- The theoretical basis of the alterations seems to be quite subjective sometimes
- There is a need to make adjustments to the final accounts to get to the capital invested figure.
- Forecast profits are not taken into consideration, because the measures of earnings are limited to the current period.
- Firms of different sizes cannot be compared, since EVA and MVA are affected by the size of the firm.

- Share price will be impacted upon by the general market sentiment. That is why the MVA will not always track EVA in the suggested way.
- If important investors are convinced that MVA is a relevant way to look at investments, then the share price of firms who publicise the adoption of EVA measures will rise, as well as the MVA.
- The increase in shareholders' wealth from the dividends that they have received during the period is sometimes overlooked.

(Garrison *et al.*, 2006:562; Scarlett, 2004:459; Firer *et al.*, 2004:478; Van Heerden De Wet, 2004; Horngren *et al.*, 2003:790-791)

2.7.1.4 Other financial measures

- **Sales margin** = Sales revenue – Variable cost
This measure will provide the return on a specific product; it will show the effect of differently selling prices on a product; or the effect of different priced input on a product; and will help management to make the best decisions regarding the making or selling of a given product (Botten and Sims, 2004:391).
- **Controllable profit** = Sales revenue – (Divisional variable cost + Divisionally separable controllable fixed costs)
This measure can be used to measure the performance of a department, since it uses the principle of controllability that managers shall only be evaluated against performance targets over which they have an influence (Botten & Sims, 2004:391).
- **Contribution margin** = Sales revenue – (Divisional variable costs + Divisionally separable controllable and non-controllable fixed costs)
This measure calculates the contribution of a certain department to overhead recovery (Horngren *et al.*, 2003:63; Drury, 2004:271-272; Botten & Sims, 2004:391).
- **Total shareholder return (TSR)** = $\frac{[\text{dividend per share} + (\text{share price at period end} - \text{Original share price})]}{[\text{share price at the start of the period}]}$ x 100
TSR is the total percentage return to shareholders over a certain period. This is not, however, a measure of wealth creation, since it does not take the

amount of capital invested into the company during the period under review into account, and the measure is affected by market sentiment (Botten & Sims, 2004:403).

- **Shareholder value** = Corporate value – Debt

Where **corporate value** = present value of cash flows from its activities over the forecast period + any residual cash flows following the end of that period, such as from disposal of assets (Botten & Sims, 2004:392).

- **Net profit** = Revenues – expenses (Firer *et al.*, 2004:27).

- **Return on sales** = Operating income/Sales revenue

It is also called the income-to-revenue ratio (Horngren *et al.*, 2003:791).

- **Net income** = operating income + non-operating revenues(such as interest revenue) – non-operating costs(such as interest cost) – income taxes

Where: **operating income** = total revenues from operations – cost of goods sold and operating costs excluding income taxes (Horngren *et al.*, 2003:63).

- **Revenues** = inflows of assets (such as cash or accounts receivable) received for products or services provided to customers (Horngren *et al.*, 2003:40).

The problems with financial measures are that they ignore the amount of capital assets used by a department. They also cause excessive capital investments and managers can only measure a single period's performance with a financial profit-based measure.

2.7.2 Non-financial measures

Botten and Sims (2004:418) quote the six-dimensional performance matrix which was developed by Fitzgerald *et al.*, with financial and non-financial measures of performance.

The following non-financial performance measures are quoted from that performance matrix:

Table 2.1: Six-dimensional performance matrix: non-financial measures of performance

<u>Dimensions of performance</u>	<u>Types of measures</u>	<u>Measures</u>
Competitiveness	Relative market share and position Sales growth Measures of the customer base	Repeat business Number of customers
Quality of service	Reliability Responsiveness Aesthetics/appearance Cleanliness/tidiness Comfort Friendliness Communication Courtesy Competence	Product reliability Punctuality Dependability of service and staff Delivery speed Response times Number of phone lines Average time of phone call Appearance of staff Appearance and taste of foods Look of buildings Of staff Of premises Of goods Congestion Seating comfort Atmosphere Ambience Helpfulness of staff Attentiveness Intelligibility of information Clarity of signposting Clarity of staff-customer interaction Politeness Respect Propriety of staff towards customers Staff skill Expertise Knowledge

	<p>Access</p> <p>Availability</p> <p>Security</p>	<p>Thoroughness</p> <p>Walking distance</p> <p>Ease of finding way about</p> <p>Product availability</p> <p>Range of products</p> <p>Equipment availability</p> <p>Physical security</p> <p>Product safety</p> <p>Personal security</p>
Flexibility	<p>Volume flexibility</p> <p>Delivery speed flexibility</p> <p>Specification flexibility</p>	<p>Number of orders/customers lost due to failure to meet demand</p> <p>Percentage of service availability</p> <p>Mix of staff availability</p> <p>Amount of slack in schedule for rush jobs</p> <p>Customer waiting time</p> <p>Frequency of service</p> <p>Orders lost due to late delivery</p> <p>Customer/enquiry/job throughput time</p> <p>Number of different product/services delivered</p> <p>Skill mix of staff</p> <p>Level of investment in staff training and recruitment</p> <p>Customer order lost due to failure to accommodate specification</p> <p>Customer satisfaction with range and flexibility</p>
Resource utilisation	<p>Productivity</p> <p>Efficiency</p>	<p>Labour hours</p> <p>Percentage of slack or transit time</p> <p>Skill level of work performed by grade of staff</p> <p>Percentage of area used to serve customers</p> <p>Occupancy loading</p> <p>Input/Output ratios</p> <p>Cost per unit</p>
Innovation	Performance of the	Average development cost per service

	innovation process Performance of individual innovations	Development cost of individual service Percentage of turnover spent developing new services/products/processes How many new services developed per annum Five new services that are successful Concept to service launch time Concept to prototype launch time Prototype to launch time Time to adopt new concept from outside the firm
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In Botten and Sims (2004:418), developed by Fitzgerald *et al.*

2.8 THE INTEGRATED DEVELOPMENT PLAN (IDP) AND THE PERFORMANCE MANAGEMENT SYSTEM (PMS)

Municipalities are required to produce an integrated development plan (IDP) which has an integrated approach to the delivery of services, which focuses on the development of the communities they serve and which has a process or plan that shows how these objectives can be achieved (Sewell, 2000:123).

The IDP entails the assessment of the local community's needs, the identification of developmental outcomes that will address those needs, the prioritisation of services that will deliver those outcomes with limited resources, and good governance and public participation. In addition, it is essential that the process of the IDP is effectively managed, in order to ensure delivery on the strategic objectives. The IDP is at the centre of the concept of performance management for local government, as it is a discipline which entails an ongoing cycle of 3-5 years' strategic planning. Thus, the IDP is a developmental planning tool to assist municipalities to fulfil the developmental role that they need to play (Moodley, 2003:56; Sewell, 2000:123).

A municipality's integrated development plan identifies and states the needs of the local community as well as the vision, priorities, objectives and strategies necessary to achieve those objectives, in order to adhere to the needs of, and to develop the community as part of a long-term vision and plan. The local community should be involved and should have a say in both the content and the process by which their integrated development plan is drafted. The IDP should provide a framework to determine the budget of a municipality. A PMS describes and represents

the process of performance planning, monitoring, measurement, review and reporting of a municipality and its relevant role-players. The municipality's performance management system should be used as a strategy for the local community to evaluate and monitor the municipality's progress and performance towards its achievement of the objectives as stated in the IDP. The IDP and PMS are both strategic instruments and should be used as . The IDP should be an important tool for the implementation of cooperative governance in practice (Jansen, 2003:60).

Jansen (2003) provides guidelines on how a municipality can become an IDP-guided organisation and maximise performance:

- It should focus on developmental outputs in which the municipality engages, such as the alleviation of poverty, community and infrastructural projects and the promotion of investment.
- By employing a high level of developmental staff with appropriate qualifications and experience in development and project or programme management, the municipality would be more developmentally driven. Project managers should be identified and spatially distributed in the case of an amalgamated municipality. This ensures that products that will be *community-driven* will be sustainable.
- The financial, administration and technical departments in a municipality would primarily be responsible for the support of developmental functions.
- Mishandling of resources, brought about by political convictions, needs to be addressed.
- Coordination of activities and cooperation between the different departments in the municipality are necessary for the implementation of development projects. Mutual adjustment of priorities and coordination should be reviewed and monitored regularly. Key functions in the municipality should be investigated, as these can play a more effective guiding role in development programmes. Functions should be utilised to ensure that projects and programmes are IDP guided. The municipal manager should be constantly and efficiently informed about the progress of projects.

2.9 CHALLENGES FOR A PERFORMANCE MANAGEMENT SYSTEM

Rashied, as quoted by Jansen (2003:110) identifies the challenges for a PMS in a municipal context as follows:

- Priorities and targets should be set honestly by local authorities. Honest feedback and commitment to citizens will ensure this.
- Political vision and priorities should not be obstacles in the application of performance management; taking part in programmes that are pricy but have political issues is an example of this. Programmes should reflect the needs and expectations of the community.

- Managers should continuously be educated on performance management systems.
- For mutual understanding of a performance management system, all stakeholders need to cooperate.
- The true reflection of the integrity of local government will be to get the community involved in the performance management process.
- For managers to measure performance more accurately, geographical information and new financial management systems should be established.

According to Ammons (2001:18) some factors can constitute a drawback for the implementation of performance management. He states that several employees regard performance management as a threat to their status. Some employees may feel that it is the beginning of a process leading towards quicker work processes, tougher standards and that it may eventually lead to the lay-off of workers who cannot keep up the pace or are no longer needed in the organisation.

The most critical and frequently experienced challenges in the development, implementation and maintenance of performance management system within a municipality would probably be the organisational culture and performance information. The traditional organisational culture of local government is a significant obstacle to effective performance management. Performance management requires a fundamental change to the culture of a municipality, where measuring increases the accountability of services delivered and resources used. Thus, councillors must play a leading role in the municipality regarding the performance management system and they should ensure that it is implemented in such a way that it is useful to all stakeholders (Moodley, 2003:75).

Within a municipality there is often also a lack of useful management information. This information is needed by management for planning purposes as well as to manage their employees and resources successfully. Traditionally it is known that municipalities were either not collecting information about their community and municipal area, or they were collecting the wrong information. In most cases they also did not know how to analyse the collected information, and thus they could not use it. Most municipalities are a product of the amalgamation process in local government, where several municipalities were amalgamated into one, and the information that was collected by the different municipalities was not integrated into a single system.

2.10 BENEFITS OF A PERFORMANCE MANAGEMENT SYSTEM

According to Ammons (2001:11) a performance management system can offer support to several management functions. The list of functions is as follows:

- *Accountability*: All the employees of an organisation are held accountable for his/her actions and demand accountability from other employees within the organisation. With performance management they will know what was done by different departments, as well as how well the job was done, and what effect it had on the organisation. Thus, municipalities can use performance management as a tool to improve accountability to all its stakeholders, including the community.
- *Planning/Budgeting*: Organisations that have the capacity to plan and budget for the future of their local community are the ones who know what the required services are, as well as the condition of the facilities that provide that service. They also know what it will cost to provide a quality unit of that service.
- *Operational improvements*: Managers can use performance management to indicate possible problem areas at an early stage, as well as the effectiveness of actions taken to solve the problem.
- *Programme evaluation/performance appraisal*: Performance measures can be used to evaluate programme effectiveness. Some employee performance appraisals are based on individual performance relative to established measures.
- *Reallocation of resources*: If managers know how effective their programme is, they can make informed decisions with regard to the reallocation of resources, especially during times of financial difficulties.
- *Directing operations/Contract monitoring*: Performance measures can help managers to identify the strengths and weaknesses of the organisation and to give understandable feedback to employees.

Thus, with performance management, managers will always know what is happening in the organisation, how well employees are performing in their jobs and how the organisation is performing in providing a service.

Motsomi (2002:26) points out that the importance of performance management is summarised by the White Paper on human resource management as follows:

- Poor performance is recognised and enhanced.
- Employees are clear on what is expected of them.
- If the employees are not achieving their objectives as a result of poor performance, managers will notice.

This summary entails that the intention of performance management is to share information regarding achievements, and to offer support and direction to employees who need these to improve their performance.

If the performance management system is used effectively, it will contribute towards the success of the organisation, but managers need to be aware that performance management is a long-term commitment and needs constant nurturing to succeed and be sustained. Performance management systems which are developed with employee involvement are also more likely to be successful.

In the medium term, a national performance management system will be instituted to assess the overall state of the local government, to monitor the effectiveness of the development and delivering of services and to ensure that scarce resources are used efficiently (Sewell, 2000:49).

Thus, performance management aligns organisational processes and procedures with the targets and goals of that organisation and encourages a system-wide, long-term view of the organisation. It generates important measurements and focuses on results rather than behaviours and activities.

2.11 SUMMARY

Performance management therefore consists of an organised approach towards the management of employees. It uses performance targets, objectives, measures, responses and acknowledgment as a way of encouraging employees to recognise their highest potential and to develop the capability of the organisation towards achieving its objectives.

Performance management is a means of accomplishing improved results in the organisation, project teams and employees. To achieve enhanced delivery of products and/or services, performance must be managed within an approved plan of key performance areas (KPA), targeted objectives and key performance indicators (KPI).

Performance management is the general system used to enhance dedication and employee and organisational effectiveness, efficiency and economy. Performance management is an integrated approach which summarises a joint series of processes which form a logical plan for the accumulation of value and improved outputs.

Performance management is an uninterrupted procedure shared among managers and their employees. Employees should be sure about their priorities and how these fit into the KPA of the organisation and other project teams, what they should be aiming for and how well they add to both departmental and organisational performance. Performance management systems develop from open, optimistic and productive discussions between managers, employees and project teams.

Performance management will provide feedback to managers regarding which techniques and strategies are working and which aren't, and it will help to motivate employees to sustain their

efforts. It also ensures the alignment of employees' actions with organisational goals and objectives, and it is regarded as a tool to measure the desired outcomes of identified programmes and to redesign certain business processes if targets will not be met. Performance management is thus a process that will affect the municipality's success by forcing managers and employees to work together to achieve expectations, review results and reward performance (Sefala, 2003:13; Jansen, 2003:4).

A performance management system consists of both financial and non-financial measures which are used to measure organisational, departmental or individual employee performance. Traditionally organisations were primarily just relying on financial measures, but that don't give a true reflection of the performance that are being measured, and thus, non-financial measures are also taken into account during performance evaluations.

CHAPTER 3: BEST PRACTICES WITHIN LOCAL GOVERNMENT

3.1 INTRODUCTION

Best practice in a municipal context should address any activity that has a significant impact on the external community of that municipality and is an activity that is resource-intensive. Du Plessis (2005:40) defines best practice as a selection of actions and processes to incorporate efficiency and increase the delivering of services that are rendered to the local community as well as reporting to different stakeholders. These actions and processes are implemented by a municipality. Objective 1.4.2 (ii) on page 6 will be addressed in this chapter, with reference to best practices in a municipality context.

According to Keehley *et al.* (1997:39) the process of measuring and comparing in order to identify ways of achieving higher performance and improving processes, is commonly known as benchmarking. The authors also state (1997:42) that it is a process that helps agencies to find benchmarks (high performance levels) in other companies; to learn how they are achieving those levels, so that the process or practice producing the performance can be applied in one's own agency.

Managers can use the tool of benchmarking to monitor and control the productivity and quality of the services delivered by a municipality. The focus is on internal and external stakeholders. Managers can also benefit from benchmarking as it aims at improving municipal performance in terms of competitive and strategic advantage, as well as in public sector organisations, in order to achieve best value (Magd & Curry, 2003).

Weller (1996) sees benchmarking as a powerful tool for quality improvement. For effective management of the transformation of public-sector organisations into public-sector organisations of quality, benchmarking is a most useful concept. It can be used in a number of sector-specific factors such as the need to achieve more with the same or fewer resources, a need to cut costs, a desire to improve the quality of service, in preparing for competitive tendering and to assist changing behaviour or culture.

According to Botten and Sims (2004:85) benchmarking is: "the establishment, through data gathering, of targets and comparators, through whose use of relative levels of performance (and particularly areas of underperformance) can be identified."

According to Liddle (1999) best value involves the revision of the service that is currently provided, the development of a corporate plan for the company, and using consultation and

performance measurement, as well as the development delivery of a plan of action (performance improvement plan) for improving future service provision.

According to Camp (1989) the pro-active process to achieve superior performance by changing operations in a structured way, is called benchmarking. By forcing functions to investigate best practices of external industry and incorporating those practices into their operations, the benefits of benchmarking can be reaped. This leads to high asset utilisation businesses, which meet the needs of customers and have a competitive advantage.

Holloway *et al.*, (1999:53) state that benchmarking is the pursuit of organisations to enhance performance by learning from the successful practices of others. It is an ongoing process of monitoring performance, adjusting key internal processes, making new comparisons with current best performers and examining further changes. When information about these key processes is obtained through a co-operative partnership with specific organisations, there is an expectation of mutual benefit over a period of time.

Drury (2004:965) states that benchmarking is the process where a company compares its key activities with those of world-class best practices, with the objective of determining how the activity can be improved and to ensure that the improvements are implemented. Companies which benchmark save time and money, since they avoid making the same mistakes that other companies have made.

3.2 WHY BENCHMARK?

Fischer (1994) identifies three reasons why public sector organisations should benchmark, namely the identification of the criteria at the basis of performance that are used to make comparisons, the problem areas that may exist in certain services, and improving on or solving the problems that exist in those services, by using best practices.

Keehley *et al.* (1997:44) argues that a variety of reasons exists why benchmarking is important to public-sector organisations.

- They state that benchmarking works.
- Other organisations have already started off and it makes sense to build on work already done by others.
- That recognition is likely to follow.
- That one cannot afford not to, as it leads to co-operation;
- That taxpayers are considered to be customers.

Botten and Sims (2004:86) state that the use of benchmarking is to help managers to compare the performance of their companies with their competitors and with other companies involved with the same type of operations, and also to ascertain how well key functions of their own firms are carried out.

Benchmarking is not only concerned with measures of business or product performance, but also with measures of business processes. The nature and effectiveness of benchmarking is based on what is getting benchmarked and whom to benchmark against. The most important aspect of benchmarking is to identify correctly what should be benchmarked. Adam and Van de Water (1995) offer some questions that should help to identify this:

- What are the critical factors such as innovation, involvement of its customers and marketing time, which contribute to the success of the organisation?
- Which processes are causing the most trouble?
- Which pressures experienced from competition, for example. product performance, low prices, terms of sale and flexibility, have the greatest impact on the company?
- Which functions or processes have the greatest potential to contribute to our company being different from the competition?
- To which processes or functions in the company can customer satisfaction be ascribed, and which do not satisfy expectations?

Thus, benchmarking can provide a means for the identification of practices which should be adopted and the ideas which can be adapted to meet the current needs of local government services.

3.3 IDENTIFICATION OF BEST PRACTICES

Keehley *et al.* (1997:26) formulate these criteria for defining best practices:

- A best practice that has some positive outcomes, but also limited quantifying results, can be regarded as a best practice;
- Its results must be quantifiable;
- Its success must be measurable through timeliness, output, outcome, error rates, effectiveness and efficiency;
- The best practice should be viewed as innovative and creative by employees working with it;
- The development and advantages of best practice must be known, and other departments and companies must be able to adopt it;

- The best practice should have shown itself to be successful over a period of time, for instance a period of six months to establish a track record. Sometimes, however, the company may be pressed for time and cannot wait for the practice to prove itself;
- It should be important to the people who are affected by its implementation – the local community;
- Best practice should be transferable to different organisations and should not be linked to unique demographics.

Botten and Sims (2004: 86) describe four types of benchmarking as follows:

1. *Internal benchmarking*: where the operations of different departments within the same company are compared;
2. *Functional benchmarking*: internal functions are benchmarked against the best external practitioners of those functions, regardless of the industry;
3. *Competitive benchmarking*: information about a company's direct competitors is gathered and used, and
4. *Strategic benchmarking*: This type of benchmarking is aimed at strategic action and organisational change.

Ogden and Wilson (2002) provide the following four types of benchmarking with their characteristics and benefits:

Table 3.1: Types of benchmarking

<u>Type of benchmarking</u>	<u>Characteristics</u>	<u>Application and benefits</u>
Data	Numerical comparisons of performance in key areas. Benchmarking may relate to operating costs, quality, customer satisfaction, participation rates, staff turnover levels, etc.	Identify performance gaps. League table comparisons of key performance indicators. Problems of comparability.
Process	Comparison and measurement of a specific process against a similar process in one's own or another organisation. Processes may include core or customer facing processes, management processes, and support processes.	Highlights the causes of differences in performance. Generates ideas on how to improve one's processes. Choice of partner(s) – public sector or private sector? Same sector or across sector? Benchmarking of generic processes with organisations in different sectors may trigger a radical improvement in

		the design of the process as opposed to incremental change.
Functional	Comparing the structure and performance of an entire function in the organisation with a comparable function elsewhere.	Review alternative approaches to providing a function as part of an option appraisal review.
Strategic	Compare strategic approaches or initiatives across organisations, e.g. IT strategy or strategy for community participation in leisure.	Can only be applied where strategic goals are comparable.

(Ogden & Wilson, 2002)

Thus, best practices are those methodologies and processes that a municipality can use in order to guarantee that its actions are economical, efficient and effective. A municipality that makes use of best practices can rest assured in the knowledge that there are satisfactory internal controls in place.

3.4 A REVIEW OF PERFORMANCE MANAGEMENT SYSTEMS

According to Eagle (2004), the City of Charlotte is known for setting the standards of performance management systems in local government and is characterised by continuous improvement. The city's mission was to be more result-orientated, decentralised, competitive and innovative and to focus more on customers. The city was the first municipality to develop a balanced scorecard, namely their corporate scorecard, as a tool to provide data on efficiency and effectiveness and to be more mission-driven. They used their strategic plan as basis for the scorecard which consists of objectives that link their focus areas, council's priorities as well as the key business units. This corporate scorecard was integrated into all levels within the municipality and proved to be useful for defining strategic targets and to promote the necessary cooperation to achieve their strategic plan. The City's business units' activities are now in line with the council's priorities.

The City of Charlotte's corporate objectives are as follows: (Eagle, 2004)

Serve the customer (Customer perspective):

- Reduce crime
- Safeguard the environment
- Increase perception of safety
- Promote economic opportunity
- Strengthen neighbourhoods

Run the business (Internal business process perspective):

- Develop collaborative solutions

- Enhance customer service
- Improve technology efficiencies

Manage resources (Financial perspective):

- Maintain rating of excellence
- Invest in infrastructure
- Deliver competitive services
- Expand tax base and revenues

Develop employees (Learning and growth perspective):

- Achieve positive employee climate
- Promote learning and growth
- Recruit and retain skilled, diverse workforce

Eagle (2004) further states that the three keys for a balanced scorecard to work in a government setting are that the strategy must be supported by all levels within the organisation; the strategy must be put into action and the strategy must be communicated.

The department of defense (2001) state in their strategic plan that to be competitive in an unstable and changing economy they must develop and improve their business practices. They chose to develop and improve their business practices by means of a corporate balanced scorecard. The department of defense developed a balanced scorecard that help all employees to understand the relationship of performance, highlight the importance of a strong strategy, and express the indicators of success throughout the department. Their corporate balanced scorecard can be presented as follows:

CUSTOMER

Improve client/customer satisfaction

- Client/customer satisfaction
- Performance contract objectives met
- Specific billing rates

FINANCIAL

Reduce cost to client/customer

- Total cost

Expand the use of competitive sourcing

- Competitive sourcing performance
- Total workforce ratio

INTERNAL BUSINESS PROCESSES

Improve and leverage quality

- Quality index
- Rework identified
- Rework eliminated
- Best business practices adopted

Encourage innovation

- New products or services delivered

Deliver system solutions

- System milestones achieved

GROWTH & LEARNING

Enhance employee competence

- Employees in developmental assignments

Increase employee satisfaction

- Employee satisfaction

Enhance ability to recruit and retain talent

- Core competency profile

Develop a climate for action

- Climate for action

3.5 THE BENCHMARKING PROCESS

Camp (1989) suggests the following five stages in the benchmarking process:

1. *Planning*: Decide on what to benchmark and whom to benchmark against;
2. *Analysis*: Determine the performance gap. A performance gap is the gap or difference between the desired performance outcomes and the actual performance outcomes.
3. *Integration*: Link the performance gap with organisational goals;
4. *Action*: Improve the business processes and
5. *Maturity*: Make best practices part of the everyday business procedures.

Keehley *et al.* (1997:52) describe the steps involved in the benchmarking process as follows:

1. Determine the project's scope and purpose. The organisation will also need to set some boundaries on things such as time, expenses, number of benchmarks, and so forth.
2. Analyse the organisation's internal business processes in order to establish an understanding of the organisation.

3. Do some research on potential partners.
4. Choose a set of performance measurements for the chosen process or function.
5. Collect the necessary information and measure current performance.
6. Collect the necessary information from partner organisations.
7. Conduct a gap analysis.
8. Import practices from others and change these according to the organisation in order to close gaps.
9. Monitor results to identify whether the gaps are closing.
10. "Recalibrate on the basis of findings."
11. Repeat the steps in order to improve on the previous exercise.

Bruder and Gray (1994) provide a checklist for benchmarking in the private sector:

- Decide where the greatest need for benchmarking exists within the functional areas of the organisation;
- For each function, choose best-in-class companies;
- Measure their performance for each function that is benchmarked;
- Measure the performance of the organisation for each benchmark, compare it to the best-in-class and identify gaps;
- Track costs, efficiency and quality for the selected functions by identifying key performance measures;
- Select programmes and specify actions in order to close existing gaps, and
- Implement the agenda and monitor the results.

Botten and Sims (2004:86) provide the stages for setting up a programme of benchmarking. They are as follows:

1. *Ensure the commitment of senior management to the benchmarking project.* It is of the utmost importance that the benchmarking project should be endorsed publicly and unequivocally by senior management. This will ensure managers' co-operation and commitment to the programme. Senior managers should be informed of the aims and benefits of benchmarking; the costs to be incurred; the possibility of making sensitive data known to outside companies; the long-term nature of these programmes and the possibility that improvement in business will take time to accomplish.
2. *Decide on the activities and processes to be benchmarked.* The outcomes which drive the profits, the sales and the costs of the business should be identified, in order for the process to work properly. Factors that need consideration are:
 - Processes which customers have complained about;

- Activities which would incur the greatest costs, and
 - Processes which are advantageous for the competitiveness of the company.
3. *Understanding the processes and developing suitable measures.* Three types of activities are involved in mapping this process, namely:
 - Observation of the process;
 - Discussions with important stakeholders on the process, and
 - Experimental approaches that involve measures to force mistakes or to make adjustments in order to understand which way it works better.
 4. *Monitor the measurement system of the process.* There are two aspects that explain why the measures will need time to bed down:
 - The necessity to ascertain that the measures themselves are reliable, and
 - The necessity for the information systems to become reliable.
 5. *Select suitable organisations to benchmark against.* Four sources of data can be compared:
 - Competitive benchmarking, where performance is compared with that of rival firms;
 - Process benchmarking, where the company may share common operations with non-competitive external organisations
 - Internal benchmarking. These are other branches within the same company.
 - Generic benchmarking, where benchmarking is conducted against a process that is similar in concept.
 6. *Obtain and analyse data.* Information should be gathered and analysed into results.
 7. *Discuss results with process management and staff.* Benchmarking is an opportunity to do better. It is not supposed to be a process where blame for poor organisational improvement is put on specific people. Careful consideration should be given to performance which is not up to standard. Both management and staff should be involved in finding ways forward. Issues to take note of here are differences in factor abilities in the operating environment and in product or customer mix.
 8. *Develop and implement improvement programmes.* Benchmarking cannot improve relative process performance, it can only monitor performance. Managers must look for ways to improve things when they realise that there are serious shortcomings in certain processes. This can include:
 - Going to the best-in-class to see how they do things;
 - Training both management and staff;

- Restructuring the organisation;
- Outsourcing;
- Re-designing the product;
- Work studies and process-enhancement programmes, and
- Improved information and production processes and investment of capital in research and development.

9. *Monitor results.* The success of benchmarking companies' improvement strategies needs to be monitored. Benchmarking is not a once-off process by nature; rather, it is one of continuous improvement. The company should try to find someone better to benchmark against, once best-in-class under a certain criterion has been attained. If a company were to stop moving forward, this would give rival firms the opportunity to catch up.

From the above, the conclusion can be made that for a benchmarking process to be successful, management need to buy into the process and a suitable organisation need to be selected to benchmark against.

Thus, when managers want to benchmark they should evaluate their customers, their products/services and the processes which they follow. They should assess what their customers is expecting of the products/services that they provide. How the products/services of competitors are performing as well as the processes which they follow and its performance.

They should then identify which company's performance is the best at that process and assess the following:

- Which process is followed by the company and what is their performance goal?
- What makes this process perform and how is the performance measured?
- How well does the other company's process perform over time and at different situations?
- Whether there are any factors that can slow down the integration of the other company's process into their own firm.
- Will they be able to improve their own process by the knowledge gained from that process?
- Before the other process can be integrated into their own firm, are there any activities that need to be corrected?

Managers should then determine whether a performance gap exists between that of the other company and their own process, and then assess the nature and the importance of the gap.

They should also determine which superior qualities the other process may have that distinguish it from theirs, and how such qualities can be integrated into their own process.

Ammons (2001:7) states that in evaluating municipal operations, a valuable step is to compare local performance statistics with selected benchmarks. There is, however, a difference between fully-fledged corporate-style benchmarks and simple comparisons. Corporate style benchmarks involve the analysis of performance gaps between best-in-class performers and one's own company; it also identifies the process differences responsible for the gap and the adaptation or modification of key processes for integrating into one's own company in attempting to close the gap.

3.6 BENEFITS OF BENCHMARKING

McAdam and O'Neill (2002) identifies the following advantages of benchmarking:

- Service can be improved by learning from others;
- It is a recognised process, therefore it has high credibility;
- Benchmarking can change the way of working;
- One has to know where one is before one can improve;
- It is an essential element for an organisation wishing to consider a quality-driven approach, and
- It may help to meet the goals of business plans.

Du Plessis (2005:43) proposes that the benefits of using best practices are as follows:

1. Best practices *enhance strategic decision-making* by linking costs more accurately with the activities and processes that cause that costs.
2. It helps to *reduce the operating budget* by increasing efficiency and effectiveness and by simplifying the delivering of services.
3. The level of performance and *costs can be compared* internally, between departments, as well as externally, with other municipalities. This comparison of costs will enhance decision-making and efficiency.
4. It will enhance the municipality's ability to enter into the market to achieve good credit ratings. These good credit ratings will contribute to the *raising of long-term borrowing* and increase the chances of *issuing municipal bonds*.

According to Botten and Sims (2004:90) the main benefits of benchmarking are:

1. That it contributes towards improved performance in organisations, thus:
 - Increasing customer satisfaction
 - Reducing waste and cost on account of poor quality
 - Reducing overheads by simplifying business
 - Transmitting best practice between divisions

2. It can lead to changes in the organisation of a company by overcoming complacency
3. It provides a way in which the conduct of competitor strategy can be monitored
4. It enhances management's comprehension of the processes that add value to a business
5. It gives timely warning of the declining position of competitors.

3.7 CHALLENGES AND DRAWBACKS OF BENCHMARKING

- Organisations search for a best practice in the world instead of searching for it at similar organisations or for similar processes;
- Organisations can alter their figures to look good to other organisations and there may be an over-reliance on statistics;
- Best practices in the public sector are a relatively new concept and thus organisations have a lack of information and experience, apart from the fact that they are also lacking the right people and money to conduct benchmarking activities;
- Qualitative measures are usually ignored in favour of quantitative measures;
- Organisations should take care to identify the scope of the selected practice correctly;
- Another major challenge for any organisation which is preparing for benchmarking activities is the identification of potential barriers;
- The process is time-consuming, and
- The organisation should focus on the benchmarking process alone and should be careful not to focus on too many processes at the same time (Keehley *et al*, 1997:52).

Botten and Sims (2004:90) mention some disadvantages or drawbacks of benchmarking:

1. It may lead to the overloading of successful benchmarking companies, if less-able firms, from whom little can be learned, should ask for information.
2. If managers are compared with rivals who have better resources, it may lead to reduced motivation.
3. It increases the variety of information that management has to monitor, which may lead to information overload.
4. It may discourage managers to develop new lines of business, as benchmarking encourages them to focus on increasing the efficiency of their existing business.
5. Benchmarking may compromise the confidentiality of information.

According to McAdam and O'Neill (2002) the challenge to local authorities with regard to delivery of services under the principles of best value, is to deliver a standard of service not less than that of the private sector. Best practice, as shown by key service quality measures, must be identified and implemented by local government service providers.

3.8 BENCHMARKING AND EVALUATION

Sewell (2000:64) provides a summary of the performance benchmarking, evaluation and strategic management in a public sector seminar, and highlights the following issues:

Process benchmarking and results benchmarking are the two main types of performance benchmarking which are seen as corresponding methods to be used in conjunction with each other. Results benchmarking can help to identify inconsistencies in results (for example, when one service uses more resources than another) while process benchmarking can help to explain why there are inconsistencies.

Benchmarking is a good starting point to begin the analyses of why there are gaps and inconsistencies over results, but as a diagnostic tool it is not that effective to help with the decision regarding how to deal with those results. There is no direct link between the results of benchmarking and resource allocation decisions. It may be felt that the figures should not speak for themselves. Giving more resources to the best performing departments or organisations may widen the gap between these and poorer performing organisations without addressing the real performance issues (Sewell, 2000:64).

Some benchmarking models are too inward-looking, because they focus mainly on the improvement of the performance of an organisation, without taking the customer's opinion into account. One way of avoiding such potential problems can be illustrated by a project to benchmark local authorities. Consultations with community organisations were used to set the output benchmarks and then linked these benchmarks with internal performance priorities (Sewell, 2000:64).

3.9 SUMMARY

Benchmarking is a tool that can be used by organisations to improve their performance. The benchmarking process itself also needs to be improved on a continuous basis. As the organisation gains experience and changes, some of the steps and activities will also need to be changed or eliminated from the process, or new activities may need to be added. In order for benchmarking to be successful in public sector organisations, it is important that they must have a commitment to continuous improvement, a need to know the organisation's own processes before seeking to change it, a desire to learn from the best, and a full commitment to accomplish quantifiable improvement. Municipalities will also need to have a supportive management team, access to other organisations who have solved the problem, and a knowledgeable benchmarking team who is capable of solving any identified problems (McAdam & O'Neill, 2002; Magd & Curry, 2003).

According to McAdam and O'Neill (2002) benchmarking in the public sector in particular is often placed on the same level with locating one's company in a league table of some prescribed performance indicators – a focus not on the processes which drive results, but on the results themselves. This approach to benchmarking has been developed only to an introductory stage, and as such has great limitations. If nothing is done to improve performance that is not up to standard, the use of comparative statistics to see where performance could be improved is informative, but of no value. The organisational learning that results from benchmarkers exchanging ideas about practices and their improvement is what really matters.

CHAPTER 4: PERFORMANCE MANAGEMENT MODELS

4.1 INTRODUCTION

The legal prescriptions from the national treasury on the implementation of performance management systems do not define a specific model to be used by municipalities. Municipalities are, however, provided with a set of requirements which can be used as the basis for the development of their own performance management systems (Moodley, 2003:13). This set of requirements are stated in chapter 6 (section 38 - 49) of the municipal systems act. Some of these sections were quoted in paragraph 1.1 on page 1. An investigation of performance management models as available in the literature will be presented in this chapter, in order to achieve objective 1.4.2 (iii) as stated on page 6.

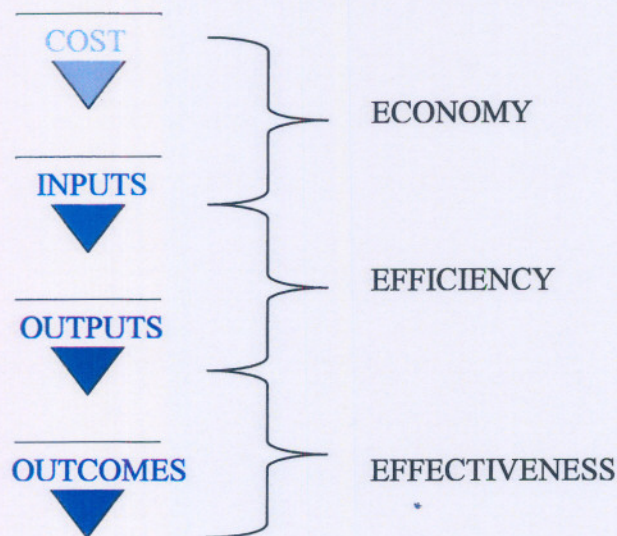
A performance management model must be linked to the performance expectations of that organisation, which in a municipality's case would be the integrated development plan (IDP). Each priority area and objective as stated in the IDP must have performance measures and targeted performance, as well as the key performance indicators (KPI) as required by the national treasury. Those measures and targets should cover inputs, outputs and outcomes. Key stakeholders must be involved in the planning of the IDP as well as in the monitoring, measuring and evaluating of performance (DPLG, 2002:68).

Some of the performance management models that can be used and which will be discussed in this chapter are the following:

- The three E's model (paragraph 4.2, page 51)
- The excellence model (paragraph 4.3, page 52)
- The STAIR model (paragraph 4.4, page 53)
- The best value model and (paragraph 4.5, page 54)
- The balanced scorecard (paragraph 4.6, page 55)

4.2 THREE E's: ECONOMY, EFFICIENCY and EFFECTIVENESS

Figure 4.1: The Economy, Efficiency and Effectiveness model



(DPLG, 2002: 69, adapted)

With this model, management must ask themselves how economic, efficient and effective they were. Where possible, input, output and outcome performance measures or indicators for all the priorities and strategic objectives of the municipality will need to be set. Inputs are about economy; outputs are about efficiency and outcomes are concerned with effectiveness.

How economical: What resources did we use to achieve this result? Could we find cheaper inputs? Thus, the costs of inputs are important here.

How efficient: The following questions can be asked: Are the resources used efficiently to achieve the outputs? Can we use fewer resources to achieve the same outputs? The relationship between the inputs and outputs is important for this question.

How effective: Do the outputs lead to the effective achievement of the outcomes? If the outputs improve, will the outcomes improve? Managers need to look at the relationship between outputs and outcomes (DPLG, 2002:69).

This model facilitates the integration of planning and management as well as the diagnosis of causes of poor performance. The concept of ratios between the elements of the system would make objective and reliable measurement possible. The separate focus on outcomes and outputs could help management to assess whether they are doing things right as well as doing the right things. However, the definitions of the 3E's are not very clear; the system is too abstract and can become

very complex to apply. Reliance on ratios between the elements of the system could mean an exclusive emphasis on quantitative measures. Users might find it difficult to place key priorities such as institutional transformation, resource and financial management in the model. (DPLG, 2002:83)

4.3 THE EXCELLENCE MODEL

This model helps management to decide which parts of the system and which aspects of each part to highlight. Excellence models are based on the assumption that, for effective performance, we need to manage the entire system and not just the results. Excellence models involve proposals about what is necessary to ensure effective performance and, therefore, what should be managed. Management must divide the system into one or more parts, namely 'enablers' (the things that enable effective performance in organisations) and 'results' (the things we expect to achieve) and then further divide those parts into different areas, while also allocating a weighting to each of those areas so that achievement against objectives, indicators and targets for each can be precisely quantified to provide an overall performance rating. An example of enablers for the public sector can be policy and governance, strategy and plans, leadership, resources, processes and/or people. Results can be subdivided into organisational and programme results. Examples of organisational results would be resource results, efficiency results, people results, service reporting, service outputs and service satisfaction. The programme results, for example, can be programme outcomes and programme satisfaction (DPLG, 2002:70, 72).

The excellence model is holistic and highly integrated, and the relationships between the different performance dimensions are explicit. These explicit relationships have been designed to provide a mechanism for identifying problem areas. The importance of the different criteria is made clear with their weightings. It places a strong emphasis on quantitative measures in an attempt to strengthen the comparability, objectivity and reliability of judgements. Nonetheless, the criteria can be complex and difficult to understand. The focus is largely on outputs with outcomes reduced to levels of satisfaction of various stakeholders. The quantitative orientation can be limiting and mechanical, reducing impact on learning and improvement. The primary driver of performance is competition with other organisations that use the same criteria (DPLG, 2002:84).

Moodley (2003:54) states that the excellence model is based on the satisfaction of customers and people, the impact on society and the performance of suppliers and partnerships, which are accomplished through leadership-driven policy and strategy, as well as the management of people, resources and information which lead to excellence in business results.

The model can be used as an assessment tool that would enable an organisation to assess its performance objectively against a number of criteria. It seems difficult to cascade the excellence model down to different directorates, and the model does not sufficiently measure outcomes as opposed to output, other than general stakeholder satisfaction. With this model, the organisation may be able to assess whether it is doing things right, but it would be difficult to assess whether it is doing the right things. It follows that with this model, municipalities will not be able to link their integrated development plans to the performance management systems, and thus the excellence model will not be the most suitable one (Moodley, 2003:57).

A practical example of the excellence model is included in Appendix A on page 153.

4.4 THE STAIR MODEL

Zeppou and Sotirakou (2003) stated the steps to develop this model as follows:

- S – STRATEGY: Identify and communicate strategy
- T – TARGETS: Translate strategy into objectives and targets
- A – ASSESSMENT: Operationalise and convert targets to performance indicators
- I – IMPLEMENTATION: Implement the model
- R – RESULTS: Monitor and evaluate the results

The STAIR model can be used by managers as a tool to improve performance and convert the organisation into a strategy-focused organisation. It provides for the following:

- The organisation's mission.
- The strategic goals of the organisation and how these will be achieved.
- How organisational performance is measured.
- What the sources of the performance gap are.
- How feedback on performance output is used towards improvements.

Zeppou and Sotirakou (2003) note that the supposition that performance is a reflection of strategy and the development of a performance measurement system constitutes the basic idea behind the STAIR model. Despite its difficulties, it enables an organisation to understand what is important for its success, and to determine its priorities. The main benefit of the STAIR model is that it facilitates bridging the gap between the strategic management process and performance by means of a structured methodology. It is defined as an open, systematic approach that makes use of various change techniques, such as SWOT (discussed in paragraph 5.7 on page 92), BPR (paragraph 4.6.3.3 on page 61) and benchmarking (discussed in chapter 3 on page 36) in an effort to align its strategy with the multiple sub-systems of the government.

STAIR is a holistic model that takes into account the weaknesses and the strengths of the internal environment, the opportunities and the threats of the external environment, and the inter-dependence of all sub-systems, with a view to produce output and results by transforming input and processes. The model can be represented in measurable terms which can take the form of a multiple regression equation (Zeppou & Sotirakou, 2003):

$$OP = a + b_1STA + b_2I + b_3R + e$$

Where: Dependent variable: organisational performance (OP);

Independent variables: managing context variable – strategy/targets/assessment (STA);

Managing input and processes – implementation (I);

Managing output and feedback – results (R);

a: intercept;

b₁, b₂, b₃: regression coefficients;

e: residuals.

In the STAIR model, emphasis is placed on the development of intangible assets such as knowledge management, citizen satisfaction and commitment of employees as equally important elements of the performance measurement system. STAIR is an ongoing process; a comprehensive systems management framework that builds lasting change and organisational success. Cultures are involved and techniques are demonstrated in the STAIR model. Its importance is lodged in its emphasis on a culture that reinforces employee commitment, competence and behaviour that are entrepreneurial and result-orientated (Zeppou & Sotirakou, 2003).

4.5 THE BEST VALUE MODEL

Best value models are based upon the fact that different values are used to assess the effectiveness of any result. These values are often at odds with one another, for example quality and quantity. Managers need to decide at the planning stage how they want to balance these values. Best value models involve agreeing on the values that will be important for assessing how well an organisation is doing; setting indicators for each and establishing what the current baseline situation is for each indicator and/or benchmarking against other similar organisations; setting targets for improvement for each indicator and measuring results (DPLG, 2002:73).

This model is not prescriptive and can easily be adapted to different contexts. It is simple and accessible to different users. It recognises that assessment of effective performance often involves a variety of values. Best values reviews promote continuous improvement. However, this model does not establish a strong, agreed-upon basis for diagnosing the causes of performance problems. Its simplicity can lead to non-recognition of important performance areas (DPLG, 2002:85; Moodley, 2003:30).

4.6 THE BALANCED SCORECARD

Arveson (1998) define the balanced scorecard (BSC) as not only a measurement system but also as a management system that help organisations to understand their vision and strategy clearer, and to translate it into actions. "When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise."

Drury (2004:1001) defines the balanced scorecard as: "an integrated set of performance measures derived from the company's strategy that gives top management a fast but comprehensive view of the organizational unit (i.e. a division/strategic business unit)."

Rohm (2005) defines the balanced scorecard as "a performance management system that can be used in any size organisation to align vision and mission with customer requirements and day-to-day work, manage and evaluate business strategy, monitor operation efficiency improvements, build organization capacity, and communicate progress to all employees."

The BSC draws on both the excellence and best value models, but translates the two dimensions into a set of linked perspectives that should be taken into account in managing performance. It does not use the linear system view that assumes fixed causes and effects and fixed beginning and endpoints. The BSC assumes that the whole picture is necessary all the time in order to get a strategic sense of how one is doing from all the perspectives simultaneously, and thus assists strategic management. It is based on a cyclical and iterative view (DPLG, 2002:75).

This model was developed by Robert Kaplan and David Norton. It is a quality management tool that is widely used by organisations to evaluate their short-term and long-term performance in a single report. With quality management, the organisation's resources are dedicated to improving customer service and operational processes. Organisations are moving away from the traditional focus on financial measures only, towards a more balanced focus on financial as well as non-financial measures of performance. It also helps management to identify problems. They stress that the BSC should not be used as a control system, but as a communication, informing and learning system (Kaplan & Norton, 1996:25).

Performance managers use the BSC approach to translate the organisational vision and strategy into simple performance measures that can easily be understood by the different employees responsible for achieving different goals. These performance measures include financial as well as non-financial measures, because what gets measured gets managed. *The BSC is not only used to implement an organisation's strategy, but also to communicate and manage the strategy.* It provides a set of measures that addresses several important aspects regarding the organisation and it

gives a comprehensive top-down view of the organisation's performance (Horngren *et al.*, 2003:447; Drury, 2004:1002; Chan, 2004).

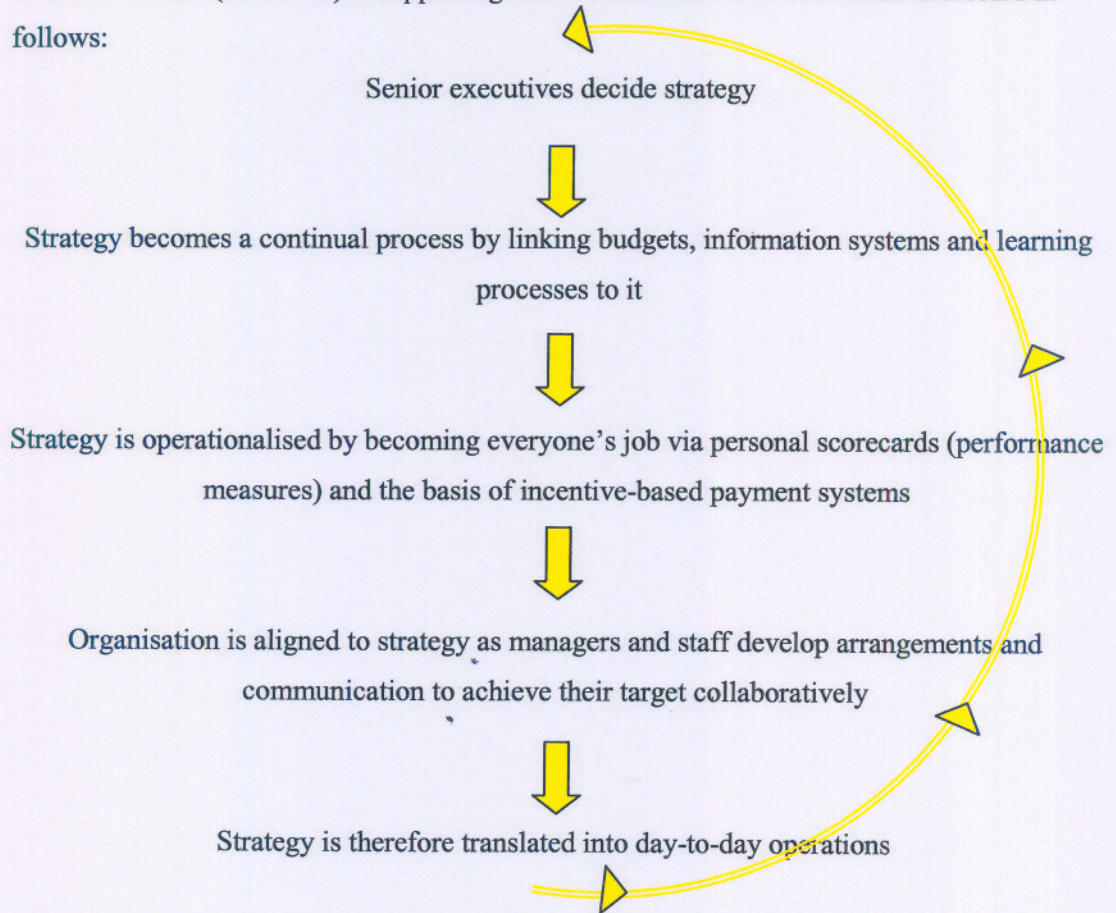
The organisation as a whole will have a BSC and each department and/or employee will have their own BSC with performance measures that are related to the projects for which that department or individual is responsible and over which he or she has control (Garrison *et al.*, 2006:451).

The BSC is a dynamic system and the different performance measures need to change every time that the organisation's strategy changes. Those performance measures provide the framework for implementing the organisation's strategy. Every organisation's BSC will be unique to that specific organisation, since different organisations have different strategies. The BSC stresses the importance of being able to assess the organisation from all perspectives at the same time. It is an aid in the creation of balance among various development factors (Moodley, 2003:57-61).

4.6.1 Evaluating the strategy

Organisations can compare their targeted and actual performance to evaluate their success in implementing their strategy. Another alternative could be to compare their operating income with previous years. However, the latter alternative should rather not be used, since different internal and external factors can also affect an organisation's operating income (Horngren *et al.*, 2003:453).

Kaplan and Norton (2001:9) presented the principles of a strategy focused organisation and Botten and Sims (2004:423) is supporting them in their view of the balanced scorecard as follows:



Botten and Sims (2004:423) view the BSC as a model used to improve strategic performance in many ways:

1. To help individuals and divisions to moderate their own performance, they should receive regular reports of their own performance against the BSC measures in the same area of work.
2. To ensure that the strategy is followed, regular information on the company's overall attainment against BSC measures must be sent to senior management.
3. Divisions and individuals will be more aware of how their work fits in with the strategy of the business through the process of developing activity measures.
4. To enable outside stakeholders to form a full impression of the value of the organisation, they may have access to BSC measures - a special version for customers and investors may be a good idea.

4.6.2 Developing a balanced scorecard

Organisations can follow the following six steps proposed by Botten and Sims (2004:424) to develop their balanced scorecards:

1. The key outcomes that are critical to the success of the organisation will need to be identified.
2. Identify the processes that will lead to the outcomes as stated in step 1.
3. Key performance indicators (KPI's) should be developed for these processes.
4. Reliable data capture and measurement systems should be developed.
5. These systems (step 4) must be reported to the relevant managers and staff. Thus, a method for reporting should be developed.
6. Guarantee that performance will improve by developing improvement programmes.

Thus, managers need to identify and establish consensus on the organisation's strategic goals before they can start to develop the performance measures. These measures must be integrated and congruent with the organisation's strategic goals and mission, and they must be monitored and reported systematically (Botten & Sims, 2004:424).

Hornigren *et al.* (2003:452) describe the distinctive characteristics of a well-designed BSC as follows:

- It is the story of an organisation's strategy – expressing successive cause-and-effect relationships – all links that describe how to implement strategy. Each measure, from the formulation of strategy to financial results, is part of a chain of cause-and-effect.
- The number of measures is limited by the balanced scorecard – only the most critical ones are identified. The purpose of this is that managers should focus their attention on measures affecting the implementation of the strategy.
- The strategy is translated into a set of linked, understandable and measurable operational goals. In this way, the strategy is communicated to all members of the organisation. Both managers and employees make decisions and take action to achieve the company's strategy, guided by the scorecard. Some firms have developed scorecards at departmental and divisional levels in order to focus these actions.
- The balanced scorecard, in for-profit firms, places strong emphasis on financial measures and targets. Customer satisfaction, innovation and quality as ends in themselves are sometimes emphasised by managers, although these may not lead to measurable payoffs. To achieve future financial performance, the balanced scorecard stresses non-financial measures as part of the programme. When non-financial and

financial performance measures are properly linked, most of the non-financial measures, if not all, serve as indicators of future financial performance.

- When managers fail to consider operational and financial measures together, less-than-optimal tradeoffs that managers may make are highlighted by the balanced scorecard. Short-run financial performance that might have been achieved by taking actions that hurt future financial performance, would have been signalled by a good, balanced scorecard because a leading indicator of that performance, research and development spending and research and development output, has declined.

4.6.3 The four perspectives

The balanced scorecard consists of four different perspectives from which an organisation's performance is examined, and each of these four groups has its own unique performance measures which are derived from the vision and strategy of the organisation. Each of these perspectives is intended to categorise clearly stated goals and performance indicators by which the achievement will be measured (Horngren *et al.*, 2003:449).

To improve the organisation's finances, managers will need to satisfy customers through the improvement of the organisation's internal business processes, and therefore the employees need to learn and grow and develop their skills or techniques.

The different performance measures of the four perspectives establish a balance between external measures relating to customers and internal measures relating to critical business processes, innovation and learning. They also establish a balance between outcome measures, which are the results of past efforts, and the measures that drive future performance (Drury, 2004:1002).

4.6.3.1 Financial perspective

Arveson (1998) states that the present focus on financial measures are the reason for the unbalanced situation and that there is a need for additional financial information, such as cost-benefit and risk assessment. Financial performance measures should measure whether the organisation's financial performance has been improved.

To translate an organisation's strategy into measurable performance measures, performance managers need to understand what the financial goals of that organisation are. They should focus on the amount of the organisation's operating income and return on capital that will improve by following a specific strategy. Senior managers should ask how their organisation looks to shareholders before they

can decide on performance measures for this perspective. The performance measures of the financial perspective will provide feedback on whether enhanced operational performance is indeed translated into enhanced financial performance. Thus, the profitability of the organisation's strategy is evaluated by this perspective (Horngren *et al.*, 2003:449; Drury, 2004:1004,1006; Kaplan & Norton, 1996:47-62).

Examples of financial performance measures are (Horngren *et al.*, 2003:450,452; Sims & Smith, 2003:489):

- Operational income from productivity gain
- Operational income from growth
- Operational income from revenue growth
- Cost reductions in key areas
- Return on investments (ROI)
ROI (discussed in paragraph 2.7.1.1, page 22)
- Economic value added (EVA)
EVA (discussed in paragraph 2.7.1.3, page 25)
- Residual income (RI); RI was discussed in paragraph 2.7.1.2, page 23
RI were discussed in paragraph
- Profitability
- Productivity
- Cash flow

In a municipal context, this perspective highlights cost-efficiency, since financial concerns or profit-making are not their primary objective. Municipalities are rather concerned with delivering the best possible services with a limited budget.

4.6.3.2 Customer perspective

Included under the customer perspective will be items that measure whether customers think that the organisation is delivering more value. The organisation will need to identify who the customers are to whom they want to deliver the service, and how they will go about to win and retain the different customer groups. That means that target segments may include existing as well as potentially new customers (Drury, 2004:1006).

The goal is to make the entire organisation more customer-focused and to reduce delays. Thus, this perspective identifies the different targeted customer groups and measures the organisation's success in those customer groups. Managers must first

ask how customers see the organisation in order to develop performance measures for this perspective (Horngren *et al.*, 2003:449).

Examples of customer performance measures are (Horngren *et al.*, 2003:450,452; Garrison *et al.*, 2006:451; Sims & Smith, 2003:490):

- Customer satisfaction: as measured by survey results, to give feedback on how well the company is doing.
- Number of customer complaints
- Customer retention: this is the percentage that at which an organisation retains or maintains ongoing relationships with its customers.
- Number of new customers: this is the rate at which new customers are attracted to the organisation.
- Customer profitability: Profitability should be analysed by different customer segments and unprofitable segments identified.
- Market share: this is the percentage of products or services that a business unit sells in a given market.
- On-time delivery.

The most critical performance measure would probably be customer satisfaction, which can be measured by making use of questionnaires and customer response cards. The number and nature of customer complaints will also be an indicator of customer satisfaction. These performance measures have a limitation in that they measure customer attitudes and not actual buying behaviour. Managers can use this perspective to measure the municipality's capacity to deliver the best possible services to their communities, as well as its effectiveness and community satisfaction (Drury, 2004:1007).

4.6.3.3 Internal business perspective

Internal business processes are the processes that the organisation follow in order to fulfil customer needs. The organisation needs to identify the internal business processes which they should improve upon before they can add value to a service. They will need performance measures which relate to those business processes to measure if they have improved on these (Drury, 2004:1009).

This perspective, according to Horngren *et al.* (2003:449), focuses on internal operations that further the customer perspective by adding value for customers. It comprises three sub-processes namely innovation, operation and post-sale service:

The **innovation** process is the process of creating products, services and processes that will meet the needs of the organisation's customers. Kaplan and Norton (1996:98-99) advise organisations to amaze their customers instead of satisfying them, by finding answers to the following questions:

- What benefits will be valued in future products?
- How can we deliver those benefits, through innovation, before the rivals do?

The **operations** process is the process where the organisation's existing products and services are produced and delivered to meet the needs of their customers. This process starts when a customer order is received and finishes with the delivery of the product or service to the customer. The goal is to provide efficient, reliable and on-time delivery of products and services to an organisation's customers. Performance managers should focus on performance measures that measure the performance in terms of time, quality and cost (Horngren *et al.*, 2003:449; Drury, 2004:1010).

Postsale service has to do with providing service and support to the organisation's customers, after the sale of a product or service. Good community relations are a vital strategic goal for the continuous support of the local community (Horngren *et al.*, 2003:451; Drury, 2004:1013).

Managers might consider doing some business process reengineering (BPR) to improve the organisation's internal business processes. BPR cuts across functional lines to focus on an entire business process. Horngren *et al.* (2003:448) define BPR as: "the fundamental rethinking and redesign of business processes to achieve improvements in critical measures of performance, such as cost, quality, service, speed, and customer satisfaction."

If managers were to decide which performance measures are the most critical ones to use from this perspective, they should first ask themselves at what they need to excel at in order to achieve their goals. The performance measures should focus on the internal processes which the organisation follows that will have the greatest impact on customer satisfaction and on achieving the organisation's financial goals (Horngren *et al.*, 2003:451).

A performance measure that is often used to measure performance in terms of time is the manufacturing cycle efficiency (MCE):

$MCE = \text{Processing time} \div (\text{processing time} + \text{inspection time} + \text{wait time} + \text{move time})$ (Drury, 2004:1010).

$MCE = \text{Value-added time (process time)} / \text{throughput (manufacturing cycle) time}$ (Garrison *et al.*, 2006:457).

In the MCE equation, processing time is the only activity that adds value to the service, while all the other activities are non-value-adding activities; and thus performance managers should try to eliminate or at least shorten the time spent or rather 'wasted' on these activities (Garrison *et al.*, 2003:457).

The performance measurements that most organisations use to measure their performance in quality are the following (Kaplan & Atkinson, 1998:561; Kaplan & Norton, 1996:119):

- Process parts-per-million (PPM) defect rates
- Yields (ratio of good items produced to good items entering the process)
- First pass yields; Waste; Scrap; Rework; Returns
- percentage of processes under statistical process control.

The performance measurement that will best measure the performance on the cost of the internal business processes of the organisation will be activity-based costing (ABC) (Drury, 2004:1012) which is defined in the *Local Government Budget and Finance Management Reforms Information Pack* (Anon., 2003a:207) as a process of identifying the activities that are responsible for the generation of costs. The identified activities will contribute towards the production of products and services, also known as outputs. Activity-based management (ABM) is a management technique that uses activity-based costing as a major source of information in the management of organisations.

Some more examples of internal business process performance measures are (Horngren *et al.*, 2003:450,452; Garrison *et al.*, 2006:451; Sims & Smith, 2003:490):

- Percentage of customer calls answered within 20 seconds
- Response time to problems
- Percentage of customer complaints settled on first contact

- Cycle time: Delivery cycle time: is the time from when an order is received till the completed order is shipped, and manufacturing cycle time is the time required to turn raw materials into completed products.
- Time to settle a customer claim
- Queuing/waiting time
- On-time payment of creditors
- Number of improvements to business processes
- Percentage of processes with advanced controls
- Tender success rate.

Managers can use this perspective to evaluate whether the internal business processes are sufficient to achieve the municipality's performance expectations, which can be financial success and community satisfaction.

4.6.3.4 Learning and growth perspective

Learning, growth and development of employees are necessary for the organisation to constantly improve their internal business processes and to continue to satisfy their customers by adding value to their service. Performance managers will need performance measures that can measure the organisation's ability to keep on changing and improving (Kaplan & Atkinson, 1998:567-578; Kaplan & Norton, 1996:126-146).

Thus, this perspective identifies whether the organisation is capable of achieving improved internal business processes that can create more value to products and services.

Performance managers will need to evaluate the skills of the organisation's employees as well as the competence of the systems that they are using (Kaplan & Atkinson, 1998:567-578; Kaplan & Norton, 1996:126-146). Managers can assess the skill levels of employees by using questionnaires on which employees can indicate where they feel that they need some more education or guidance, how to improve their skills or make better use of their time or the different processes. Sometimes the employees' skill levels might be high enough and they are very competent to do their work, but the processes they follow do not allow them to improve their performance. In such instances managers will need to do some reengineering (discussed earlier under the internal business process perspective, paragraph 4.6.3.3, page 61) to improve their processes.

Motivation also plays a significant role in the performance of employees. Employees can be motivated by providing them with the necessary resources to do their job and by *empowering them to manage certain processes*, if and where possible. Managers should also acknowledge if a job has been done well; performance bonuses or 'extras' are also great motivators. Drury (2004:1016) suggests that the reward structure of an organisation should be concerned with the motivation of employees to achieve their performance targets. Motivation is maximized when employees are clear about what the organisation wants to achieve, what is expected of them, and how their performance will be measured. Many BSC measures rely more heavily on employee engagement than on any other factor. By linking the employees' performance measures to rewards, managers ensure that employees will do what is best for the organisation. An organisation's strategic advantage arises from its ability to empower its employees.

(Arveson, 1998; Niven, 2003) Since public sector organisations rely on the skills of their employees, this perspective includes the training of employees in order to reach their targets. Organisational success is depending on the capabilities of the employees and the tools they use to reach their goals. Managers should be aware of new technologies, since the individual employee as well as the information system needs to be improved on an ongoing basis. Niven (2003) further states that there are three relevant areas in this perspective. Firstly managers should assess whether employees have all the necessary skills to constantly reach their goals. Then they should determine if information are communicated to these employees on an ongoing basis and in the right manner. Good communication will enable employees to make informed decisions that will have an impact on the customers. Lastly he is stating the organisational climate which should be a culture of motivation and goal alignment.

In this perspective, organisations must regard their employees as their most valuable assets, and managers should think of the development of employees as an investment in the future. Organisations are more dependent on human capital as an intangible asset and they should thus optimize the way that this asset is managed. Learning and growth of employees are necessary for an organisation to achieve its long-term financial goals. Senior managers should try to involve line employees in their *decisions as far as possible, and they should encourage employees to be creative and give their input regarding certain issues*. Employees in turn, need feedback on their strengths and weaknesses to develop, and managers must direct the training and

development resources to those individuals who can gain the most from these. There is a strong and direct relationship between leadership by senior management and ownership of performance by line management. Employees want consistent management practices in a positive and challenging work environment (Fiske & Woll, 2004; Anon., 2004b).

Examples of learning and growth performance measures are (Horngren *et al.*, 2003:450,452; Garrison *et al.*, 2006:451; Sims & Smith, 2003:490):

- Number of suggestions per employee
- Value-added employee: = revenue – materials – services
- Employee turnover
- Hours of in-house training per employee
- Employee satisfaction survey: satisfied employees are necessary to increase productivity, quality and service delivering.
- Percentage of employees trained in process and quality management
- Percentage of line workers empowered to manage processes
- Percentage of employee suggestions implemented
- Percentage of compensation based on individual and team incentives
- Employee productivity: this is the total outcome measure of the impacts of employee skills and morale, innovation, internal process improvement and customer satisfaction.
- Percentage of revenue for new services.

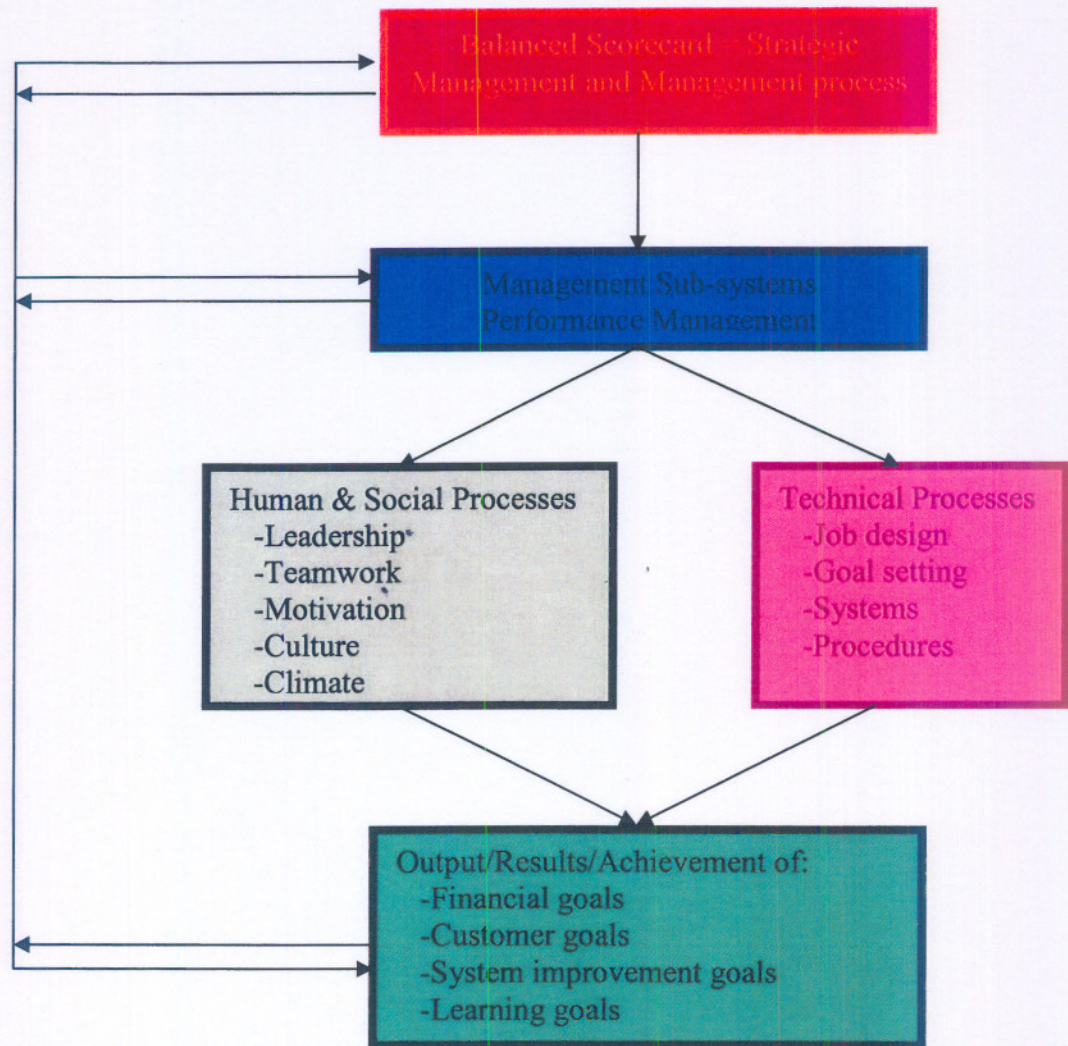
Thus, managers can use this perspective to identify whether the municipality's goals and targets have been met by evaluating the employee's capabilities as well as the operational quality of their databases and information systems.

4.6.4 The relationship between the BSC and the PMS

Young (s.a.:78) states that performance management is one of the sub-systems of management that is directly influenced by the balanced scorecard process. Performance management is thus the functioning driver of short-term performance that is used to achieve the long-term goals of a municipality. The municipality's human and social processes are linked to the technical processes by this short-term performance management of employees that produces the financial, customer, systems improvement and learning goals of the municipality.

Young (s.a.:79) illustrates the relationship between the BSC and the PMS as follows:

Figure 4.2: The relationship between the BSC and the PMS



(Young, s.a.:79)

4.6.5 Performance measures for service organisations

Fitzgerald *et al.* (quoted by Drury, 2004:1017), compiled a number of performance measures for service organisations. They divide performance into six dimensions which fall into two categories with examples of types of performance measures for each dimension.

The following two dimensions reflect the success of the chosen strategy and fall into the “results” category:

Table 4.1: Performance measures for service organisations: “results” category

	<u>Types of measure</u>
COMPETITIVENESS	Relative market share and position
	Sales growth
	Measures of the customer base
FINANCIAL PERFORMANCE	Profitability
	Liquidity
	Capital structure
	Market ratios

Fitzgerald *et al.* (in Drury, 2004:1017)

The next four dimensions are the drivers or determinants that determine competitive success and are known as the “determinants” category:

Table 4.2: Performance measures for service organisations: “determinants” category:

	<u>Types of measures</u>
QUALITY OF SERVICE	Reliability
	Responsiveness
	Aesthetics/appearance
	Cleanliness/tidiness
	Comfort
	Friendliness
	Communication
	Courtesy
	Competence
	Access
	Availability
	Security
FLEXIBILITY	Volume flexibility
	Delivery speed flexibility
	Specification flexibility

RESOURCE UTILIZATION	Productivity
	Efficiency
INNOVATION	Performance of the innovation process
	Performance of individual innovations

Fitzgerald *et al.* (in Drury, 2004:1017)

4.6.6 Benefits of the BSC

- It continually tests the theories underlying management's strategy;
- It is a simple and accessible model for performance, based on priority areas for attention in each of the four perspectives;
- It combines operational and financial measures;
- The integration of perspectives facilitates a more holistic assessment of performance;
- It is replicable in that it can be cascaded to all functional areas within a municipality;
- It shows indirectly what the strategy of an organisation is, and who and what are important to them;
- It minimizes reliance on a single measure;
- It is a management tool that helps managers to implement the organisation's strategy;
- It shows whether improvement in one area adversely affects another;
- It communicates the organisation's strategy to its employees in a set of understandable and measurable targets;
- It helps to design performance measures that communicate strategy and to identify key financial performance measures;
- It avoids management reliance on short-term or incomplete financial-based measures;
- It limits the number of measures, identifying only the most critical ones that most affect the implementation of strategy;
- It highlights less-than-optimal tradeoffs that managers may make when they fail to consider operational and financial measures together;
- It increases accountability. Goals are integrated into the evaluation process and accountability is linked to compensation;
- It can assist external stakeholders in their evaluation of the organisation;
- It is a holistic and multi-perspective measure of performance;
- It relies on clearly stated objectives and empirical indicators, and

- It is developmental in approach and is integral to the strategic planning process. (Horngren *et al.*, 2003:455; Moodley, 2003:60, 63, 64)

4.6.7 Challenges/drawbacks in the implementation of the BSC

- The linkages between the four perspectives are not always precise.
- It is difficult to evaluate the relative importance of different measures.
- There is no clear relation between the BSC and shareholder value.
- There are not improvements across all of the measures all of the time.
- Management can struggle to measure and quantify important qualitative data.
- Measures may give conflicting signals and confuse management.
- Subjective measures, such as satisfaction ratings are often left behind.
- There can be a lack of clarity resulting from a large number of measures.
- Cost and benefits of initiatives should be considered before including them in the BSC.
- The time and expense necessary for designing and maintaining the organisation's BSC are significant.
- Non-financial measures are often ignored when evaluating employees' performance.
- Too many measures dilute attention from the most critical ones, which are important for the implementation of strategy.

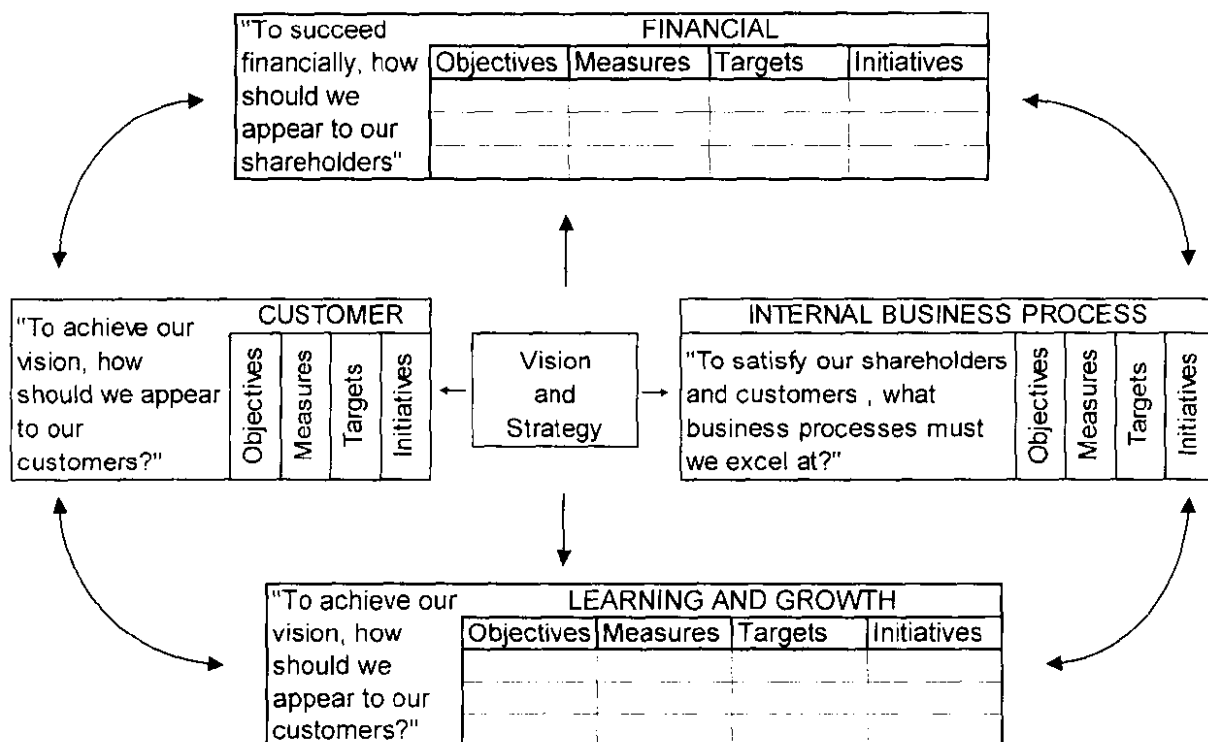
(Horngren *et al.*, 2003:453; Botten & Sims, 2004:424)

Some of the pitfalls that Horngren *et al.* (2003:453) caution against when implementing a BSC are:

- “Don't assume the cause-and-effect linkages are precise. They are merely hypothesis.
- Don't use only objectives measures in the balanced scorecard.”

4.6.8 Practical development of the BSC

Figure 4.3: The Balanced Scorecard



(Kaplan & Norton, 1996:9)

To implement a BSC successfully, top management will need to give their commitment and leadership to the process. The financial perspective will be a reflection of previous organisational performance, the customer and internal business process perspective will reflect the performance of the current employees and processes, and the learning and growth perspective will be a reflection of expected future performance. Since performance management is a new concept in the public sector, municipalities tend to depend on consultants and their proposals for the implementation of a performance management system. These proposals are often made on the basis of systems that have been used in the private sector, irrespective of their appropriateness to the public sector (Horngren *et al.*, 2003:451).

Kaplan and Norton, however, revised the BSC to better reflect the objectives of the public sector. They acknowledge the fact that the financial perspective at the top is not appropriate for the public sector, since the primary objective of these organisations is the provision of services to the community, and not financial success. The vision, mission and strategy of a municipality are now reflected at the top of the scorecard and the internal business process and the growth and learning perspective work together to improve the financial and customer perspectives, which in turn work towards the achievement of the municipality's strategy (Chan, 2004). If the term "customer" is replaced with "stakeholder", which includes the

community, tax payers, government and national treasury as well as certain inspection and audit agencies, it will better reflect a municipality's targeted group. The revised BSC can be illustrated as follows:

Figure 4.4: A municipality's Balanced Scorecard



(Kaplan & Norton, 2001:135, adapted)

4.6.9 Case study: Local municipality A

In application of the above-mentioned theory of the BSC, the following model (Table 4.3) can be constructed (representing only the main issues) for a local municipality by redefining its vision and strategy with an overall objective set at the top of the scorecard. Then high-level objectives for each perspective as well as measures and targets will be developed to achieve those high-level objectives. A more detailed framework will be developed in paragraph 7.4, page 129.

Table 4.3: A BSC with the main issues within a municipality

<u>FINANCIAL OBJECTIVES</u>	<u>INDICATORS</u>	<u>TARGET PERFORMANCE</u>	<u>ACTUAL PERFORMANCE</u>
Compliance with legislation	Budget, financial statements and reports submitted on time	100% of documentation to be submitted on time (as stated in the MFMA)	

Compliance with legislation	Remain within the budget	0% overspending on budget (as stated in the approved budget)	
Increase revenue	Revenue	Increase revenue with 10%	

<u>STAKEHOLDER OBJECTIVES</u>	<u>INDICATORS</u>	<u>TARGET PERFORMANCE</u>	<u>ACTUAL PERFORMANCE</u>
Increase the number of community members that pay their municipal accounts	Paying community retention	No more than 3% in paying community losses	
Be more public-oriented	Meetings with public input	Increase percentage of public involvement with decision-making by 20%	
Increase community satisfaction	Community satisfaction survey	90% community satisfaction	

<u>INTERNAL BUSINESS PROCESS OBJECTIVES</u>	<u>INDICATORS</u>	<u>TARGET PERFORMANCE</u>	<u>ACTUAL PERFORMANCE</u>
Promote time management for staff	Percentage of time which is used efficiently, effective and economically	95%	
Improve service capability	Percentage of services with advanced controls	Advanced controls must be implemented with 5% of services	
Elimination of non-value-adding activities	Percentage of activities which are value-adding activities	100%	
Providing quality service for cheaper	Decrease in expenses for same quality services	Decrease expenses by at least 1% each year	
Improve quality and productivity of services	Percentage increase in quality and productivity of services	20% increase	

<u>LEARNING AND GROWTH OBJECTIVES</u>	<u>INDICATORS</u>	<u>TARGET PERFORMANCE</u>	<u>ACTUAL PERFORMANCE</u>
Promotion of a learning environment	Motivation for training and study support	Employee satisfaction ratings of 100% regarding skills empowerment	
Develop strategic skills	Cross-training	Every staff member must teach at least 1 staff member one skill per year	
Enhance information system capabilities	Improved data gathering	New data to be updated daily	

(Source: Own research)

Most of a municipality's high-level strategic goals are intangible and thus difficult to measure, but managers should see this as a challenge and decide on the best possible ways to measure performance in those difficult areas. This scorecard can now be cascaded to the different directorates as well as to the different employees within a directorate.

Objectives should provide the framework for planning, because they need to be achieved. They communicate the activities and projects for which managers are responsible to the specific manager as well as the level and type of output required. Objectives must be internally consistent and should ensure goal congruence between the different managers. The objectives should cover all areas of the mission and vision of the municipality, since managers will be motivated to reach their objectives. Senior management can control the organisation by evaluating the performance of the managers which are responsible for achieving different objectives.

4.7 SUMMARY

To summarise, the BSC is a planning and process improvement system which focuses on an organisation's change process by identifying and evaluating the performance measures. The BSC reduces the importance that senior managers connect to the short-term financial performance of their organisation. That is because the non-financial performance measures show that the organisation is making changes, and these changes will have a long-term effect on the organisation and will indicate that they are adding value to the processes and services.

With the growing interest in improving performance management in the public sector, the BSC can be a valuable management tool that meets the need for improvement and change. The BSC can facilitate the process by which an organisation can achieve strategic focus and it can shift the organisation's focus away from the projects and initiatives towards the outcomes that this projects and initiatives should achieve.

The BSC concept can only be successfully developed and implemented if top management are committed and supportive. All the employees must participate, and must be educated and trained where necessary. Senior managers must reach consensus and clarity regarding the vision and strategy of the organisation. The system must be simple, easy to use and understandable, and there must be sufficient resources to implement it.

Well-balanced scorecards aim to combine outcome measures with performance drivers. It is therefore important that the scorecard is regarded not only as a record of results achieved, but also, equally important, that it is used to indicate expected results (Jansen, 2003:17).

CHAPTER 5: DEVELOPING A PERFORMANCE MANAGEMENT PLAN FOR A LOCAL MUNICIPALITY

The discussions that follow would not have been possible without the participant's handbook on the Implementation of Organisational Performance Management in Local Government, (DPLG 2002). The performance management plan will be developed according to the guidelines as stated in that manual as well as the guidelines as set out in the Performance Management Policy and Procedure Document for South African Municipalities.

5.1 INTRODUCTION

A performance measurement plan (PMP) is a plan that must be developed for the municipality to record, analyse and distribute their performance information. It is a feasible plan which consists of processes to acquire performance information, analyse and audit that information and report-back on performance. These processes must be linked to the planning and budgeting cycle of the municipality. Therefore, a PMP entails how a municipality uses the information collected to measure their performance. Thus, objective 1.4.2 (iv) on page 6 will be achieved with the discussions of the various steps to set up a performance management plan (DPLG, 2002:11).

Moodley (2003:26) states that knowledge from lessons learned is clearly demonstrated in the South African approach to the management of local government. This approach shows the beginnings of an approach emphasising democracy, development and participation. However, it has not entirely been liberated from the grasp of managerialism.

The emphasis of the approach can be captured in the following ways:

- By the powers it gives councillors in managing administrative performance;
- In the powers given to communities and citizens in the management of the performance of local government;
- By the importance of indicators measuring the developmental results of the municipality;
- By the flexibility given to municipalities to choose performance indicators and to adopt different management systems, and
- By the fact that it is not completely orientated to the management of employee performance.

Performance management is often regarded as a time-consuming method and the performance management team will need to manage it effectively. In order for the performance management system to be effective, performance data must be collected, analysed and evaluated for use.

Performance managers will need to buy into the process and should be very much involved with the system to set up the information systems that are needed to observe, administrate and launch the

performance evaluation system. The manner in which this will be done will constitute the difference between a successful strategy and a load of time-consuming activities (Curtis 1999).

Section 39 of the Local Government: Municipal Systems Act (32/2000) states the following regarding the development of the performance management system:

The executive committee or executive mayor of a municipality or, if the municipality does not have an executive committee or executive mayor, a committee of councillors appointed by the municipal council must – manage the development of the municipality's performance management system; Assign responsibilities in this regard to the municipal manager, and submit the proposed system to the municipal council for adoption.

Ammons (2001:20) provides the following list of steps for the development and administration of a performance measurement and monitoring system within a municipality:

1. To drive and co-ordinate departmental efforts to develop sets of performance measures, individual and team responsibility should be assigned.
2. Make sure that managers are committed.
3. Identify objectives and aims.
4. Choose activities, functions and departments for the development of performance measures.
5. Plan measures that reflect performance in line with objectives by:
 - Including sufficient (not too many, nor too few) measures
 - Identifying the customers of the work unit and emphasising that service will be delivered to them.
 - Stressing quality of service and results rather than workload and input.
 - Considering time-to-time surveys of the users of selected facilities, citizens and recipients of service.
 - Inviting management and also rank-and-file ordinary workers' input and approval.
 - Including efficiency and effectiveness measures.
6. Audit performance information periodically.
7. Make sure that a meaningful link is established between the performance management system and important decision-making processes such as development of policy, setting goals, employee development and comprehension and evaluation of programmes.
8. Determine the desired frequency of performance reporting. Refine performance measures continually, balancing the need for constancy with the need for refinement when trends are examined.
9. Assign departmental accountability for collection of information and reporting.
10. Incorporate selected measures into public information reporting.

11. Assign centralised responsibility for data receipt, feedback and monitoring.
12. Make sure that the analysis of performance measures includes a basis of comparison.

Botten and Sims (2004:415) suggest the following methods for the development of a performance management system:

1. The development of performance indicators for the key processes.
2. Identify the key outputs that are required from the activity.
 - It may be included in the mission statement for the division or business unit.
 - This is often communicated verbally in terms of what the various users or other stakeholders require.
3. The development of a reporting system. This depends on the systems that are used and on the management style. A management believing in staff empowerment would wish to have this information targeted at departments and at work teams.
4. Identification of the key processes in providing the outputs. Inputs, processes and future outputs will be focused on, if controls are effective. This will be attained by:
 - Discussions with staff and management that provide the service
 - Investigating cases of service breakdowns
 - Observation and “walk-through” of the process
 - The examination of the background for structures of authorisation and decisions.
5. Identify information sources for measures. According to what is being measured, these vary enormously and some will not be quantifiable. One’s thoughts may be guided by the following:
 - Capability
 - Attitudinal
 - Physical input and output
 - Comparators
 - Compliance measure if the systems are adhered to.
6. Reviewing effectiveness of the control systems as initial control systems will have faults.
7. Identify the interface of the activity with other parts of the company or others in the value network; these are outside processes or persons such as customers, suppliers, and co-workers in other processes that the service provider relies on to do their work. The service quality may be impacted by the quality of this interface.

5.2 COMPONENTS OF THE PLAN

Section 41 of the Local Government: Municipal Systems Act (32/2000) states the following regarding the core components:

- (1) *a municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed -*
 - (a) *set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan;*
 - (b) *set measurable performance targets with regard to each of those development priorities and objectives;*
 - (c) *with regard to each of those development priorities and objectives and against the key performance indicators and targets set in terms of paragraphs (a) and (b)-*
 - (i) *monitor performance; and*
 - (ii) *measure and review performance at least once per year;*
 - (d) *take steps to improve performance with regard to those development priorities and objectives where performance targets are not met; and*
 - (e) *establish a process of regular reporting to -*
 - (i) *the council, other political structures, political office bearers and staff of the municipality; and*
 - (ii) *the public and appropriate organs of state.*
- (2) *The system applied by a municipality in compliance with subsection (1) (c) must be devised in such a way that it may serve as an early warning indicator of under-performance.*

The performance measurement plan consists of indicators or performance measures, targets and performance. The indicators/measures are used to reflect a municipality's performance. These indicators/measures will have a direct relation to the objectives and projects in the integrated development plan (IDP) of the municipality. The indicators/measures can be quantitative or qualitative. Next to the indicator/measure will be a column where the first measurement of that indicator will be set down. These first measurements will be the basis upon which the municipality should improve its performance (DPLG, 2002:12).

Each indicator/measure will have a set of targets which the municipality must try and achieve during the year. Targets must be reasonable and should be developed in conjunction with the basis. If targets are set too high, staff will no longer be motivated since they know that it would be impossible to meet the required targets. On the other hand, if targets are set too low, staff will have nothing to work for and thus will not need to perform. Employees must be motivated to achieve the targets that are set. More outcome measures than output measures will be developed, as these performance perspectives define the effectiveness (outcome) of the organisation in satisfying its customers and achieving innovation and change (DPLG, 2002:13; Chan, 2004).

The columns next to the targets column will show the actual performance of the municipality over the next performance periods, when the performance will be measured. These performance periods will depend on the municipality, and can be monthly, quarterly or half-yearly. Municipalities should note that performance management is an ongoing process and that performance needs to be measured on a continuous basis. Quarterly reporting on performance will, however, be the most appropriate (DPLG, 2002:13).

Lastly, the plan will show the end-of-year performance for the financial year of the municipality. This column will become the following year's basis for measurement (DPLG, 2002:14).

The information needed to fill this framework must be collected and analysed on a regular basis. How often this information will be collected will depend on the municipality. They should, however, note that it will not be possible to collect information for all criteria on the same basis and some information will, for instance, only be useful if it is collected once a year. Municipalities need to link the performance management plan to their annual planning and budgeting to make the information useful and to set targets for the following year's performance. Employees' performance commitments will be indirectly reflected on the performance management plan. Thus, if staff had performed during the previous performance period, targets will have been met (DPLG, 2002:14).

Municipalities should decide how often information will be collected, how fast it will be processed, when the auditing processes will take place, when reports must be ready and when new targets must be set.

5.3 DEVELOPING INDICATORS

Section 42 of the Local Government: Municipal Systems Act (32/2000) states that:

A municipality, through appropriate mechanisms, processes and procedures established in terms of Chapter 4, must involve the local community in the development, implementation and review of the municipality's performance management system, and, in particular, allow the community to participate in the setting of appropriate key performance indicators and performance targets for the municipality.

In order to accurately reflect the efficiency, quality and value services, performance indicators need to be designed with care. The involvement of the community in the development of the municipality's KPI, will increase the accountability of that municipality. Performance indicators aim to define how performance will be measured. Performance measures must be valid, timely,

resistant to undesired behaviour, comprehensive, non-redundant, focused on controllable facets of performance, trustworthy and easy to understand (Sewell, 2000:55; Jansen, 2003:11).

Performance indicators measure the actual performance to make the basis of evaluation understandable in advance, in order for managers and employees to review. Performance indicators should support the vision, mission and strategies of the organisation so that the performance objectives are supportive throughout the organisation (Sewell, 2000:38).

The process of developing indicators proceeds logically through a sequence of steps, as stated by DPLG (2002:19-20):

Step 1: PLANNING

This step takes place with the analysis of the IDP, where the major development issues that face the municipality are identified.

Step 2: DEFINING PRIORITY AREAS

This step will be part of the process of defining strategies, where the municipality will identify the priority areas, meaning those areas where the municipality wants to make a difference.

Step 3: DEFINING OBJECTIVES

The definition of clear objectives will take place when the IDP's are linked with certain programmes and projects. These objectives will be the goals that the municipality wants to meet by the end of a certain performance period.

Step 4: SETTING INDICATORS/PERFORMANCE MEASURES

Performance measures must be set so that the municipality can measure whether certain objectives have been met, in other words, if the municipality was successful in its programmes and projects. The municipality thus needs to decide what the current state of development is, what the end results should be, or what it wants to achieve and - of course - what input must be given with a view to achieve those results.

Management, together with employees, should identify the most important things to be measured. They must identify the measures that matter and the employees that make a difference to those measures. Then they must find the best way to improve processes to meet those measures. Employees should be allowed to suggest how to improve performance in those measures, because they are the people doing the work and they know what they need to improve. They are also the ones who will end up with more improved processes.

Step 5: SETTING TARGETS

A target is much the same as an indicator; targets are only the end-of-year indicators of what the municipality wants to achieve. Targets should be “SMART”: **S**pecific; **M**easurable; **A**ccurate; **R**elevant and **T**imely (DPLG, 2002:25).

Hornigren *et al.* (2003:786) suggest the following six steps for designing performance measures:

1. Select performance measures that are in line with the financial goals of top management.
2. Select an alternative measurement for each performance measure in step 1.
3. Choose a definition of the components in each performance measure.
4. Decide on a time limit for each performance in step 1.
5. Select a goal level of performance.
6. Choose the timing of feedback.

The White Paper on Local Government (quoted by Moodley, 2003:22), states the following: *Involving communities in developing some municipal key performance indicators increases the accountability of the municipality. Some communities may prioritise the amount of time it takes a municipality to answer a query, others will prioritise the cleanliness of an area or the provision of water to a certain number of households. Whatever the priorities, by involving communities in setting key performance indicators and reporting back to communities on performance, accountability is increased, and public trust in the local government system enhanced.*

Performance managers should ensure that they do not have too many or too few indicators. The ideal would be to use a balanced set of indicators that will cover most of the municipality’s areas, where they want to measure performance. The identification and weighting of these performance indicators will mirror the short and long-term strategic focus of the organisation.

According to the Department of Provincial and Local Government (DPLG) (2002:22), using too few indicators will not provide a clear picture of the dimensions of performance, and this will lead to a distortion of resources and effort. As a municipality will want to know how it is performing in most of its areas of operation, a major part of these areas should be covered by the set of performance indicators. The negative effects that arise from the principle “what gets measured, gets managed” may be avoided by sufficient coverage. Distortions in service delivery may be caused by performance measurement systems that focus only on a part of the municipality’s activities. To ensure that good performance is shown in the areas open to public scrutiny, the municipality will naturally want to put more effort and resources into these areas, and this may

result in poor performance in areas that are not covered by indicators because although these are also important, they are not addressed.

Although good coverage is essential, a municipality should also not have indicators for every single thing it does; too many indicators are unmanageable. What actions could be taken on the basis of the information, is for each indicator to answer, otherwise it should rather be ignored on the basis that it is simply a 'nice-to-know' indicator (DPLG, 2002:23).

Section 43 of the Municipal Systems Act gives the Minister the authority to prescribe general KPI's that every municipality must report on. SALGA (2003:4) stated the prescribed national KPI as follows:

- Percentage of households with access to all basic household services. These "basic household services" are water, sanitation, electricity and refuse removal.
- Percentage of households with imputed expenditure of less than R1100/month that have access to all free basic services;
- Percentage of capital budget spent on projects identified in terms of the IDP;
- Number of jobs created through local economic development initiatives supported by the municipality;
- Percentage achievement of approved employment equity plan within the first three layers of management;
- Percentage of skills levy received in rebate as a measure of the municipality's investment in human resource development; and
- Financial viability as expressed by the following ratios (Moodley, 2003:33):

1) $A = (B - C) / D$, where:

- A. represents debt coverage
- B. represents total operating revenue received
- C. represents operating grants
- D. represents debt service payments due within the financial year

2) $A = B / C$, where:

- A. represents outstanding service debtors to revenue
- B. represents total outstanding service debtors
- C. represents annual revenue actually received for services

3) $A=(B+C)/D$, where:

- A. represents cost coverage
- B. represents all available cash at a particular time
- C. represents investments
- D. represents monthly fixed operating expenditure

These indicators of a municipality's financial viability focus mainly on short-term financial situations, and municipalities will need to set their own indicators regarding their long-term financial situations.

Sewell (2000:73) defines the following four key budget indicators:

1. *Cost of capital borrowing*: This measures the average interest rate on borrowings up to the budget expectation.
2. *The council's cash management*: This measures the return on investments up to the budgeted percentage.
3. *Revenue debt*: This measure the percentage of council tax and service tariffs collected up to the budgeted targets.
4. *Budget variance*: This measures under or overspending in departments up to their profiled budget for each quarter of the financial year.

Swanevelder (2005:8) suggests that the following indicators should also be used regarding performance measurement in municipalities:

1. Analysis of the income statement of the rate and general services:
 - a. The percentage allocation of total income to the various expenditure item groups:

$$A = B \times 100/C$$

Where **A** = the % allocation

B = the values of the various expenditure-item groups respectively

C = the total operating income

- b. The percentage allocation of gross expenditure related to rates and general services:

$$A = B \times 100/C$$

Where **A** = the % allocation

B = the expenditure allocated to the subsidised, community and economic services respectively

C = the total operating expenditure of rates and general services

- c. The percentage allocation of total income from assessment rates subsidised and community services to the groups of services usually financed from those sources of income:

$$A = B \times 100/C$$

Where **A** = the % allocation

B = the expenditure related to the groups of services

C = the total income from assessment rates, subsidised, and community services

2. Analysis of the income statement of the electricity services: $A = B \times 100/C$

Where **A** = the % allocation

B = the values of the various expenditure-item groups respectively

C = the total operating income of the electricity service

3. Analysis of the statistical information related to the electricity services:

- a. Units (kWh) lost in distribution: $A = B - C$

Where **A** = the kWh lost in distribution

B = the kWh purchased and/or generated during the year (that is available for sale)

C = the kWh sold during the year

- b. Percentage loss in distribution: $A = B \times 100/C$

Where **A** = the % loss in distribution

B = the kWh lost in distribution (calculation 3a above)

C = the kWh purchased and or generated during the year

- c. Cost per unit (kWh) sold (in cents): $A = B \times 100/C$

Where **A** = the cost per kWh sold

B = the total cost to render the electricity service

C = the kWh sold during the year

- d. Income per unit (kWh) sold (in cents): $A = B \times 100/C$

Where **A** = the income per kWh sold

B = the total income from rendering the electricity service

C = the kWh sold during the year

e. Purchase (generating) cost per unit sold (in cents): $A = B \times 100/C$

Where **A** = the purchase and/or generating costs per kWh sold

B = the total purchase and/or generating costs related to kWh purchased or generated

C = the kWh sold during the year

f. Cost of distribution losses: $A = B \times C$

Where **A** = the cost of distribution losses

B = the total units lost in distribution (calculation 3e above)

C = the purchase (generating) cost per unit sold (in cents – calculated above)

4. Analysis of the income statement of the water services: $A = B \times 100/C$

Where **A** = the % allocation

B = the respective values of the various expenditure-item groups

C = the total operating income of the water service

5. Analysis of the statistical information related to the water services:

a. Kilolitres lost in distribution: $A = B - C$

Where **A** = the kilolitres lost in distribution

B = the kilolitres purchased and/or purified during the year (available for sale)

C = the kilolitres sold during the year

b. Percentage loss in distribution: $A = B \times 100/C$

Where **A** = the percentage loss in distribution

B = the number of kilolitres lost in distribution (calculation 5a above)

C = the kilolitres purchased and/or purified during the year

c. Cost per kilolitre sold (in cents): $A = B \times 100/C$

Where **A** = the cost per kilolitre sold

B = the total cost to render the water service

C = the kilolitres sold during the year

d. Income per kilolitre sold (in cents): $A = B \times 100/C$

Where **A** = the income per kilolitre sold

B = the total income from rendering the water service

C = the kilolitres sold during the year

e. Purchase/purification cost per kilolitre sold (in cents): $A = B \times 100/C$

Where **A** = the purchase/purification costs per kilolitre sold

B = the total purchase costs related to kilolitres purchased or purified

C = the kilolitres sold during the year

f. Cost of distribution losses: $A = B \times C$

Where **A** = the cost of distribution losses

B = the total number of kilolitres lost in distribution (calculation 5e above)

C = the purchase/purification cost per kilolitre sold (in cents – calculated above)

6. Percentage net surplus (or deficit) for all services: $A = B \times 100/C$

Where **A** = the % net surplus (deficit) for all services

B = the amount of the net surplus (deficit)

C = the total operating expenditure

7. Analysis of the appropriation section of the income statement: $A = B \times 100/C$

Where **A** = the % unappropriated surplus (or deficit) at year end

B = the amount of the unappropriated surplus (or deficit)

C = the total operating income for the year

The underlying principle behind the establishment of the national KPI's relates largely to tracking delivery on key national priorities, facilitating some level of benchmarking or comparison across municipalities and testing the workability of the performance management system (Moodley, 2003:30).

According to section 44 of the Local Government: Municipal Systems Act (32/2000): “*A municipality, in a manner determined by its council, must make known, both internally and to the general public, the key performance indicators and performance targets set by it for purposes of its performance management system.*”

Performance management is mostly concerned with inputs, processes, outputs and outcomes.

- **Inputs** are the costs and resources that organisations use to achieve specific outputs and outcomes. It is a measure of efficiency. It can be raw material, time, money as well as the skills and knowledge of employees. Thus, the more competent the employees are, the more effectively resources can be utilised (money, staff, staff time, facilities, equipment and supplies).

- **Processes** refer to the behavioural factors of employees in doing their jobs (strategies and techniques).
- **Outputs** are the measurable results of the work done by an organisation's employees, namely the goods and services provided. Outputs are thus the indications of the quantity of work done or services provided and not how well or how efficiently (classes taught, people served or applications processed).
- **Outcomes** are the impact that the results (outputs) have on stakeholders. This impact will show how effective employees are in doing their jobs. Outcomes describe what has changed as a result of a service being delivered. It is a measure of the effectiveness or the quality of the work performed (degree to which citizens are or feel safe).

It is important that managers only allocate resources to the activities that will lead to the achievement of a specific organisational objective (Sewell, 2000:37; Ammons, 2001:12).

Managers should be aware that result-orientated systems such as the PMS tend to only focus on what needs to be achieved. However, just as important as the "what" is the "how" this will be achieved. The **processes** and **outputs** should be of quality and employees should be motivated; they should make the processes, of which they form part, their own (Sewell, 2000:49).

Curtis (1999) cautions that collecting information costs money and that the cost dimension is closely related to the management saying: "keep it simple". At several points in a performance management system, the performance indicators required will impose costs:

- The registration of inputs, outputs or both by the performer in lieu of activity reports, worksheets and activity diaries.
- Regular monitoring – monthly and quarterly reports and consumer surveys – of outcomes.
- Analysing results and digesting outcomes in relation with inputs and then comparing them with competitors (monitoring unit costs).
- Establishing benchmarks and objectives for individuals, teams and for the organisation as a whole.
- Evaluating performance of individuals and teams as well as organisational performance.

5.4 COLLECTING BASELINE INFORMATION AND SETTING TARGETS

Strategy and vision are broad expressions of the organisation's general purpose, while objectives and performance targets are more precise, and state specifically what is going to be accomplished, and when.

The collection of this information can be time-consuming and expensive, but is necessary if the municipality wants to measure performance. It requires good skills and systems. It is important to note that not all indicators will have baseline information, but after a year there will be a baseline to set new targets. These targets must be clear, understandable and consistent with the goals of the organisation (DPLG, 2002:25).

The development of performance targets for managers and staff ensures that everyone plays their part in the strategy and can receive rewards for doing so. Non-financial rewards are better than financial rewards, since the real motivators are managers' pride in standards achieved, or their loyalty to the organisation and its aims, or peer pressure. It is complicated to maintain an open and objective performance management system when financial rewards are at stake, since employees can begin to see their financial rewards as a right, rather than something which has to be earned. The over-selling of performance-related rewards can demotivate staff by raising expectations which, in the end, may not be met (DPLG, 2002:25-30; Sewell, 2000:52).

Botten and Sims (2004:10) state that an organisation can proceed from their mission statement to performance targets by using the goal structure, which is a pyramid that parallels the organisation chart.

Figure 5.1: The goal structure pyramid



(Botten & Sims, 2004:10)

5.5 DATA COLLECTION, PROCESSING AND EVALUATION

The method of data collection will differ according to the choice of the municipality. Frequency of data collection depends on the indicator itself, because some of the indicators will be monitored less frequently and some data collection methods may be too expensive to be conducted on a regular basis. The benefit of the information should exceed the expenses of the collection of that information (DPLG, 2002:37).

The municipality will need to assign the responsibility of data collection to a specific person or department. This responsible person or department will then need to collect the data on a continuous basis throughout the year. Thus, municipalities should continuously monitor their performance, rather than simply determine what has been accomplished by the end of the year (DPLG, 2002:38).

The collected data will need to be processed and analysed in order to make it of any use for decision makers. This data will also need to be compared to other data, for instance past performance or targeted performance (DPLG, 2002:42).

If the monitoring process reveals that certain targets are unlikely to be met if performance achievements continue at the same level, then the municipality will need to investigate the programme or project to determine whether a change of strategy is required. Thus, the monitoring process can be used as an early warning system to warn the performance manager that a certain target will not be met (DPLG, 2002:42).

The municipality must specify which data must be collected; how the data will be collected, stored, verified and analysed; and what the format, frequency and content of the reports on the data should be. The monitoring process should be capable of detecting early indications of underperformance, and should provide for corrective measures such as training where underperformance has been identified. A comparison with the previous financial year and baseline indicators must be part of the performance measurement exercise (DPLG, 2002:33-34).

The various sources from which performance information can be collected are:

- The organisation's existing records, which is the simplest and cheapest source of information.
- Time logs, which will provide resource input information for labour-related efficiency measures.

- Community/employee surveys, which is a feedback mechanism on the community's and employees' perceptions regarding certain organisational facilities and services.
- Observer rating, where the provision and quality of services will be rated (DPLG, 2002:35).

5.6 AUDITING OF THE PERFORMANCE INFORMATION

Section 45 of the Local Government: Municipal Systems Act (32/2000) states: "*The results of performance measurements in terms of section 41 (1) (c) must be audited -*

- (a) as a part of the municipality's internal auditing processes; and*
- (b) annually by the Auditor-General."*

The auditing of performance information is necessary to prevent changes in measures and the collection of data, incorrect processing of performance information and poor documentation of performance measures. Biased information collection and reporting by those whose image is at stake in the performance measurement process will pose a problem. Audits are also intended to help managers to do a better job by identifying waste and inefficiency, and by recommending corrective action (DPLG, 2002:45-46).

Auditing should include an assessment of the functionality of the performance management system (PMS). It should state that the system complies with the Act and to what extent the municipality's performance measurements are reliable in measuring the performance of the municipality. The auditing should also focus on the integrity of the system that collects performance information and on the integrity of the information that is collected by the system (DPLG, 2002:46).

On the organisational level, an annual audit of the performance management system should be performed to ensure that it is aligned with its culture and business strategy. Management can use ratings to evaluate the system to certain criteria. They should make sure that the performance management system reflects the mission, culture and values of the organisation. Senior management should be actively involved in, and committed to the system. The organisational business strategy and key business drivers should be stated clearly. Organisational goals should be linked effectively to all the employees throughout the entire organisation. Effective two-way communication links should be established and feedback from multiple sources is necessary. The different performance standards for each employee should be linked to rewards, and employees should have a clear understanding of their responsibilities. The performance management system should also provide for employee training and education (DPLG, 2002:44-48; Anon., 2004b).

5.7 REVIEWING OF PERFORMANCE

Section 40 of the Local Government: Municipal Systems Act (32/2000) states that: “*A municipality must establish mechanisms to monitor and review its performance management system.*”

The purpose of performance review is to obtain an understanding of how successful performance has been in certain areas; how the municipality can improve on that performance; also of how poor performance has been in certain areas and how the municipality can change their strategies to meet objectives. The process of reviewing performance should be designed to provide feedback to employees about their strengths and weaknesses and, therefore, make recommendations on developmental opportunities that will impact on career progression for the employee and succession planning for the organisation. Performance reviews provide the opportunity to reflect on past performance as a basis for improvements and new developments (DPLG, 2002:50; Motsomi, 2002:15).

According to Sefala (2003:25) all too often communication between the employee and supervisor may be all but non-existent. Regular communication between the supervisor and employees is ensured by performance appraisal through performance feedback, and at the same time, employee accomplishments are recognised. Employees who believe that they are successful work harder, are more creative, take greater responsibility for the consequences of their deeds, try more challenging tasks and are willing to take greater risks. Managers, employees and personnel practitioners are enabled to intervene with appropriate actions. The basic purpose of performance appraisal is counselling and training. This purpose is achieved by the combination of feedback and the setting of specific objectives based on feedback. Performance feedback by the appraiser should not be transmitted widely, as this may lead to lack of trust between supervisor and employee. It should only be transmitted to the person concerned.

The reviewing of performance involves two steps:

1. *Evaluation*: In terms of the regulations, a municipality must identify its Strengths, Weaknesses, Opportunities and Threats in meeting its key performance indicators (KPI). Thus, the municipality identifies those factors that led to performance (either good or poor). Then the municipality must decide whether new initiatives should be introduced, or whether present ones need to be revised in order to meet the objectives.
2. *Review*: In terms of the regulations, a municipality must also review its KPI at the end of every performance cycle. The KPI will then be revised to measure performance during the next performance cycle (DPLG, 2002:51).

The process whereby the municipality will identify its **Strengths, Weaknesses, Opportunities and Threats** is known as the SWOT analysis. This analysis will enable management to interpret the information they have gathered about the municipality and its environment in relation to how it affects the ability of the municipality to reach its strategic goals. Strengths and weaknesses are usually internal to the organisation and opportunities and threats are external to the organisation (Botten & Sims 2004:68).

Strengths: things that the municipality is good at doing or a resource that it can call upon to reach the objectives. The question to ask here is: what internal capacities were available that should have contributed to good performance, but were not used to optimal effect? (DPLG, 2002:54)

Weaknesses: are resource shortages that prevent the municipality from reaching its objectives. The question here is: what internal factors contributed to poor performance? (DPLG, 2002:53).

Opportunities: are strategic challenges to the municipality which they can use to their own benefit. The question here is: what challenges could the municipality have taken advantage of in trying to improve performance, but didn't? (DPLG, 2002:53).

Threats: also refer to strategic challenges, but the municipality should take care to prevent them from happening. The question that should be asked is: what dangers or obstacles limited the municipality's capacity to meet its objectives? (DPLG, 2002:53).

Managers should establish some strategies on how they are going to prevent the weaknesses from becoming threats to the municipality. They should try to change their weaknesses into strengths and their threats into opportunities. Managers should therefore use the municipality's strengths to make the best use of the opportunities that come their way (Botten & Sims, 2004:68).

By doing its SWOT analysis, the municipality will be able to see what new activities need to be defined to meet objectives, and how its targets should be changed for the next year (DPLG, 2002:55; Botten & Sims, 2004:68).

Dessler (in Sefala, 2003:35) points out that employee participation in the appraisal process is emphasised by participative appraisal. The system makes use of supervisory ratings and, at the same time, also employee self-evaluation. The evaluation of the employee's performance over the past year is done independently by the supervisor and the employee. A final evaluation report is made upon the discussion of the independent evaluations. When the discussion is completed and the comments recorded, a set of goals and objectives, previously agreed upon, is drafted and the final performance ratings are recorded.

The evaluation of employee's performances is very important for the performance management system to be successful. These performance appraisals can influence employee retention, career progression, career development and so forth. Performance appraisals that can be used are the following (Anon., 2004b; Sefala, 2003:21):

- **Graphic rating scales (GRS):**

This technique is simple and easy to use and understand. Managers who make use of this technique develop a list of factors against which they rate a certain employee. These factors can include employee attendance, quality and quantity of work, relationships, behaviour, cooperation and so forth. Managers use a scale to grade the employees against those factors. The grading will be from unsatisfactory to outstanding.

- **Man-to-man comparisons:**

The supervisor is expected to compare individual employees on the basis of specific characteristics or work capacities.

- **Ranking:**

With this technique, all the employees are listed from the highest to the lowest in order of individual performance.

- **Appraisal by groups:**

An employee is evaluated by more than one supervisor who are familiar with his/her work performance.

- **Behaviorally anchored rating scales (BARS):**

With this technique, managers evaluate an employee's behaviour and not his/her characteristics. The development of the system is expensive and time-consuming. It is based on extensive job analysis and the collection of critical incidents for a particular job.

- **Essay appraisal:**

The supervisor evaluates the employees on their strong and weak characteristics.

- **360 degrees feedback:**

This is the process where an employee's performance is evaluated by the people who are in regular contact with that employee and not just by his/her manager. The 360 degrees means that the evaluation will be done by people who are above and below that employee in the organisational structure, as well as by his/her colleagues, customers and suppliers. This technique can also be used for employee development and is often referred to as multirater feedback.

- **Management by objectives (MBO):**

This is a process through which goals are set collaboratively for the organisation as a whole, various departments and/or sub-functions, and each individual member. With MBO, individuals are evaluated annually on the basis of how well they have achieved the results

specified by the goals. MBO, or goal setting, is particularly applicable to non-routine jobs, such as managers and project leaders.

Managers should compare actual performance with planned performance at the end of each reporting period in order to identify and understand the variances between actual and planned performance. They should use this information as feedback to promote learning and future improvement on that performance. They can also use non-financial measures to control and evaluate performance. Employees must receive feedback on their performance evaluations to understand the progress they are making towards the attainment of their performance goals, to identify their individual training needs and skills shortages, and to be able to adjust and change activities if noted that the original performance targets will not be met (Sefala, 2003:76).

5.8 SETTING OF NEW TARGETS

Municipalities may want to set new targets for the next performance cycle, because their objectives and activities have changed or their indicators need to be changed to become more relevant. In other words, they change to measure performance better (DPLG, 2002:28).

Performance improvements in some areas may mean that indicators have become unnecessary - if we assume that once performance targets have been met, performance will be maintained at that level without monitoring (DPLG, 2002:28).

One should, however, be careful not to change indicators all the time. If indicators are amended every year, comparisons between different municipalities as well as between previous years will no longer be possible and will thus become meaningless. Consistency and stability in the performance measurement system are important in the longer term (DPLG, 2002: 28).

Challenging targets will improve performance, because an inability to achieve targets is viewed as a failure. Employees are motivated to work more intensely to avoid failure than to achieve success. As employees get closer to a goal, they work harder to achieve it. Thus, performance managers must set challenging but achievable goals for employees. Creating a little anxiety improves performance, but overly ambitious and unachievable targets increase anxiety without motivation – because individuals see little chance of avoiding failure (DPLG, 2002:28).

5.9 REPORTING ON PERFORMANCE

Reporting to council and other stakeholders of the municipality should take place on a regular basis. Staff, for instance, will need regular reports of their past performance to keep them focused on the required targets that they need to meet at a certain point in time (DPLG, 2002:48).

According to section 46 (a) of the Municipal Systems Act:

A municipality must prepare for each financial year an annual report consisting of:

A performance report reflecting -

- (i.) The municipality's, and any service provider's, performance during the financial year, also in comparison with targets of and with performance during that financial year, also in comparison with targets of and with performance in the previous financial year;*
- (ii.) The development and service delivery priorities and the performance targets set by the municipality for the following financial year; and*
- (iii.) Measures that were or are to be taken to improve performance.*

Thus, a municipality is obliged to report on its performance during the previous cycle. They will need to have a performance report which indicates how the municipality and the municipal service providers performed, and which contains the priorities and targets set for the following financial year. Different information will be reported to different people or authorities. Reports to communities will be clear, simple, accessible and easy to understand and interpret. The most essential information will be the objectives; the indicators per objective; the targets; the source of information; the end-of-year performance; reasons for good and/or poor performance; and strategies to improve on performance for the next year, including new objectives, indicators and targets (DPLG, 2002:62).

Reporting on the progress of an organisation is an accountability function that involves the analysis of performance information and feedback on the evaluation to key stakeholders.

5.10 REWARDING PERFORMANCE

The outcomes of the performance management system can be linked to a reward or remuneration to act as motivation and encouragement for employees to reach their targets and objectives.

Management will need to develop a policy regarding the rewarding of performance and all employees need to be evaluated and treated using the same system. Furthermore, employees should be involved in the development of an incentive policy. Sometimes the employees can be a greater threat to the success of an organisation than the rivals of that organisation. Rewards in

monetary values are not always expected, and recognition and the expression of appreciation can also be regarded as ways of rewarding employees. What is important, is that an appropriate number of financial and non-financial rewards should be in place.

SALGA (2003:26-28) encourage non-cash recognition and reward systems. They developed the following principles regarding rewards:

- The value system of the municipality should be maintained.
- Employee commitment should be gained.
- Give the person who is doing the work the responsibility.
- The reward should be matched to the person. It should be something he or she values.
- Recognition should be made public.
- The reward should be matched with the achievement.
- The reward should be on time and should entail recognition for something specific.

SALGA (2003:28-31) proposed the following three types of non-cash rewards:

1. *Formal rewards linked to personal scorecards:* This is a form of non-financial reward that can be awarded to employees who have performed above average according to their appraisal score and are not receiving any bonuses. These rewards are separate from their salary packages and are a form of recognition for a specific achievement during the previous performance evaluation period.
2. *Achievement awards:* This kind of reward does not link directly to the evaluation of performance, but constitutes an extra means of encouraging performance and high achievement by measuring individual or departmental performance against other individuals or departments.
3. *Informal rewards:* This is a spontaneous kind of reward that involves no or low cost. It can be applied by any level of manager or colleague of an employee since it requires minimal planning and effort.

5.11 SUMMARY

To summarise the above discussion, it can be stated that the IDP, PMS and budget have an influence upon one another. The PMS is the link between the IDP and the budget. The basis on which the PMS is build, is the IDP. The IDP defines the municipality's priority areas, objectives and projects. The KPI's in the PMS, which measure the progress on IDP objectives, are derived from the priority areas and objectives in the IDP. Targets, which formulate the objectives outlined

in the IDP into goals, are set for each KPI. IDP objectives and their related PMS targets inform the structure and scope of the budget. The budget sets limits on what is achievable in the IDP. The IDP sets out what the municipality wants to achieve, and how it plans to achieve that. The PMS enables the municipality to monitor whether they are achieving their goals. The resources are provided by the budget and are used to achieve the municipality's goals (DPLG, 2002:159).

The most important steps in developing a performance management cycle or framework will be to develop indicators, collect baseline information for each indicator, set targets, and then link the indicators and targets to performance commitments of staff. Information collection, processing and analysis of that information will need to be done before it can be audited and reported on. These reports should be submitted to the municipal manager, the council, provincial government, the Auditor General and the local community. This will result in reviewing of strategies where performance has been inadequate, setting of new targets and reviewing of indicators, if necessary.

Systems which have been thought through and developed with a wide employee involvement are likely to be more successful and more integrated into everyday working patterns. This makes the time and effort necessary to do this worthwhile in the long term. Performance management must be implemented strategically, linked to the organisation's objectives with well thought through development phases and must be focused towards defined outputs and outcomes (Sewell, 2000:51).

CHAPTER 6: EMPIRICAL STUDY

6.1 INTRODUCTION

According to Mofokeng (2005) 41 officials from only one municipality were recently suspended for alleged corruption. Eleven of these officials were disciplined and dismissed while four of them were criminally charged. This is just an example of some of the tangible concerns in the bigger picture of local government throughout South Africa. In total there are 136 municipalities that have been placed under Project Consolidate. Mofokeng (2005) also stated that President Thabo Mbeki propounded that this initiative was created to assist those councils where something was going radically wrong. Throughout the country, most municipalities are in the process of discussions aimed at addressing the problems and challenges of corruption, backlogs and service delivery, and officials are busy implementing corrective actions.

An example of this can be found in the Kannaland Municipality where a recovery plan was implemented to normalise the situation where allegations of maladministration, non-compliance with statutory obligations and other serious malpractices are being investigated (Dowry, 2004). It is evident that individuals in responsible positions must be held accountable in situations such as these.

The current private sector approaches to performance management will need to be revised in order to support managers in a municipal context in local government. There is a need for low-cost systems that will assist municipalities in increasing their efficiency and effectiveness with regard to service delivery. Focusing on the manner in which municipalities manage their developmental role within the community will ensure improved services.

In this chapter, the researcher will determine the extent to which performance management systems are applied within a municipality by means of an empirical study. Thus, objective 1.4.2 (v) on page 6 will be addressed.

6.2 RESEARCH METHODOLOGY

6.2.1 Literature study

An extensive literature study was conducted in order to reach a thorough understanding of performance management and issues related to this, as well as its applicability within local governments. This study was conducted by using books, magazines, internet articles, financial journals as well as the applicable acts. The researcher used the information to reach

several conclusions regarding performance management and performance measurement within a municipal context. The following aspects of performance management were discussed:

- In Chapter 2, page 9, the theoretical background regarding performance management and performance measurement was discussed.
- In Chapter 3, page 36, benchmarking was discussed in order to provide a more profound understanding of best practices within local government.
- Different performance management models were discussed in Chapter 4, page 50.
- The practical steps required to develop a performance management plan were discussed in Chapter 5 on page 76.

6.2.2 Empirical survey

The empirical study was conducted at a local municipality A in the Western Cape. The questionnaire (Appendix B on page 154) consisted of 22 closed and 3 open-ended questions regarding the use and application of performance management and measurement within the municipality.

The total number of participants involved in the survey was 120. The participants were selected out of the entire population and they all answered a standard questionnaire. This 120 were selected from various levels, different ages, different genders as well as different years of experience within the municipality in order to obtain the most accurate reflection of employees' opinions in the municipality regarding performance management. Out of the 120 questionnaires that were distributed, only 78 responses were received, thus a percentage of 65%. The data that was collected from the different respondents will be analysed in order to arrive at an interpretation in relation to the entire population. Responses were handled with the strictest confidence by the researcher.

6.2.3 Unstructured interviews

A set of unstructured interviews was conducted with the different directors from various directorates. The following personnel participated in the discussions: the municipal manager, director corporate services, director community services, director financial services and director technical services, as well as other personnel involved with performance management, such as the head of human resources services. The results of the discussions will be used to table the proposed performance management framework in Chapter 7, page 123, which forms part of the recommendations put forward by this study.

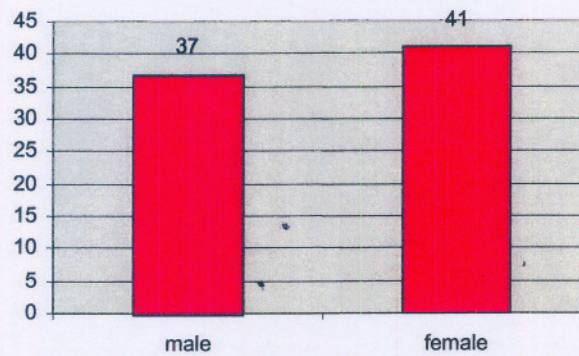
6.3 ANALYSIS OF THE QUESTIONNAIRE

6.3.1 Personal information

In question 1 of the questionnaire (Appendix B on page 154) regarding the participant's personal information, the results were as follows:

Regarding the gender of the participants:

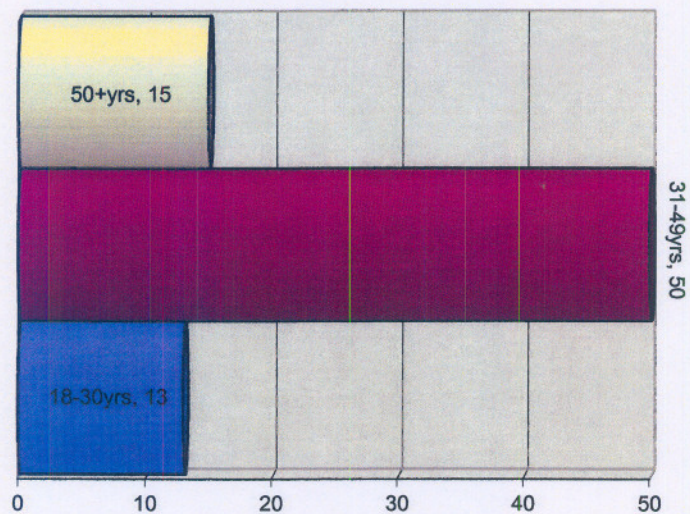
Diagram 6.1: The gender of the participants



47,44 % of the respondents were male and the majority, namely 52,56 % of the respondents were female.

In question 1 of the questionnaire (Appendix B on page 154) concerning the age of the respondents, the outcome was as follows:

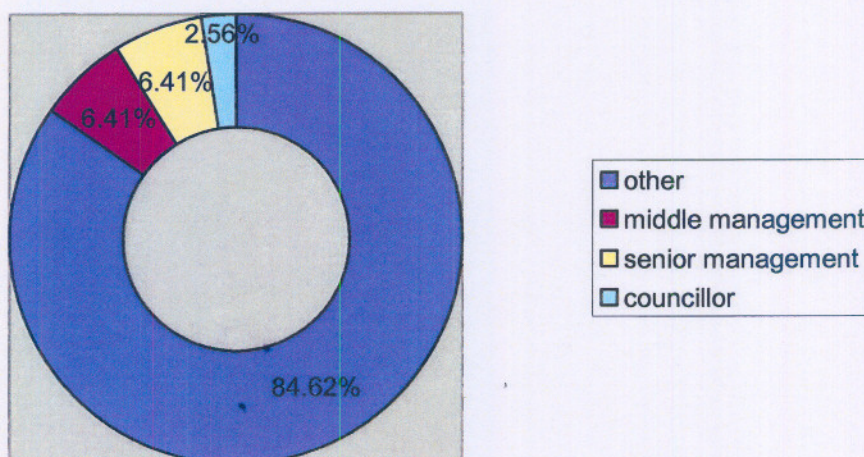
Diagram 6.2: The age of the participants



16,67 % of the respondents were between the ages of 18 and 30 years, 64,10 % of them were between the ages of 31 and 49 years and 19,23 % were 50 years and older.

In question 1 of the questionnaire (Appendix B on page 154) regarding the level of the respondents, results were as follows:

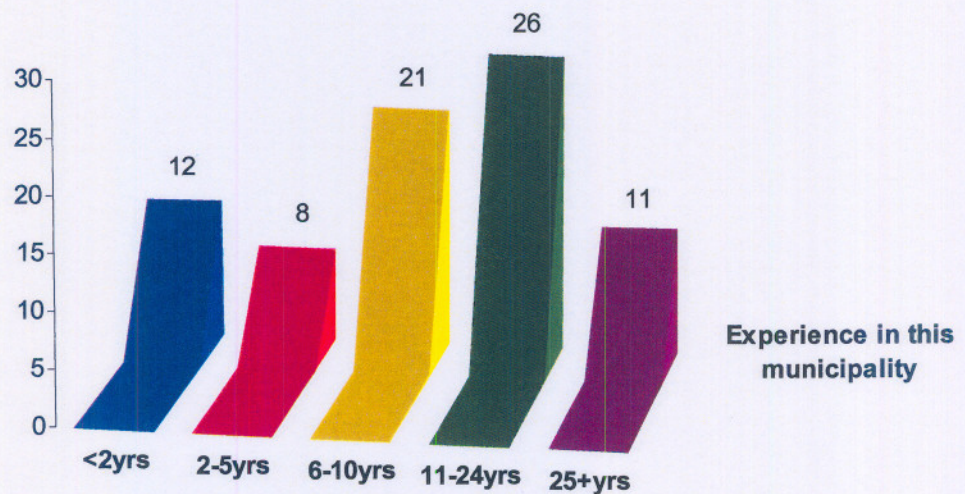
Diagram 6.3: The post levels of the participants



2,56 % of the respondents were councillors, 6,41 % were from the senior management level, 6,41 % from the middle management level and the majority (84,62 %) of the respondents were from various other levels within the municipality.

In question 1 of the questionnaire (Appendix B on page 154) concerning the respondents' years of experience within the municipality, the outcome was as follows:

Diagram 6.4: Respondent's years experience within the municipality

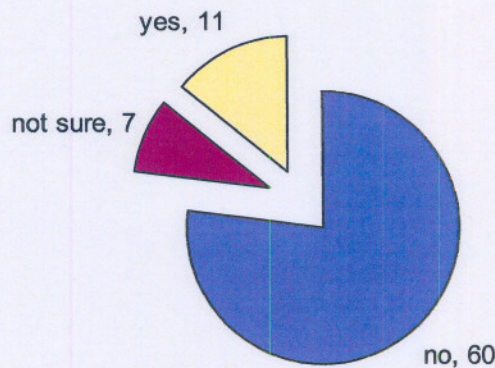


15,38 % of the respondents have working experience of less than 2 years within the municipality, 10,26 % have 2 to 5 years' experience, 26,92 % of the respondents have 6 to 10 years' experience within the municipality, 33,33 % have between 11 and 24 years of experience and 14,10 % have 25 or more years' experience.

6.3.2 Knowledge and understanding of the mission statement

In question 2 of the questionnaire (Appendix B on page 154) the question was asked whether the respondents knew and understood the mission statement, the results were as follows:

Diagram 6.5: Understanding of mission statement



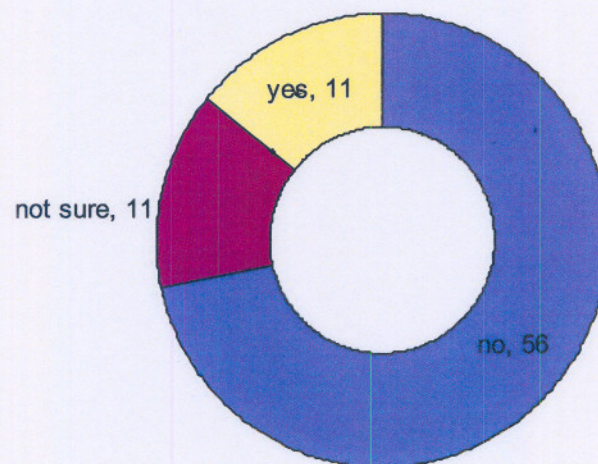
Only 14,10 % of the respondents knew and understood the mission statement of the municipality, 8,97 % of them indicated that they were not sure about the municipality's

mission statement and 76,92 % indicated that they did not have any idea of the mission statement and were not even really sure where to find it. It is clear that the employees of the municipality will need to be informed about the mission statement and actually also need to participate in the development of the mission statement.

6.3.3 The link between the strategic goals of the department and individual performance goals

In question 3 of the questionnaire (Appendix B on page 154) concerning the link between the goals of the department and individual goals, the outcome was as follows:

Diagram 6.6: Link between goals

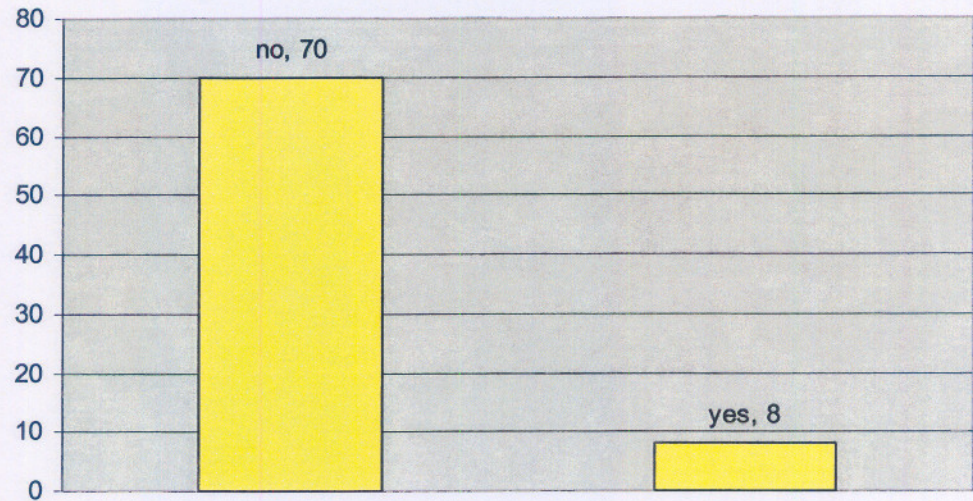


71,79 % of the respondents indicated that there was no link between their individual performance goals and the goals of the department, 14,10 % were not sure about the link and the other 14,10% indicated that there was indeed a link between their own goals and the goals of the department. Out of the above it is clear that there needs to be more goal congruence between individual employees and the different departments in which they are working, as well as between the departmental goals and the goals of the municipality as a whole.

6.3.4 Participation in the setting of personal goals in the workplace

In question 4 of the questionnaire (Appendix B on page 154) regarding participation during goal setting, the results were as follows:

Diagram 6.7: Participation during goal setting

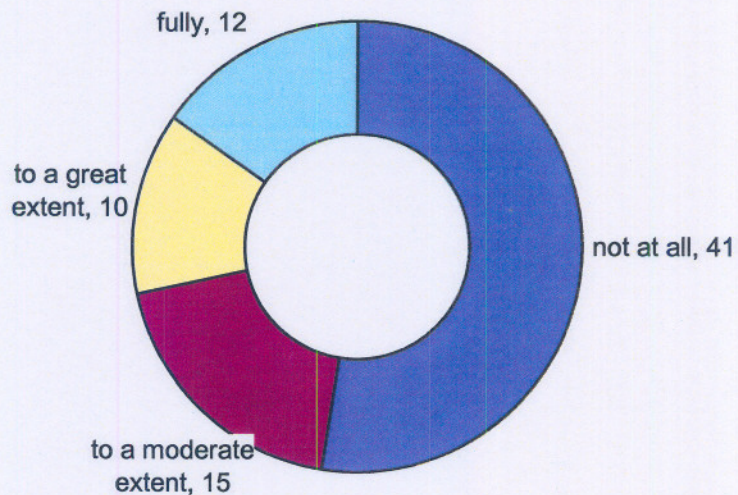


The majority of the respondents, namely 89,74 %, stated that they were not participating in the setting of their individual goals, while only 10,26 % of respondents felt that they were participating when their goals were set. Managers will therefore need to start taking employees' opinions and inputs into account when they are setting performance goals for those employees.

6.3.5 The extent to which performance depend on other factors

In question 5 of the questionnaire (Appendix B on page 154) regarding the dependence of the respondents' performance on other factors, the outcome was as follows:

Diagram 6.8: Dependence on other factors



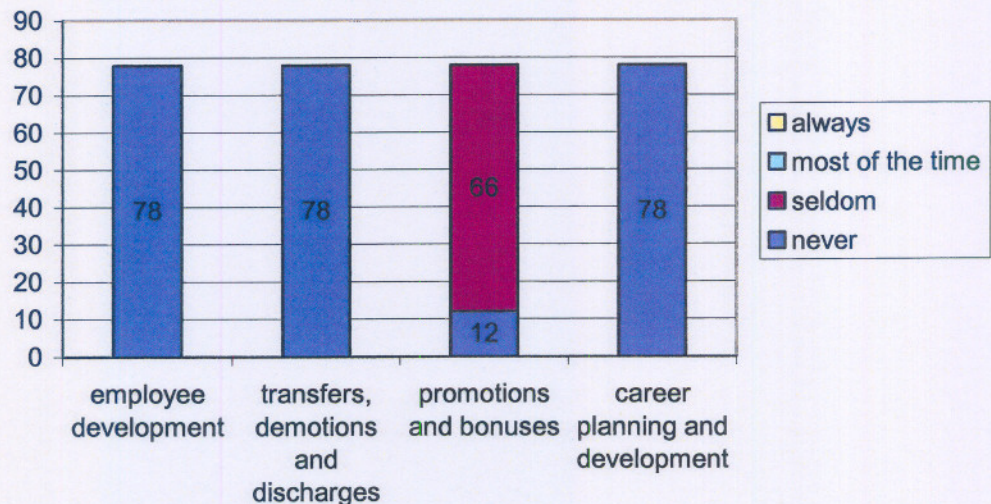
The majority of respondents (52,56 %) indicated that their performance did not depend on other factors than themselves, 19 % indicated that their performance was only dependent on other factors, while a moderate percentage, namely 12,82 % felt that their performance depended on other factors to a significant extent, and 15,38 % said that their performance was fully dependent on other factors. It seems as if dependency usually entailed obtaining a signature of approval from superiors or the waiting time when work is moving through the different workstations or stages of completion. Management can try to decrease the percentage of employees whose performance is dependent on other factors by performing some business process reengineering on the processes that they follow.

6.3.6 The degree of performance evaluation utilisation

In question 6 of the questionnaire (Appendix B on page 154) participants were asked to what degree they thought that performance evaluation was utilised, and the results were as follows:

Table 6.1 Performance evaluation utilisation degree	never	seldom	most of the time	always	Total
6.3.6.1 employee development	78	0	0	0	78
6.3.6.2 transfers, demotions & discharges	78	0	0	0	78
6.3.6.3 promotions & bonuses	12	66	0	0	78
6.3.6.4 career planning & development	78	0	0	0	78

Diagram 6.9: Performance evaluation utilisation degree



100 % of all respondents felt that performance evaluation was not utilised for employee development; transfers, demotions and discharges and/or career planning and development. 15,38 % indicated that performance evaluation was never used for promotions and bonuses while 84,62 % indicated that performance evaluation was seldom used for promotions and

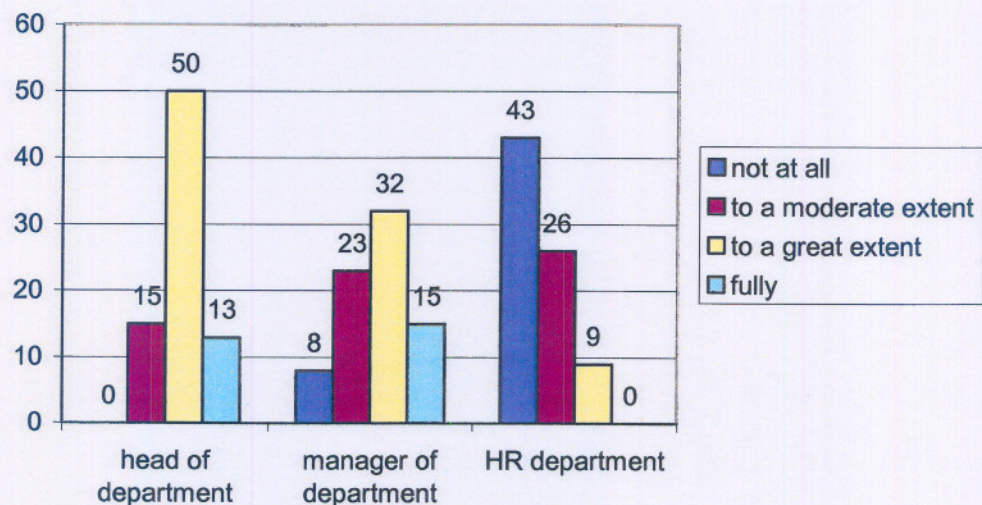
bonuses. This 84,62 % of respondents referred to senior management, where senior managers receive a performance bonus at the end of each financial year. As far as the other staff members were concerned, none of the employees received bonuses according to their work performance since everybody was awarded a bonus at the end of the year. Management can implement a performance bonus system whereby employees who perform well during the year will receive a bonus, which is something that can be used as motivation for employees to perform well and achieve their goals.

6.3.7 The extent of different role-players' knowledge and expertise to conduct performance evaluations

In question 7 of the questionnaire (Appendix B on page 154) regarding the extent to which the different role-players dispose of the necessary knowledge and expertise to conduct performance evaluations, the outcome was as follows:

Role-players' ability to conduct evaluations	not at all	to a moderate extent	to a great extent	fully	Total
6.3.7.1 dept. head	0	15	50	13	78
6.3.7.2 dept. manag	8	23	32	15	78
6.3.7.3 HR dept.	43	26	9	0	78

Diagram 6.10: Role-players' ability to conduct evaluations



The respondents indicated the knowledge and expertise of the different role-players as follows:

Head of department: 19,23 % - to a moderate extent and 64,10 % - to a great extent and 16,66 % - fully.

Manager of department: 10,25 % - not at all; 29,48 % - to a moderate extent; 41,02 % to a great extent and 19,23 % - fully.

HR department: 55,12 % - not at all; 33,33 % - to a moderate extent and 11,54 % to a great extent.

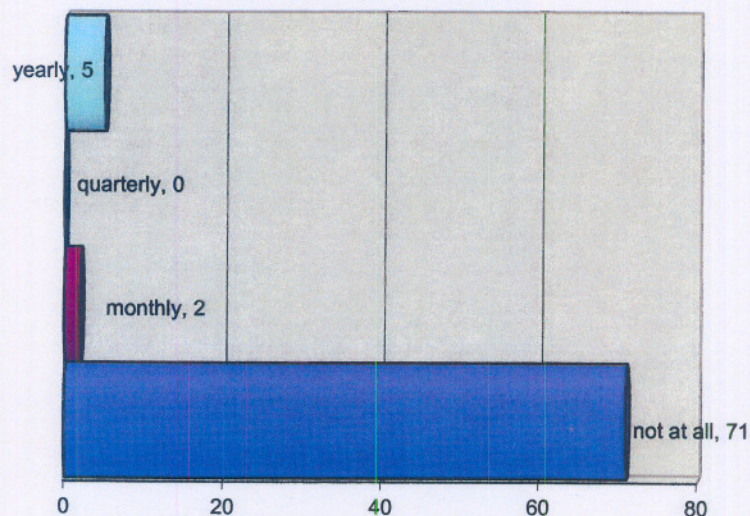
The majority of respondents felt that the head of the department was the most appropriate person to perform the evaluation since he or she knew exactly what was going on in that department; the department managers were not always aware of the day-to-day problems that existed and the HR department knew very little about all the departments and thus would not be able to make an informed decision.

6.3.8 The regularity of performance evaluation

In question 8 of the questionnaire (Appendix B on page 154) regarding the regularity of performance evaluation, the results were as follows:

Table 6.3 Regularity of evaluations				
not at all	monthly	quarterly	yearly	Total
71	2	0	5	78

Diagram 6.11: Regularity of evaluations

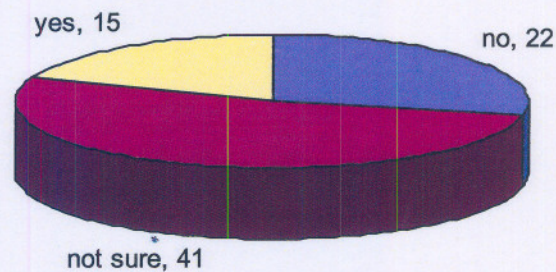


91,02 % of all respondents indicated that their performance was not evaluated at all. Only 2,56 % indicated that their performance was evaluated on a monthly basis while only 6,41 % felt that their performance was evaluated on a yearly basis. No respondents indicated that their performance was evaluated on a quarterly basis. Every single employee's performance will need to be evaluated on at least a yearly basis.

6.3.9 The uniformity in the evaluation of performance between different departments

In question 9 of the questionnaire (Appendix B on page 154) concerning the uniformity of performance evaluation between departments, the outcome was as follows:

Diagram 6.12: Uniformity in evaluation between departments

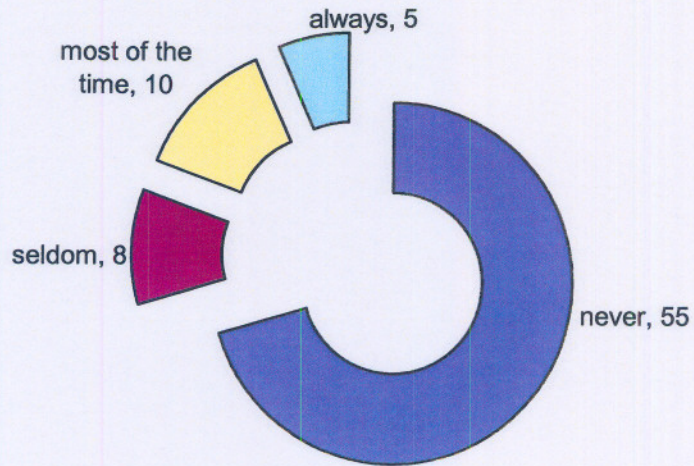


28,21 % of the respondents indicated that there was no uniformity in the evaluation of performance between the different departments, 19,23 % indicated that there was indeed uniformity in the evaluation process between the different departments while 52,56 % were not sure about uniformity with regard to performance evaluation between the different departments. It seems as if the respondents were not really sure about the performance evaluation process in their own departments and were even less informed about the processes that other departments followed. Management will need to inform employees on performance management and the processes which they follow in the evaluation of performance.

6.3.10 The degree of discussion of standards against which performance is evaluated

In question 10 of the questionnaire (Appendix B on page 154) regarding the degree of discussions of the standards against which performance was being evaluated, the results were as follows:

Diagram 6.13: Performance evaluation standards

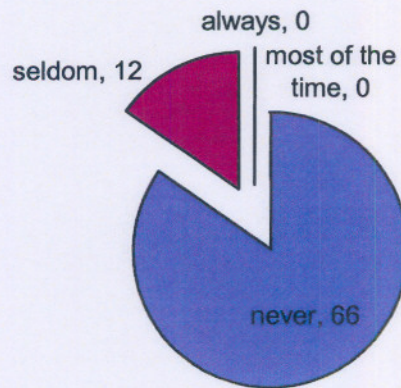


70,51 % of the respondents stated that the standards against which their performance was evaluated have never been discussed with them, 10,25 % felt that they were seldom informed about the standards, 12,82 % indicated that they were informed most of the time and only 6,41 % of them indicated that they were always aware of the standards on which they should perform. Managers or supervisors will need to communicate with their employees and inform them of the standards which they will be evaluated against.

6.3.11 The degree of mutual acceptance of self-evaluation results

In question 11 of the questionnaire (Appendix B on page 154) concerning the degree to which the employee as well as the evaluator accepted the results of the evaluation, the outcome was as follows:

Diagram 6.14: Self-evaluation results acceptance

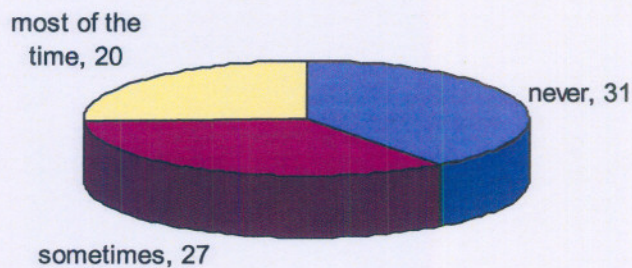


84,62 % of all respondents indicated that self-evaluation would never result in the employee accepting the results; and the same held true for the manager who evaluated the performance. The other 15,38 % of the respondents felt that both could seldom accept the results of self-evaluation. It is clear from the respondents' comments that they definitely did not use self-evaluation at this stage, but they did feel that if this were the case, managers' evaluation would always differ from that of the employees.

6.3.12 The degree of attendance of training courses

In question 12 of the questionnaire (Appendix B on page 154) regarding the attendance of training courses, results were as follows:

Diagram 6.15: Training course attendance

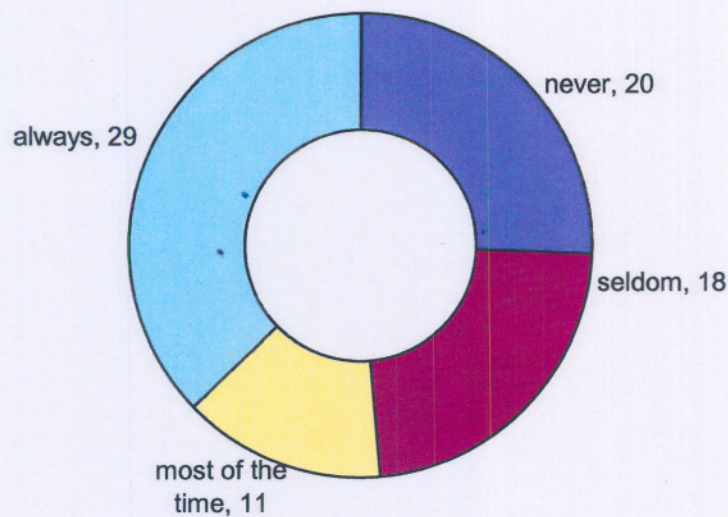


39,74 % of the respondents indicated that they have never attended any training courses, 34,61 % indicated that they have sometimes attend training courses while 25,64 % indicated that they attended training courses most of the time.

6.3.13 The degree of necessity to undergo specific training

In question 13 of the questionnaire (Appendix B on page 154) concerning the necessity for employees to undergo certain training, the outcome was as follows:

Diagram 6.16: Necessity for training

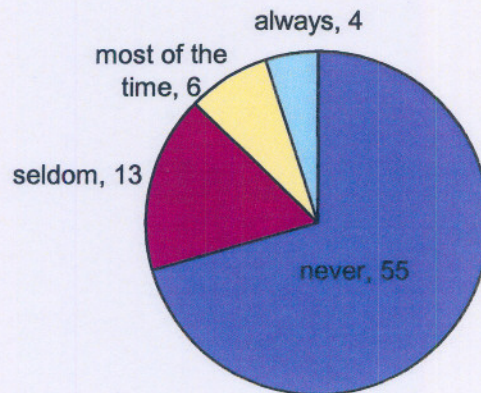


25,64 % of the respondents who did attend training courses felt that it was never really necessary for them to attend that courses, 23,07 % of the respondents who attended courses felt that it was seldom necessary for them to go; 14,10 % said that it was necessary to attend training courses most of the time and the majority of 37,17 % felt that it was always necessary for them to go. It seems as if management was sometimes sending the wrong people to the courses. Were they merely sending people to fill up the numbers, or did those employees really need training? Why did the employees not feel the same? Managers should assess the skill levels of their employees and use that assessment to decide who needs more training.

6.3.14 Compiling personal career objectives

In question 14 of the questionnaire (Appendix B on page 154) where respondents were asked to what extent the employee and his/her manager were consulting together to compile the employee's personal career objectives, the results were as follows:

Diagram 6.17: Compilation of career objectives

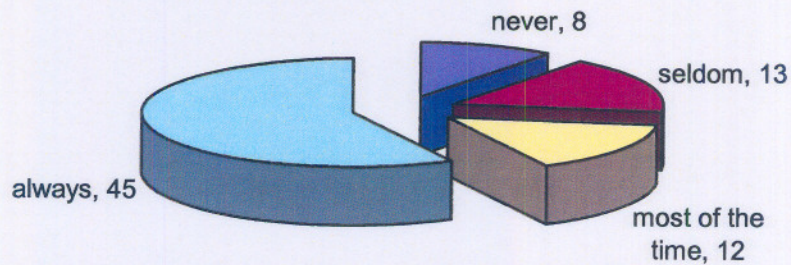


70,51 % of the respondents indicated that their managers never consulted with them to compile their personal career objectives. 16,66 % indicated that they seldom discussed their personal career objectives with their managers and 7,69 % compiled their career objectives with their managers. Only 5,12 % felt that managers always worked with them to compile their personal career objectives. Some of the respondents stated that their managers did not care about them as individuals, and were only concerned about them getting the job done. Managers should think about the well-being of their employees and consult with them to discuss their personal career objectives, and they should assess whether their objectives are in line with the performance goals which managers have for them.

6.3.15 Promotion decisions

In question 15 of the questionnaire (Appendix B on page 154) regarding the perception of promotions among respondents, the outcome was as follows:

Diagram 6.18: Bias in promotion decisions

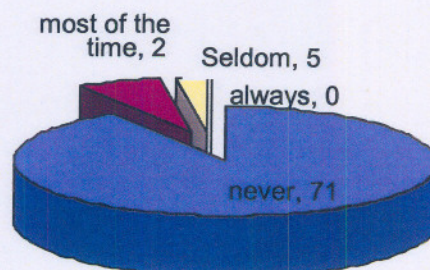


10,25 % of all respondents felt there was no bias when promotion decisions were made, 16,66 % felt that bias was seldom a problem, 15,38 % said they thought that bias did exist most of the time and 57,69 % felt that there was always a problem with bias when promotions were at stake. Managers can decrease this negativity of their employees by using a 'performance scale' when they evaluate the performance of their employees. The employee with the highest 'performance point' should then be promoted.

6.3.16 Relation of bonuses to excellence in job performance

In question 16 of the questionnaire (Appendix B on page 154), the relation between bonuses and excellent performance were addressed, and the results were as follows:

Diagram 6.19: Relation between bonus and performance

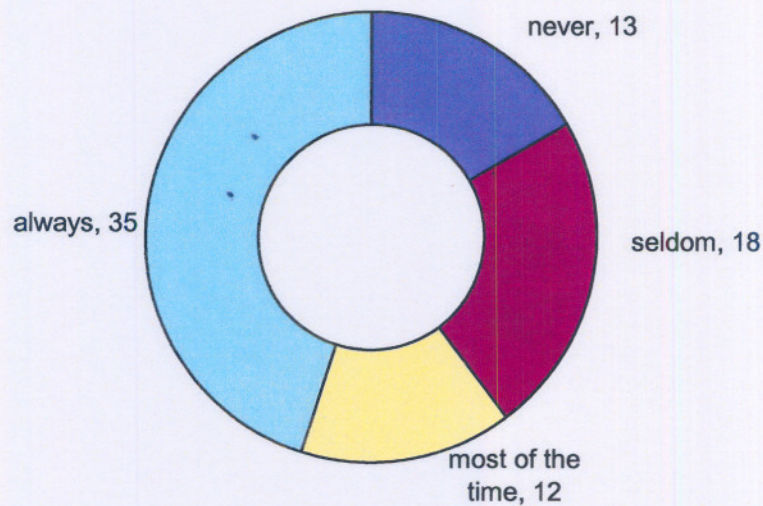


91,02 % of all respondents indicated that bonuses were never related to outstanding job performance since everybody gets a 13th cheque (bonus) and only senior management gets a performance bonus. 6,4 % thought that bonuses were seldom related to the way that the job was done. Only 2,56 % said that bonuses were related to job performance most of the time.

6.3.17 The impact of job performance to future promotion

In question 17 of the questionnaire (Appendix B on page 154) concerning the degree to which performance will affect future promotion, the outcome was as follows:

Diagram 6.20: Performance and promotion

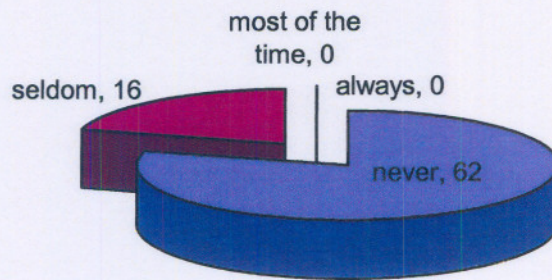


16,66 % of the respondents indicated that job performance would never affect future promotions, 23,07 % felt that their job performance would seldom lead to promotions and 15, 38 % said that job performance would lead to promotions most of the time, while 44, 87 % indicated that their job performance would always affect promotions. Some of the respondents indicated that job performance would rather be a reason not to be promoted than a reason to be promoted. They felt that management concentrated too much on the negative side and that employees never get a 'pat on the back'.

6.3.18 Frequency of feedback

In question 18 of the questionnaire (Appendix B on page 154) regarding the frequency of employee feedback on performance, the results were as follows:

Diagram 6.21: Performance feedback

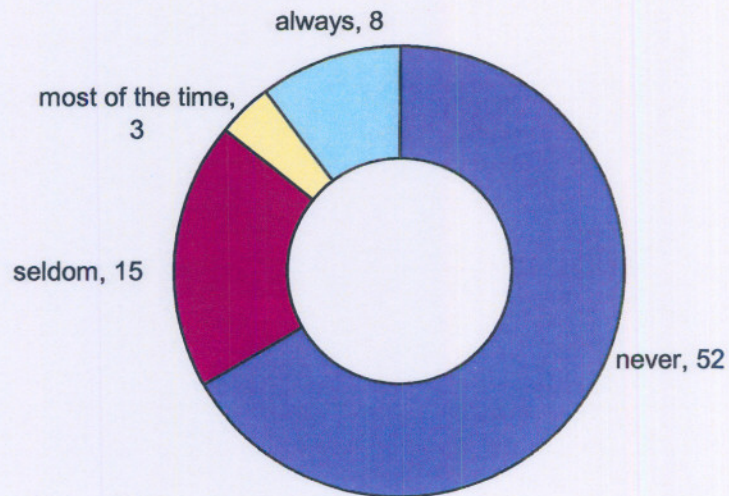


The majority, namely 79,48 % of the respondents indicated that they have never received any feedback on their performance and the other 20,51 % indicated that they have seldom received feedback. Some of the respondents stated that they only received negative feedback or received feedback when things were not going according to plan. Management will need to put a system in place whereby the employees receive feedback on their performance on a regular basis. This feedback can also help to implement corrective action when necessary.

6.3.19 The frequency of remedial training for improving performance

In question 19 of the questionnaire (Appendix B on page 154) regarding remedial training for performance improvement, the outcome was as follows:

Diagram 6.22: Remedial training

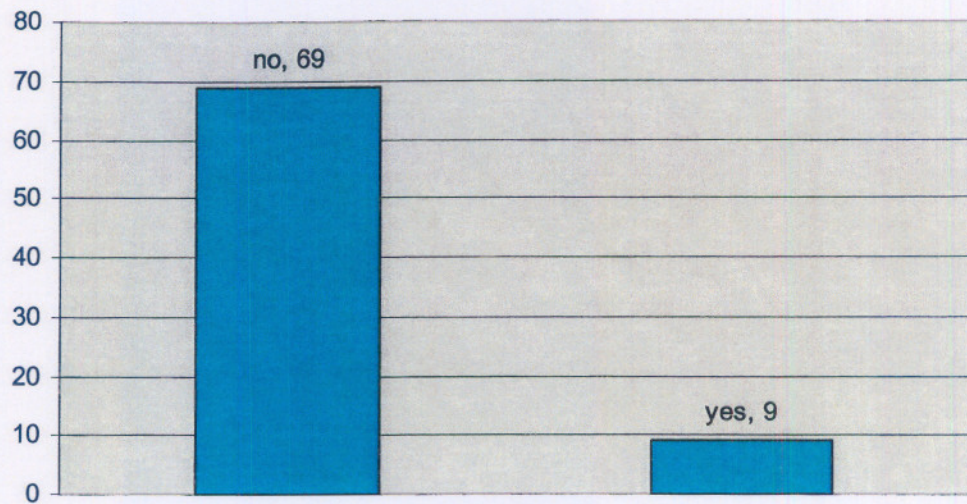


66,66 % of the respondents felt that they were never provided with remedial training to improve their performance. 19,23 % felt that they were seldom provided with remedial training, 3,84 % said that they were provided with remedial training most of the time, and 10,25 % indicated that they always received remedial training which enabled them to improve their performance. Managers should make sure that the right people are trained for improving on the right job.

6.3.20 Employees' knowledge on performance management

Question 20 of the questionnaire (Appendix B on page 154) aimed to determine whether employees were informed about performance management, and the outcomes were as follows:

Diagram 6.23: Performance management knowledge



88,46 % of all respondents indicated that they were not sufficiently informed about performance management, while only 11,54 % of respondents felt that they knew and understood the whole performance management issue. This is definitely a problem and probably the first step where one should start to address the issue. Employees will first need to be informed about performance management before they can become part of the performance management system.

6.3.21 The extent of relating the relative importance of performance goals to individuals

In question 21 of the questionnaire (Appendix B on page 154) regarding the importance of performance goals, the outcome was as follows:

Diagram 6.24: Importance of goals

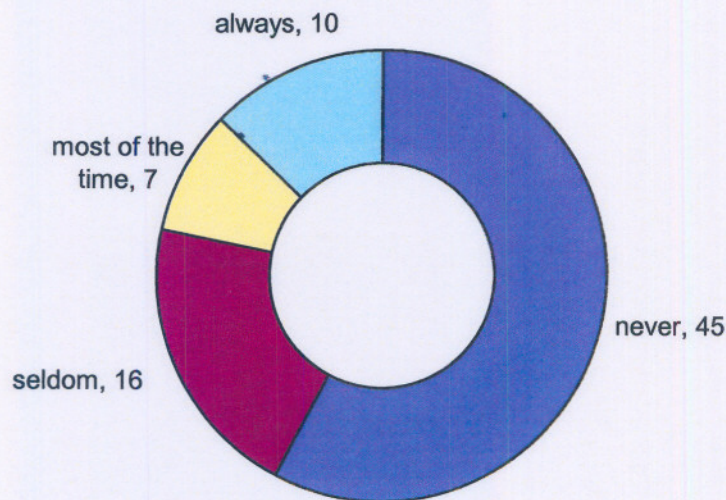


74,36 % of the respondents indicated that the relative importance of their performance goals was not discussed with them at all. 25,64 % of the respondents said that the relative importance was discussed with them to a moderate extent. Once again, the problem of communication is raised. Managers or supervisors will definitely need to talk to their employees more often about things that really matter and inform them about issues that will affect them or will be affected by them.

6.3.22 Expectations of performance goals

In question 22 of the questionnaire (Appendix B on page 154) regarding the degree to which performance expectations were too high, the results were as follows:

Diagram 6.25: Goal expectations



Only 12,82 % of the respondents felt that managers' expectations of them were always too high. 20,51 % felt that the expectations were seldom too high, while 8,97 % indicated that expectations were too high most of the time and the majority, namely 57,69 % of them thought that managers' expectations were never too high.

6.3.23 Understanding performance management

In question 23 of the questionnaire (Appendix B on page 154) the participants were asked what they understood under performance management. A summary of their responses follows below.

From the various answers of respondents it is evident that most of the employees did not have any idea what performance management entails. Some of them mentioned the

performance bonuses which senior managers receive by the end of each financial year. One mentioned that PM is about constantly delivering more and more services to the public. Some of them stated they have never heard of PM before. The closest answer was that PM is used to improve service delivery to the community.

Managers and supervisors will definitely need to present information sessions to their employees where they can be thoroughly informed about performance management and the processes that will follow.

6.3.24 Motivation by means of a reward system

In question 24 of the questionnaire (Appendix B on page 154) participants were asked which type of reward system would motivate individuals to perform in achieving their goals. They answered as follows:

The majority of respondents stated that money would be their main motivator. Some indicated that if they had the necessary resources to perform in their jobs, they would definitely do so, but apparently they were always struggling to obtain the necessary resources and were thus demotivated. Some mentioned that a more structured workflow and an updated database system would also help to improve their performance.

6.3.25 Mechanisms regarding accountability

Question 25 of the questionnaire (Appendix B on page 154) was asked to determine which mechanisms were in place to hold different role-players accountable. Responses are summarised below.

The respondents indicated that they thought that the mechanisms for the public to hold the municipality accountable were the municipality's IDP, the council and the elections. The mechanisms for the councillors to hold the municipality accountable were legislation and the different acts, and the mechanisms for the employer to hold the employee accountable were the employees' job descriptions.

6.4 LIMITATION OF THE QUESTIONNAIRE

From the analysis of the results of the questionnaire, paragraph 6.3 from page 101, it has been established that no performance management system exists within the municipality. Furthermore, the researcher decided to use unstructured interviews (conducted with the municipal manager,

director corporate services, director community services, director financial services and director technical services as well as the head of human resource services). These interviews, that assumed the form of discussions, were held to assist the relevant interviewees to compile departmental objectives, indicators and performance targets which are needed for the recommendations in Chapter 7 on page 123, regarding a proposed performance management framework for the municipality.

6.5 SUMMARY

Without the pressure of actual competition or the unforgiving bottom line of profit or loss, municipalities tend to neglect performance measurement as they focus on things that they regard as more important. Management tools are more effective in the hands of managers who understand them and know how to use them. The proposed PMS is based on mutual organisational learning and problem-solving; and with simple, indirect, low-cost information gathering techniques, it would be easy to use and understand for existing managers and their employees (Ammons, 2001:6).

Since the participants who responded to the questionnaire differ in terms of age and gender, and have different number of years' work experience and are also from different levels in the municipality, it is clear that this sample of respondents can be used as an example of the entire population working within the municipality. If the responses are taken into account, it is evident that there is no working performance management or performance measurement system or plan in place. The results regarding the questions are shown under the relevant paragraphs 6.3.1 to 6.3.25 on p 99. The questionnaire can be divided into the following categories of questions:

Personal and knowledge

- Personal information regarding the participants
- Knowledge of the mission statement and performance management
- Knowledge and participation in strategic and personal goals

Training

- Attendance, frequency and necessity for training

Career

- Compilation of career objectives
- Reward system, promotions and bonuses

Performance goals

- Relating performance goals with individuals
- Expectations of individual performance goals

Performance evaluation

- The degree of performance evaluation utilisation

- The knowledge and expertise to conduct evaluations
- The uniformity, discussions and acceptance of the performance evaluation process and results
- Frequency of evaluation and feedback as well as mechanisms regarding accountability

From the literature study, the best performance management model to use within a municipal context would be the balanced scorecard. In Chapter 7 on page 123 the conclusions and recommendations regarding a proposed performance management framework will be presented. This framework will assume the form of a balanced scorecard. Data gathered through the discussions and from the municipality's IDP will be used to develop that framework's content.

CHAPTER 7: RECOMMENDATIONS AND CONCLUSIONS

7.1 INTRODUCTION

Municipalities should put a system in place that reflects their ability to accommodate the community's expectations and to improve their overall performance with regard to service delivery. With this chapter, the primary objective (paragraph 1.4.1 on page 5) will be addressed with the presentation of a performance management framework for a municipality. Recommendations regarding an appropriate performance management system will also be made.

Jansen (2003:73) quoted the following from the Performance Management Guidelines for Municipalities by the Department of Provincial and Local Government. It is questions that need to be answered when designing a PMS:

- When is the onset of the performance management system?
- Of which components does the performance management system consist?
- Who is going to manage whose performance?
- When will the monitoring, measuring and reviewing of the performance take place?
- What feature of performance will be managed?
- What is the response going to be with regard to good and poor performance?
- What actions need to be taken to make this work?

These questions should thus be used by managers to ensure that their performance management system contains all the right factors.

The data gathered from the literature study (Chapter 2, page 9; Chapter 3, page 36; Chapter 4, page 50 and Chapter 5, page 76) and the information received from the analysis of the questionnaire (paragraph 6.3, page 101) were taken into consideration to reach conclusions regarding the current use of performance management within the municipality. After discussions with some key personnel regarding performance management, departmental objectives, indicators and performance targets, a performance management and measurement framework was developed and recommended. The conclusions (paragraph 7.2, page 124) and recommendations (paragraph 7.3, page 125 and 7.4, page 129) regarding the study, will follow.

7.2 CONCLUSIONS REGARDING THE EXISTENCE OF A PERFORMANCE MANAGEMENT PLAN/SYSTEM

From the analysis of the questionnaires (paragraph 6.3, page 101) it is evident that the municipality is not currently using a performance management or measurement system and that there is definitely a need for such a system. The following conclusions were reached:

- The majority, namely 76,92%, of the employees did not understand the municipality's mission statement and most of them did not even know the mission statement, (diagram 6.5 on page 103).
- There were no links between organisational and/or departmental and/or individual goals, (diagram 6.6 on page 104). 71,79 % indicated there were no link and 14,10% were not sure about the link.
- Employees did not participate in setting their goals, (diagram 6.7 on page 105). 89,74 % of the respondents stated that they were not participating in the setting of their individual goals.
- Work was not flowing fluently through the different workstations and a great deal of time was wasted that way, (diagram 6.8 on page 105).
- Performance evaluations were not used for employee development, bonuses, promotions and career planning, (diagram 6.9 on page 106).
- No evaluation system was in place which could act as an early warning system, 91,02% indicated that their performance was not evaluated at all (diagram 6.11 on page 108).
- Only 19,23 % of the respondents indicated that there were uniformity in the evaluation of performance between the different departments, (diagram 6.12 on page 109).
- Employees are not aware of the standards against which their performance are evaluated, 70,51 % stated that the standards were never discussed with them and 10,25 % were seldom informed, (diagram 6.13 on page 110).
- Employees' skill levels were never evaluated to assist in decisions regarding necessary training courses for employee development, (diagram 6.16 on page 112), 25,64 % of respondents who did attend training courses indicated that it was never really necessary for them to attend.
- Managers were not consulting with their employees to compile their personal career objectives, (diagram 6.17 on page 113).
- Employees barely ever (79,48 %) received feedback on their performance or previous work done, (diagram 6.21 on page 116).
- A significant communication gap existed between management and lower level employees, (diagram 6.23 and 6.24 on page 118).

Out of chapters 2 to 5, from page 9, the following is concluded:

- Directors and department heads can use performance measures to monitor and improve their performance measurement system;
- Employees can use performance measures to monitor and judge their specific municipality, and
- The local community can use performance measures to measure if the municipality's services are what they expected and measures up to what has been promised.

If performance management systems are used effectively, they can have an important impact on the operations and success of the municipality. With performance management, municipalities will now be more concerned about the community and they will make genuine efforts to relate their goals and aspirations towards achieving the municipality's goals.

The theoretical background in chapters 2 to 5 starting on page 9, made it clear that municipalities can use the PMS to:

- Make better and more informed decisions;
- Improve their services to the community;
- Improve the relationship between effectiveness and transformation;
- Make better use of their limited resources, and
- Their accountability will improve.

7.3 RECOMMENDATIONS

According to Moodley (2003:77), The White Paper on Local Government as well as the Municipal Systems Act have proposed performance management as a tool to promote openness, participation and development at a local level. There have been, and in future, there will be instances where these goals are undermined. Significant actions will need to be taken by national government, developmental local government and by the critics of managerialism to protect the integrity of this tool and to ensure that it builds democracy at a local level, holds local government accountable to its citizens, speeds up service delivery and improves the quality of life for all.

7.3.1 Recommendations regarding the existence of a performance management plan/system

The secondary objective, paragraph 1.4.2 (v), page 6 is to determine the degree of application of performance management systems. A questionnaire were distributed and analysed and the recommendations regarding that questionnaire is as follows:

- Employees must be informed and need to be part of the development of the mission statement, diagram 6.5 on page 103.
- An effort should be made to have more goal congruence between individuals, departments and the organisation as a whole, diagram 6.6. on page 104.
- Employees' opinions and inputs should be taken into account when performance goals are set, diagram 6.7 on page 105.
- With business process reengineering, work will flow more fluently through the different stages and thus time (and money) will be saved, diagram 6.8 on page 105.
- Management can implement a performance bonus system, so that only the employees who perform well will receive bonuses. This can be used as a motivational tool. Performance evaluation can also be useful in promotion decisions, so that the employee with the highest 'performance point' will receive the promotion, diagram 6.9 on page 106.
- Performance evaluations must be conducted at least once a year, to act as an early warning system, in order to implement remedial action, diagram 6.11 on page 108.
- The evaluation system of all the departments needs to be based on the same principles and there needs to be uniformity in the evaluation process, diagram 6.12 on page 109.
- Employees need to be aware of the standards against which their performance will be evaluated, diagram 6.13 on page 110.
- Managers need to assess their employees' skill levels on a regular basis to decide on remedial training or further development courses, diagram 6.16 on page 112.
- Managers should consult with their employees and they should compile employees' personal career objectives together, in order to bring individual goals and departmental goals in line with each other, diagram 6.17 on page 113.
- Management will need to put a system in place whereby employees will receive feedback on their performance and previous work on a regular basis. This feedback will help to implement corrective action before it is too late, diagram 6.21 on page 116.
- Managers will need to communicate with their employees on a regular basis and inform them about issues that will affect them or will be affected by them, diagram 6.23 and 6.24 on page 118.
- Employees will need to be informed about performance management, its uses and benefits as well as the performance management process, diagram 6.23 on page 118.

Better performance in the local government sector requires the following (as stated by Curtis, 1999):

- learning at all levels across the organisation (since learning improve performance);
- amendment and accommodation;

- finding solutions at local levels where possible (rather than driving a centrally determined best practice);
- sideways distribution of these solutions;
- observing from the centre, not for traditionalism but for learning and for corrective action;
- the development of policies, and
- time.

7.3.2 Recommendations regarding the conceptualisation of performance management and performance measurement

Regarding the secondary objective 1.4.2 (i) on page 5, namely the conceptualisation of performance management and performance measurement as in the literature, the following recommendations can be made:

- Performance measures can be used to monitor strategic initiatives to guide the budget process and to allocate resources (paragraph 2.2 on page 10).
- Performance measures can be used to monitor priorities as in the IDP and to make the municipality more accountable towards the community and other stakeholders (paragraph 2.2 on page 10).
- All employees should be involved in the organisation as far as possible (paragraph 2.4 on page 16).
- The community should be involved in the development of the performance measures as well as in the reviewing process (paragraph 2.5 on page 17).
- Individual employee performance should be linked to the strategic goals and the business plan – then there would be a coherent effort towards the performance of the organisation as a whole, since the employees will understand what is expected of them (paragraph 2.5 on page 17).
- Performance management can indicate possible problem areas at an early stage to implement corrective action (paragraph 2.10 on page 32).
- Performance measures can be used to help managers to identify the strengths and weaknesses of the organisation (paragraph 2.10 on page 32).
- Performance management is the general system used to enhance dedication and employee and organisational efficiency, effectiveness and, economy (paragraph 2.11 on page 34).
- Performance management will provide feedback to managers regarding the techniques and strategies that are working (paragraph 2.11 on page 34).

- Performance management is a process that will affect the municipality's success by forcing managers and employees to work together in order to achieve expectations, review results and reward performance (paragraph 2.11 on page 34).

7.3.3 Recommendations regarding the best practices in local government

The secondary objective, namely to discuss the best practices within local government, paragraph 1.4.2 (ii) on page 6, was addressed in Chapter 3 on page 36 and the following recommendations can be made:

- Best practices should be used as a selection of actions and processes to incorporate efficiency and increase the delivery of services that are rendered to the local community as well as reporting to different stakeholders (paragraph 3.1 on page 36).
- Managers can use benchmarking to learn how other companies are achieving those levels, so that the process can be applied to their municipality (paragraph 3.1 on page 36).
- The tool of benchmarking can be used to monitor and control the productivity and quality of the services delivered by the municipality (paragraph 3.1 on page 36).
- Management needs to buy into the process and a suitable organisation should be selected to benchmark against (paragraph 3.5 on page 42).
- Best practices can be used to enhance strategic decision-making; to reduce the operating budget and to compare costs (paragraph 3.6 on page 46).

7.3.4 Recommendations regarding various performance management models

Research was conducted on various performance management models and specific reference was made to the balanced scorecard, as indicated in the secondary objective in paragraph 1.4.2 (iii) on page 6. The following recommendations can be made regarding the balanced scorecard:

- The balanced scorecard can be used to reduce the importance that senior managers assign to the short-term financial performance of their organisation and increase the importance of non-financial measures (paragraph 4.6 on page 55).
- It can be a valuable management tool that satisfies the need for improvement and change (paragraph 4.6 on page 55).
- The BSC can be used to shift the municipality's focus away from the projects and initiatives and towards the outcomes that these projects and initiatives should achieve (paragraph 4.6 on page 55).

- Senior managers must have consensus and clarity on the vision and strategy of the organisation (paragraph 4.6 on page 55).

7.3.5 Recommendations regarding the development of a performance management plan

In Chapter 5 on page 76, the theory regarding the different steps to set up a performance management plan was investigated with a view to reach the secondary objective as stated in paragraph 1.4.2 (iv) on page 6, and the following recommendations can be made:

- A performance management plan should be developed to record, analyse and distribute performance information (paragraph 5.1 on page 76).
- In order for the performance management system to be effective, performance data must be collected, analysed and evaluated for use (paragraph 5.1 on page 76).
- The PMS should be based on the IDP, and the system can be used to monitor if the municipality is achieving its goals (paragraph 5.11 on page 97).
- The steps for developing a PMP are: to develop indicators; collect baseline information for each indicator; to set targets; and then to link the indicators and targets to the performance commitments of staff (paragraph 5.11 on page 97).
- PM reports should be submitted to all stakeholders (paragraph 5.11 on page 97).
- PM must be implemented and should be strategically linked to the municipality's objectives with carefully considered development phases, and must be focused on defined outputs and outcomes (paragraph 5.11 on page 97).

7.4 RECOMMENDATIONS FOR A PERFORMANCE MANAGEMENT AND PERFORMANCE MEASUREMENT FRAMEWORK

The primary objective as stated in paragraph 1.4.1 on page 5, namely to develop a performance management framework, will be achieved with the following proposed framework. After several meetings with the different directors and functional heads as well as a study of the revised municipal IDP for 20X5/20X6, the researcher, together with the key role-players within the departments, arrived at the conclusion that the following objectives and indicators are important for the monitoring of service delivering within that specific function: Where possible and within the limited timeframe, some of the indicators have baseline information and all of the indicators have performance targets that need to be met within the following performance evaluation period. The performance evaluation period in this case will be the financial year from 1 July 20X5 to 30 June 20X6. If, after this first year, the managers and employees of the municipality are satisfied with the performance management framework and process, the performance evaluation period can be shortened to half-yearly or quarterly. Managers can also decide to break this functional

performance management framework into individual PMP's, where every employee's goals and targets can be stated. The compilation of individual performance plans will be discussed in paragraph 7.5, on page 151.

The 'actual performance' of this year (July 20X5 to June 20X6) will be used as the 'baseline information' of the next year (July 20X6 to June 20X7). Objectives will need to be revised on a yearly basis where new objectives will be set and some of the previous ones will be deleted. The 'target performance' will also need to be adjusted for all the objectives on a yearly basis.

The information tabled below was received from the different directors from each directorate. Data was gathered from discussions between the researcher and key personnel. This data was analysed together with the municipality's integrated development plan and was used to set the objectives, indicators and targeted performance for different functions throughout the municipality. The baseline information was calculated according to previous years' statistics, and where it was impossible to obtain a true reflection of the statistics, or when the time limit prevented the researcher from calculating the necessary information, guesstimates were made. These guesstimates were made by the employees who are actively involved with the provision of the services. The availability of funds and time, as well as other factors that have an impact on the projects, was taken into account.

The information and proposed framework are presented on the basis of the balanced scorecard, as discussed in paragraph 4.6, on page 55. The objectives, indicators/measures and targeted performance are tabled according to different functions within the municipality. The objectives, indicators and targeted performance of the four perspectives, namely: financial, growth and learning, internal business and stakeholder perspectives are spread across the framework. Management can add the initiatives column and develop a 'plan of action' on how they want to reach the objectives and/or targeted performance. They can determine which processes need to be followed or what projects need to be developed in order to achieve the objectives and targets of each function.

The proposed framework as presented on page 131 to 150 is tabled in alphabetical order according to the various functions within the different directorates across the municipality:

ADMIN/GENERAL

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
Oversee the management of work areas to ensure cost effective operations	Percentage of savings in expenditure due to more effective operations	0%	15%	
Ensure that all council policies and procedures are adhered to throughout all the departments	Percentage of non-compliance to policies and procedures	Not available	0%	
Compile and implement all the necessary policies	Percentage implementation of all compiled policies	70%	100%	
To respond to enquiries quicker	Percentage of enquiries answered within 3 days	48%	70%	

(Source: Own research; Director - corporate services; IDP)

ASSET MANAGEMENT

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
To reduce maintenance expenditure on buildings due to vandalism	Percentage reduction in annual expenditure on repairs caused by vandalism	0%	2% reduction in operating expenditure	
To develop and implement an asset maintenance plan	Developed and implemented by due date	Not applicable	31 May 20X6	
Maintain complete asset register according to GRAP	GRAP compliant asset register to be updated by due date	Not applicable	30 th of every month	

(Source: Own research; Director - financial services; IDP)

COUNCIL

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
Access to free basic services for households earning less than R1100 per month	Percentage of households with access to free basic services	Not available	98%	
Hold awareness campaigns	Number of public meetings, workshops and newsletters	Not available	6 meetings 4 workshops 12 newsletters	

(Source: Own research; Municipal manager; IDP)

ECONOMIC DEVELOPMENT

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
To decrease unemployment through LED projects	Numbers of jobs created through LED	Not available	200	
Identification and implementation of economic projects which consider the environment	Number of agricultural projects for the community and environment	0	7	
To improve workplace skills development	Percentage of budget spent on developing workplace skills	Not available	5%	
Implementation of skills development plan	No of employees trained in terms of the plan	0	300	
Establish partnerships with farmers to act as mentors for developing farmers	Availability of communal land for small-scale farmers/beginner farmers	None	Land will be made available according to the number of approved farmers	
Measurable decrease in unemployment	Percentage decrease	increase	15%	
Creation and maintenance of hawkers stands	Number of hawker stands created for the community	5	20	
Develop tourism attractions in the area	Percentage of budget spend on the upgrading of tourist attractions	1%	5%	

(Source: Own research; Director - community services; IDP)

ELECTRICITY

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
Access to basic level of electricity	Percentage of households with access to electricity	83%	98%	
Repair power failures within 7 hours after notification	Percentage repairs within 7 hours after notification	Not available	80%	
New electricity connections	Number of new electricity connections	Not available	100	
To reduce electricity losses	Percentage of electricity losses	12%	7%	

(Source: Own research; Director - technical services; IDP)

FINANCE

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
To increase the pay percentage of municipal services	Percentage payment for municipal services	Currently +72% of municipal services are being paid for	Increase the pay % of municipal services to 80%	
Financial statements to be completed on time	Financial statements to be completed by target date	September/October	31 August of each year	
To manage income and expenditure in accordance with the approved budget	Actual revenue to exceed actual expenditure	Currently actual revenue exceed actual expenditure by 1.3%	Actual revenue to exceed actual expenditure by at least 1.5%	
On time reporting according to legislative requirements	Percentage of reports submitted on time	Not available	100%	
To implement a 3year capital investment programme	Percentage of approved capital budget actually spent on capital projects for a particular financial year in terms of the IDP	Previous years only \pm 87% of approved capital budget were spent on capital projects as identified.	95% of approved capital budget to be spent on identified capital projects	
To make accounts more user-friendly	New accounts before the new financial year	Not applicable	30 June	
To ensure adequate funds are available to meet external	Debt coverage = (total operating revenue received- operating	Not available	To increase debt coverage by 5%	

loan financing charges	grants)/debt service payments due within the financial year			
To improve revenue collection and service payment levels	Outstanding service debtors to revenue = total outstanding service debtors/actual annual revenue collected	Not available	To increase outstanding service debtors to revenue by 5%	
To ensure that adequate cash resources are available to finance working capital requirements at all times	Cost coverage = (All available cash at a particular time-investments)/monthly fixed operating expenditure	Not available	To improve cost to coverage by 5%	
To reduce arrear payments on rates and taxes	Collection rate	Rates.....90% Electricity...91% Water.....84%	Rates.....93% Electricity...93% Water.....88%	
Timeous billing of accounts	Percentage of all accounts sent out by month end	89%	95%	
Invoices to be paid within 30 days	Percentage of invoices paid on time	96%	100%	
To improve capital budget spending	Percentage of capital budget spend within budgeted financial year	Not available	100%	
Accurate billing of accounts	Number of complaints and queries in connection with errors on accounts	± 32% of all accounts had errors or queries	Decrease complaints and queries with 10% to 22%	

(Source: Own research; Director - financial services; IDP)

FIRE AND RESCUE SERVICE

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PEROFMANCE	ACTUAL PERFORAMNCE
To enhance emergency services	Percentage decrease in loss of life relating to emergencies	Not available	10%	
To educate the community in fire-fighting and emergency procedures	Number of information sessions held	0	6	

(Source: Own research; Director - community services; IDP)

HEALTH

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
To improve access to comprehensive primary healthcare services	Percentage of facilities that have access to comprehensive PHC services	Not available	50%	
Reduce preventable maternal mortality (non-HIV-related)	Percentage reduction	Not available	Reduce by 25%	
To deliver effective, sustainable and cost effective health services	Percentage reduction in cost of health services	No reductions	10%	
To reduce the children mortality rate	Total children on protein, energy and malnutrition scheme	Not available	200	
To effectively address the challenges of HIV/AIDS	Percentage of clinics running HIV/AIDS programmes and information sessions	20%	100%	
Quick response to health related complaints and queries	Percentage of complaints and queries to be attended to within 24 hours	53%	80%	
To decrease teenage pregnancies by	Percentage decrease in teenage	Not available	5% decrease	

means of information sessions	pregnancies			
Improve TB cure rate in new smear positive cases	Percentage of TB cure rate	Not available	89%	

(Source: Own research; Director - community services; IDP)

HOUSING

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
Upgrading of existing houses	Number of houses upgraded	7	30	
Registration process for housing applicants	Registration process should be finished by due date	Not applicable	31 March 20X6	
Prevent the extension of informal areas	Percentage decrease in informal areas	Not available	To reduce with 5%	
To ensure that all citizens are housed in a formal structure	Percentage of citizens housed in a formal structure	70%	85%	
Provide sufficient housing opportunities to address the existing low cost housing need	Number of new subsidised houses build	Not available	100	

(Source: Own research; Director - community services; IDP)

HUMAN RESOURCES

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
Compilation and distribution of agendas for all meetings within 5 days of the meeting	Percentage of all agendas compiled and distributed within 5 days of the meeting	65%	80%	
Compilation and submission of council resolutions to the municipal manager within 5 days after the meeting	Percentage of all resolutions compiled and submitted within 5 days	65%	80%	
Ensure that all correspondence receives attention within 3 days after receipt	Percentage of all correspondence attended to within 3 days	53%	80%	
Revision of the employment equity plan	Revision to be finished by due date	Not applicable	31 March 20X6	
Performance agreements and contracts submitted	Agreements and contracts to be submitted by due date	Not applicable	30 September 20X5	
The development and implementation of an induction plan	Plan to be finished by due date	Not applicable	15 December 20X5	
Job descriptions developed for all staff	Job descriptions to be finished by due date	Not applicable	30 September 20X5	

(Source: Own research; Head of human resources; Director - corporate services; IDP)

INFORMATION SYSTEMS

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
New data to be captured within one day	Percentage of data capturing on time	70%	99%	
To have an effective anti-virus system in place	Percentage of viruses detected on time	Not available	100%	
All staff to have access to the necessary information, and be able to use it	Percentage accessibility and knowledge of use	Not available	100%	
Website to be updated within 3 days after the receipt of new information	Percentage updating of new information on time	56%	100%	
To have an effective network support system in place	Percentage effectiveness of network support system	Not available	100%	

(Source: Own research; Director - financial services; IDP)

LIBRARIES

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
To reduce the cost of lost books	Percentage saved	0%	20%	
To increase book circulation	Percentage increase	Not available	Increase with 12%	
Increase membership of libraries	Number of new members	Not available	55	
To establish mobile libraries for the community	Number of mobile libraries established	0	2	

(Source: Own research; Director - community services; IDP)

PARKS AND RECREATION

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
Develop open spaces	Number of trees planted	Not available	50	
Preservation of nature	Percentage of alien vegetation cleared	Not available	50%	
Maintenance and upgrade of parks and sport facilities	Percentage of parks and sport facilities upgraded	Not available	75%	
Maintenance of hiking trails	Standard of hiking trails at year end	Not available	High standard	
Improved availability of sport facilities	Percentage of sport facilities improved	Not available	60%	
Sport and entertainment programme for youth	Programme to be developed by due date	Not applicable	30 February 20X6	

(Source: Own research; Director - community services; IDP)

POLICE AND TRAFFIC

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
To reduce the number of accidents and road deaths in the municipal area.	Percentage reduction	Not available	10%	
To reduce the number of alcohol-related accidents	Percentage reduction in alcohol-related accidents	Not available	Reduce by 30%	
To ensure the enforcement of the law and the prosecution of offenders	Percentage of successful prosecutions per year	Not available	% to be 5% greater than previous year	
To enhance disaster management	Percentage decrease in loss of life relating to disasters	Not available		
To enhance community perception of a safe and secure city	Percentage increase in rating achieved yearly	Not available		
Quicker responses to call outs	Percentage responses within 10 min of call outs	63%	80%	
Traffic police visibility and law enforcement to increase	Percentage increase in visibility and law enforcement	Not available	10%	

(Source: Own research; Director - community services; IDP)

SEWERAGE/SANITATION

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
Access to basic level of sanitation	Percentage of households with access to sanitation services	Not available	98%	
Phase out bucket system	Number of households still using the bucket system	35	0	

(Source: Own research; Director - technical services; IDP)

STREETS/OPERATIONAL ENGINEERING

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
Upgrade roads infrastructure	Percentage of tarred roads resealed	Not available	63%	
Upgrade roads infrastructure	Percentage of gravel streets upgraded to permanent surfaces	Not available	30%	
Attend to road wash-aways within 24h notification	Percentage attendance within 24 hours	70%	87%	

(Source: Own research; Director - technical services; IDP)

WASTE MANAGEMENT

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
Access to basic level of solid waste removal	Percentage of households with access to solid waste removal services	Not available	98%	
Regular removal of domestic waste in all residential areas	Percentage removal of at least once a month	88%	100%	
Develop clearly identifiable waste sites	Number of waste sites developed	0	3	

(Source: Own research; Director - technical services; IDP)

WATER

OBJECTIVES	INDICATORS	BASELINE INFORMATION	TARGET PERFORMANCE	ACTUAL PERFORMANCE
Ensure the provision and maintenance of water meters to determine the water balance and to optimise revenue	Percentage of working water meters	Not available	100%	
Access to basic level of clean water	Percentage of households with access to a basic level of water	82%	98%	
Reduce unaccounted for water to ensure that revenue is optimised and wastage of limited resources is reduced	Percentage reduction in water losses	Not available	25% reduction	
Water breaks to be repaired within 7 hours after notification	Percentage repairs within 7 hours	70%	82%	
Reservoir inspections to ensure sufficient water provision	Number of inspections per year	Not available	8 (2 per quarter)	
Internal water network to be upgraded	Upgrading done before due date	Not applicable	30 June 20X6	
Water quality should conform to the standard of drinking water	Percentage of water that meet the requirements	97%	100%	

(Source: Own research; Director - technical services; IDP)

7.5 INDIVIDUAL PERFORMANCE MANAGEMENT PLANS

The management of the municipality can decide to develop individual performance management plans for all employees. They can use the organisational PMP and cascade it down to develop departmental management plans, which can in turn be cascaded down to develop individual employee development plans for every employee. Management can then use this unique individual PMP to monitor and review employees' performance throughout the year. Definite objectives and targets must be defined and after the performance period, during the performance evaluation period, managers or supervisors will evaluate their employees to determine if the defined objectives and targets have been met.

A shortened version of the proposed performance management plan for individuals as presented by SALGA (2003:51-61) can be seen in Appendix C, page 167. The ideal PMP for individual employees will define the performance that is expected of a certain employee and will consist of the following:

- A statement of the purpose of the position.
- A scorecard, detailing the key objectives and their related performance indicators, weightings and target dates.
- Information about the knowledge, skills and behaviours required to perform the job.
- A performance review procedure.
- A consolidated score sheet.
- A linkage to reward.
- An individual learning plan.
- A control sheet.

Individual employees should be aware of the link between their objectives and departmental objectives, which are linked to the organisational objectives. Managers should emphasise the fact that organisational performance is dependent on individual performance. Employees should participate in the development of their PMP's. If their inputs are used and taken into consideration when objectives are set, they will be more motivated to achieve the targets and they will be part of the entire PMS.

7.6 SUMMARY

Performance management is an approach to management which links the activities of managers and employees to a municipality's strategic goals and the outputs needed to achieve those goals; it gains the commitment of employees to achieve those outputs, and monitors the outcomes. The system

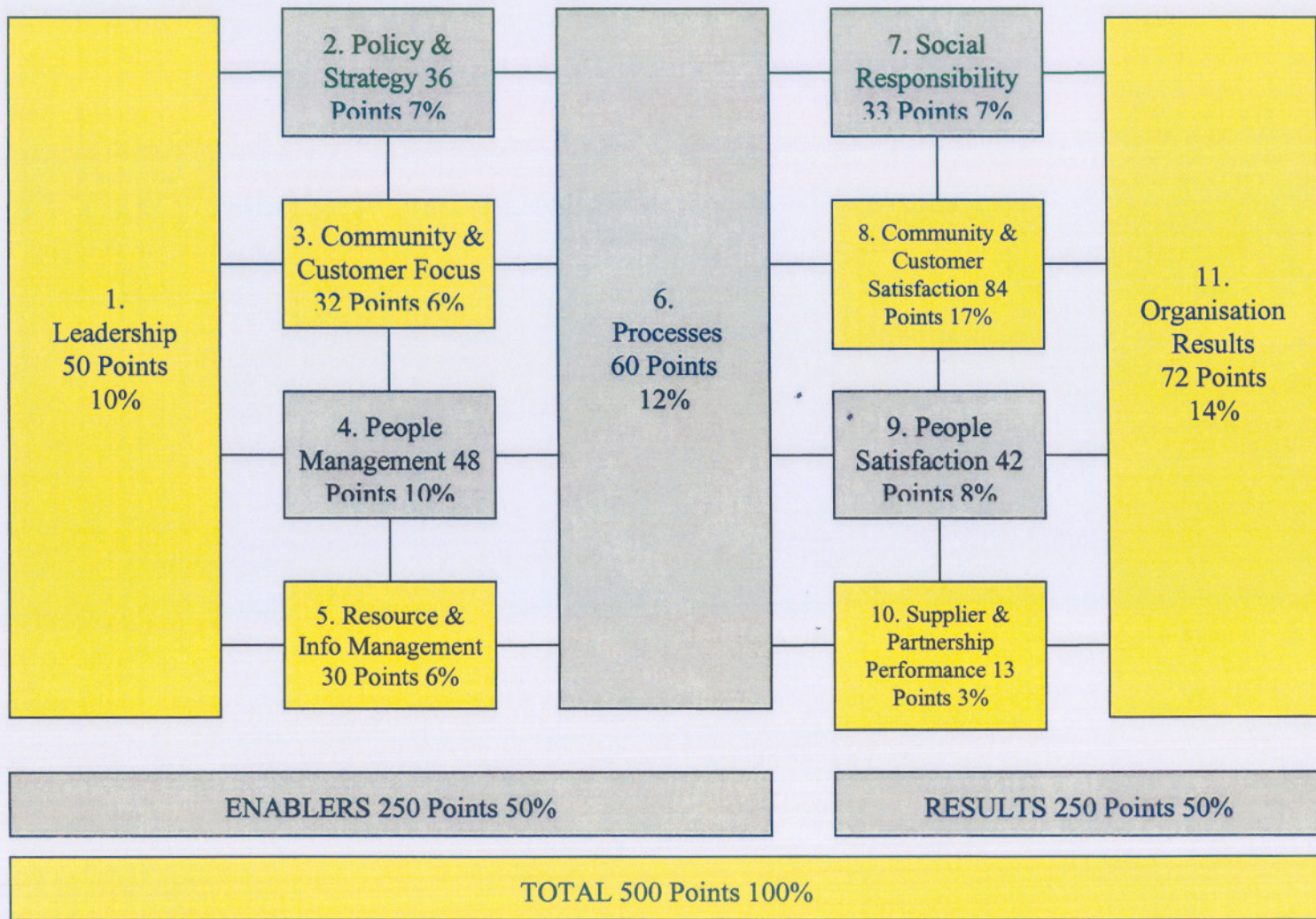
will indicate if measures need to be amended in order to achieve the desired goals, what aspects of the system need to be managed in a more progressive way and whether the community should play a more active role for certain desired outcomes. Thus, with a PMS, managers will be able to identify what has been achieved, how efficiently it was achieved and what the impact will be on the community.

From the questionnaire several conclusions and recommendations were made regarding a performance management system for the municipality. The recommended performance management framework consisted of the following functions within the different directorates:

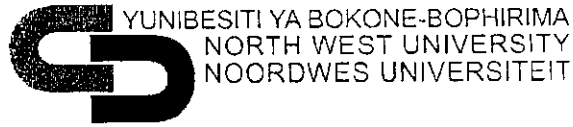
- Admin/general; Asset management
- Council
- Economic development; Electricity
- Finance; Fire and rescue service
- Health; Housing; Human Resources
- Information systems
- Libraries
- Parks and recreation; Police and traffic
- Sewerage/sanitation; Streets/operational engineering
- Waste management; Water

Each function was tabled with several proposed performance objectives, performance indicators and targeted performance for each objective. Management should decide how often performance will be measured and actual performance should then be compared to the targeted performance. Differences in targeted and actual performance should be investigated and remedial action plans should be developed. Management can use this organisational performance management plan, cascade it down to department and individual levels and use it as a framework for the evaluation of individual performance. An example of a individual performance management plan can be found in Appendix C page 167.

Recommendations for further study can be formulated as follows: to successfully implement and maintain the performance management system; to establish whether the performance management system really contributed to the success and long-term survival of the organisation; whether the performance management system is sustainable within a municipal context; the impact of organisational culture on the use of performance management; and whether the results of the organisation are objectively improved through the use of a performance management system.



Appendix B: QUESTIONNAIRE



Tel (018)2991435

Fax (018)2991426

SCHOOL OF ACCOUNTING SCIENCES

Private Bag X6001
POTCHEFSTROOM

31 August 2005

Lectori Salutem

Dear Sir/Madam

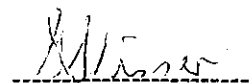
Masters degree Research: Izelle du Plessis

This is to certify that the abovementioned candidate is currently a registered student at the North-West University, Potchefstroom Campus (formerly the Potchefstroom University before the merger in 2004) for a Masters degree in Management Accounting. She has already passed the exam papers with course work and currently busy with her research on Performance Management in the Municipality. You are only one of the very few persons chosen to complete the questionnaire and may I ask you for your support to complete the relevant questionnaire as attached.

I do undertake to see that all information will be kept confidentially and you can give an indication if you do want a report afterwards. The responses of the participating persons will be indicated by making use of symbols, not alphabetically and nothing to do with size so as to make the responses confidentially.

Thank you for your support and cooperation to this.

Yours faithfully



PROF S S VISSER
(PROGRAM LEADER : MANAGEMENT ACCOUNTANTS' TRAINING)

QUESTIONNAIRE (ENGLISH)

Dear Participant

Attached to this letter is a performance management questionnaire. The purpose of the questionnaire is to assist the researcher to get a comprehensive understanding of the performance management issues that need to be addressed within the municipality.

The questionnaire will only take a few minutes of your time and it will be appreciated if you could complete the questionnaire and return it no later than Friday, 23 September 2005. In order for the study to be successful, participants will need to answer all the questions. Your participation in this study is completely confidential and anonymous.

Please be assured that the information will be used solely for research purposes for a masters degree in a research project for the North-West University (Potchefstroom Campus) and will at all times be treated as highly confidential. The results will be analysed and only a summary of the end-results will be made available. Individual responses and comments will not be submitted to management.

Your co-operation is appreciated and your opinion valued. If you have any queries, feel free to contact the researcher.

Thank you

Izelle du Plessis

Participation is voluntary and please note that the information will be used for research purposes only. All the information will be treated as confidential and no identity of participants will be revealed.

After each question is a “comments” line, where the participant should feel free to give his/her comments, motivation and/or opinion on the stated question. Please mark the appropriate block with an “X”.

1. The following personal information is necessary for statistical purposes, to summarise the conclusions of the study in a proper manner and to reflect the opinions of employees on all post-levels, ages and gender in the municipality.

GENDER:	Male	female
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AGE:	18-30	31-50	50+
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LEVEL:	other	middle management	senior management	councillor
---------------	-------	-------------------	-------------------	------------

EXPERIENCE in this municipality:	<2yr	2-5yrs	6-10yrs	11-24yrs	25+yrs
---	------	--------	---------	----------	--------

2. Do you really know and understand the mission statement of the municipality?

no	not sure	yes
----	----------	-----

-
3. Is there a link between the strategic goals of the department and your individual performance goals?

no	not sure	yes
----	----------	-----

-
4. Are you participating in the setting of your goals in your workplace?

No	yes
----	-----

5. To what extent does your performance dependent on other factors than yourself?

not at all	to a moderate extent	to a great extent	fully
------------	----------------------	-------------------	-------

6. To what degree do you think performance evaluation is being utilised for:

6.1 employee development?	never	seldom	most of the time	Always
6.2 transfers, demotions and discharges?	never	seldom	most of the time	Always
6.3 promotions and bonuses?	never	seldom	most of the time	Always
6.4 career planning and development?	never	seldom	most of the time	Always

7. To what extent do the following role-players have the necessary knowledge and expertise to conduct performance evaluations?

7.1 Head of department?	not at all	To a moderate extent	to a great extent	Fully
7.2 Manager of department?	not at all	To a moderate extent	to a great extent	Fully
7.3 HR department?	not at all	To a moderate extent	to a great extent	Fully

8. How regular is your performance being evaluated?

Not at all	monthly	quarterly	yearly
------------	---------	-----------	--------

9. Is there uniformity in the evaluation of performance between different departments?

no	not sure	yes
----	----------	-----

10. To what degree was the standards against which your performance is evaluated discussed with you?

never	seldom	most of the time	always
-------	--------	------------------	--------

11. To what degree do self-evaluation results in an employee accepting the results as well as the manager who evaluates the performance?

never	seldom	most of the time	always
-------	--------	------------------	--------

12. To what degree have you attended any training courses?

never	sometimes	most of the time
-------	-----------	------------------

13. To what degree was it necessary for you to undergo that training?

never	seldom	most of the time	always
-------	--------	------------------	--------

14. To what degree do you and your manager compile your personal career objectives?

never	seldom	most of the time	always
-------	--------	------------------	--------

15. To what degree do you believe bias exists when promotion decisions are made?

never	seldom	most of the time	always
-------	--------	------------------	--------

16. To what degree are bonuses related to excellence in job performance?

never	seldom	most of the time	always
-------	--------	------------------	--------

17. To what degree will your job performance affect future promotion?

never	seldom	most of the time	always
-------	--------	------------------	--------

18. How frequently do you receive feedback on how you are doing the job?

never	seldom	most of the time	always
-------	--------	------------------	--------

19. How frequently are you provided with remedial training to enable you to improve your performance?

never	seldom	most of the time	always
-------	--------	------------------	--------

20. Are all employees sufficiently informed about performance management?

No	yes
----	-----

21. To what extent was the relative importance of your performance goals pointed out to you?

not at all	to a moderate extent	to a great extent	totally
------------	----------------------	-------------------	---------

22. To what degree do you feel you were given too many performance goals?
(Expectations too high?)

never	seldom	most of the time	always
-------	--------	------------------	--------

23. What do you understand under performance management?

24. What reward system will motivate you to perform in achieving your goals?

25. What mechanisms are in place for the public to hold the municipality accountable; for councillors to hold the administration accountable; and for the employer to hold the employee accountable?

THANK YOU for your contribution towards the study!

QUESTIONNAIRE (AFRIKAANS)

Geagte Deelnemer

Aangeheg aan hierdie brief is 'n prestasie bestuur vraelys. Die doel van hierdie vraelys is om die navorser by te staan om 'n omvattende opinie te verkry oor die prestasie bestuurs kwessies, binne die munisipaliteit, waaraan aandag geskenk moet word.

Hierdie vraelys sal slegs 'n paar minute van u tyd in beslag neem, en dit sal waardeer word indien u die vraelys volledig kan voltooi en dit teen nie later as Vrydag 23 September 2005 kan terugbesorg. 'n Ontleding van die vraelys kan slegs suksesvol wees indien alle vrae beantwoord word. U deelname in hierdie navorsings projek is vertroulik en anoniem.

Wees asseblief verseker dat die inligting wat verskaf word slegs vir die doeleindes van 'n navorsings projek vir 'n meestersgraad vir die Noordwes Universiteit (Potchefstroom Kampus) gebruik gaan word en sal te alle tye hoogs vertroulik hanteer word. Die resultate sal ontleed word en slegs 'n opsomming van die inligting sal beskikbaar gestel word. Individuele kommentaar sal onder geen omstandighede aan bestuur bekend gemaak word nie.

U samewerking word waardeer en u opinie is waardevol. Indien u enige navrae het, kan u enige tyd met die navorser in verbinding tree.

Baie dankie

Izelle du Plessis

Deelname is vrywillig en let asseblief daarop dat die inligting slegs vir navorsings doeleindes gebruik sal word. Alle inligting sal hoogs vertroulik hanteer word en geen deelnemer se identiteit sal bekend gemaak word nie.

Na elke keuse vraag is 'n "kommentaar" lyn waar deelnemers hul opinies kan gee indien hul so voel, of hul keuse wil motiveer. Merk asseblief u keuse met 'n "X".

1. Die volgende persoonlike inligting word benodig vir statistiese doeleindes, om sodoende 'n volledige ontleding van die studie te doen, sodat versekering verkry word dat die studie 'n werklike weergawe van die opinies van personeel van verskillende posvlakke, ouderdomme en geslag is.

GESLAG:	manlik	vroulik
----------------	--------	---------

OUERDOM:	18-30	31-50	50+
-----------------	-------	-------	-----

VLAK:	ander	middel bestuur	senior bestuur	raadslid
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ONDERVINDING binne 'n munisipaliteit	<2jr	2-5jr	6-10jr	11-24jr	25+jr
---	------	-------	--------	---------	-------

2. Ken en verstaan u werklik die missie stelling van die munisipaliteit?

nee	onseker	ja
-----	---------	----

-
3. Bestaan daar 'n verband tussen die strategiese doelwitte van die departement en u individuele prestasie doelwitte?

nee	onseker	ja
-----	---------	----

-
4. Is u betrokke by die opstelling van u doelwitte in die werkplek?

nee	ja
-----	----

5. In watter mate is u prestasie afhanklik van ander faktore as uself?

geensins	redelik afhanklik	in 'n groot mate	ten volle
----------	-------------------	------------------	-----------

6. In watter mate dink u word prestasie evaluering gebruik vir:

6.1 personeel ontwikkeling?	nooit	soms	meestal	altyd
6.2 oorplasing, posvlak verlaging en ontslag?	nooit	soms	meestal	altyd
6.3 bevorderings en bonusse?	nooit	soms	meestal	altyd
6.4 loopbaan beplanning en ontwikkeling?	nooit	soms	meestal	altyd

7. In watter mate besit die volgende rolspelers die nodige kennis en kundigheid om prestasie evaluering uit te voer?

7.1 Departements hoof?	geensins	tot 'n redelike mate	tot 'n groot mate	ten volle
7.2 Departements bestuurder?	geensins	tot 'n redelike mate	tot 'n groot mate	ten volle
7.3 Menslike Hulpbron departement?	geensins	tot 'n redelike mate	tot 'n groot mate	ten volle

8. Hoe gereeld word u prestasie geevalueer?

nooit	maandeliks	kwartaalliks	jaarliks
-------	------------	--------------	----------

9. Is daar eenvormigheid in die manier waarop prestasie in die verskillende departemente geevalueer word?

nee	onseker	ja
-----	---------	----

10. In watter mate is die standaard waarteen u prestasie geëvalueer word met u bespreek?

nooit	soms	meestal	altyd
-------	------	---------	-------

11. In watter mate sal self-evaluering tot gevolg he dat die werknemer sowel as die bestuurder, wat die prestasie evalueer, tevrede is?

nooit	soms	meestal	altyd
-------	------	---------	-------

12. In watter mate het u enige opleidings programme bygewoon?

nooit	soms	meeste van die tyd
-------	------	--------------------

13. In watter mate was dit vir u nodig om daardie opleiding te verkry?

nooit	soms	meestal	altyd
-------	------	---------	-------

14. In watter mate stel u en u bestuurder u persoonlike loopbaan doelwitte saam?

nooit	soms	meestal	altyd
-------	------	---------	-------

15. In watter mate voel u dat daar partydigheid in bevorderings besluite bestaan?

nooit	soms	meestal	altyd
-------	------	---------	-------

16. In watter mate hou bonusse met uitnemendheid in werksprestasie, verband?

nooit	soms	meestal	altyd
-------	------	---------	-------

17. In watter mate sal u werksprestasie, toekomstige bevorderings beïnvloed?

nooit	soms	meestal	altyd
-------	------	---------	-------

18. Hoe gereeld kry u terugvoer oor die manier waarop u, u werk verrig?

nooit	soms	meestal	altyd
-------	------	---------	-------

19. Hoe gereeld word u voorsien van herstellende opleiding om u in staat te stel om u prestasie te verbeter?

nooit	soms	meestal	altyd
-------	------	---------	-------

20. Is alle werknemers voldoende ingelig i.v.m. prestasie bestuur?

nee	ja
-----	----

21. In watter mate was die relatiewe belangrikheid van u prestasie doelwitte aan u uitgewys?

geensins	redelik afhanklik	in 'n groot mate	ten volle
----------	-------------------	------------------	-----------

22. In watter mate voel u dat daar te veel prestasie doelwitte aan u toegeken is?
(Verwagtinge te hoog?)

nooit	soms	meestal	altyd
-------	------	---------	-------

23. Wat verstaan u onder prestasie bestuur?

24. Watter belangings stelsel sal u motiveer om te presteer in die strewende na u doelwitte?

25. Watter meganismes is in plek vir die publiek om die munisipaliteit aanspreeklik te hou; vir raadslede om administrasie aanspreeklik te hou; en vir werknemers om die werkgewer aanspreeklik te hou?

DANKIE vir u bydrae tot hierdie navorsing!

Appendix C: THE INDIVIDUAL PERFORMANCE MANAGEMENT PLAN

Source: SALGA (2004:51-61)

Performance management plan for: _____

Job description: _____

Period under review: _____

1. POSITION PURPOSE:

(a short description of the purpose of the employee under review's position – to be adapted from the performance charter) _____

2. SCORECARD:

Key objectives	Weighting	Target date	Key performance indicators	Performance status on date of review	Reason for deviation (if applicable)	Score
1.						
2.						
3.						
4.						
5.						

3. KNOWLEDGE, SKILLS & BEHAVIOUR:

The ratings attached to this section will not impact on the final performance score but will assist in identifying areas of development for inclusion in the individual learning plan.

Rating	Description
1.	Performance clearly below acceptable level
2.	Performance is competent in some aspects, but shows need for improvement in other aspects
3.	Fully competent performance
4.	Noticeably better than competent performance
5.	Distinguished performance, obvious to all

KNOWLEDGE	Description/Definition	Comments/Observations	Rating
Local Government environment and legal requirements			

SKILLS	Description/Definition	Comments/Observations	Rating
Computer literacy			
Report writing			
Budgeting			
Negotiation skills			
Planning & organising			
BEHAVIOURS	Description/Definition	Comments/Observations	Rating
Customer service			
Teamwork			
Service delivery			
Leading teams			

4. PERFORMANCE REVIEW PROCEDURES:

The steps of the performance evaluation process that must be followed can be stated here.

5. CONSOLIDATED SCORE SHEET:

Key objective	Weighting	Employee's rating	Manager's rating	Final/Consolidated score	Reason for final score
1.					
2.					
3.					
4.					
5.					
Total:	100				

6. LINK TO REWARD:

The employee's performance will be rewarded according to the performance reward scheme of the municipality.

7. INDIVIDUAL LEARNING PLAN (ILP):

Manager's name: _____

Job title: _____

Department: _____

Employee's name: _____

Date: _____

Skills / performance gap	Outcomes expected	Suggested training and/or development activity	Suggested mode of delivery	Suggested time frames	Work opportunity created to practise skill / development area	Support person
1.						
2.						
3.						
4.						
5.						

Manager's signature: _____

Employee's signature: _____

8. PERFORMANCE PLAN CONTROL SHEET – TO BE UPDATED BY EMPLOYEE:

PLANNING PHASE

Date of 1st planning meeting: _____

Date when copy of performance plan is handed to manager: _____

Date of 2nd planning meeting: (if applicable) _____

Employee's name: _____

COACHING PHASE

Keep a record of meetings held to give feedback to the manager on performance related issues.

Date of feedback meeting	Performance issue discussed and corrective action to be taken
Date of formal review:	

REVIEWING PHASE

Date manager notified of formal review meeting: _____

Date of 1st review meeting: _____

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