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EXPLORING THE INTER-RELATIONSHIPS OF STRATEGIC PLANNING , WORK SYSTEM DESIGN AND PERFORMANCE MANAGEMENT IN REGULATORY AGENCIES

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INTRODUCTION

This paper is based on a series of discussion held in the energy, multimedia and telecommunications sectors in three countries namely the Philippines, Malaysia and South Africa, in the period 2001-3. The objective of the research was to identify the critical internal components that are an inherent part of the translation of policies into effective regulatory outputs. Primarily, the research has enabled the construction of the diagnostic model shown in Figure 1 which places these parameters in a systemic framework that traces regulation from its policy origins to its delivery to recipient stakeholders. The advantage of this type of analysis is that it allows interactions between parameters within the system to be recognised and explored qualitatively as to their contribution to the regulatory process. This type of methodology as described by Pollitt and Bouckaert (2000:21) provides a framework within which the main forces for and against management change can be identified, and within this paper it is utilised, in particular to investigate the interconnected roles of strategic planning, work system design and performance management. At a practical level the approach gives rise to the possibility that capacity building interventions initiated by regulators as chief executives are potentially not randomly chosen but are specifically focused and coordinated to strengthen the regulatory process (Asch and Bowman, 1989:404). It also enables the contribution of performance management to be discussed as a key component in building the human dimension to sustain the whole system, and in particular to support strategic planning and work system design processes. The paper concludes by reviewing the issues arising in performance management that may potentially inhibit employee efforts and development in achieving effectiveness. The implication for regulators in this respect is how to initiate appropriate performance management as part of institution building and how to develop it in line with demonstrable needs, including the formalisation of the strategic planning and work system design process.

BASIC ASSUMPTIONS OF THE DIAGNOSTIC MODEL

The organisational system reflected in Figure 1 is explored from two interconnected perspectives: firstly, as a useful analytical means of unravelling the nature and scope of the management process within a regulatory agency, and secondly, as a specific tool for raising the agenda of institutional reform that regulators, as chief executives, may wish to promote. Both perspectives rest on the premise that such a system represents the ability of people to get the desired things done within an organisation, in other words the ‘how’ of institutional performance rather than the ‘what’, which refers specifically, in the regulation context, to the nature and scope of interventionist policies for promoting consumer well being and enterprise viability. A management system adopted by a regulator of the type shown in Figure 1 is likely to be explained as the means by which the efforts of managers and staff alike can be harnessed towards the required regulatory results and through which progress towards them can be evaluated. Further, a regulator in setting up a new agency, or re-energising the work of an existing one, is likely also to give due weight to the importance of such as system as a prime means by which institutional capacity for delivery can be maximised.

The key organisation and management components of this system, namely strategic planning, work system design and performance management, are further described in Table 1. They represent the basic building blocks by which regulators as chief executives can begin to discern institutional development needs and by which diagnosis can be directly linked with management interventions for growth or change.

Figure 1. Conceptual Framework for Capacity Building with a Regulatory Agency

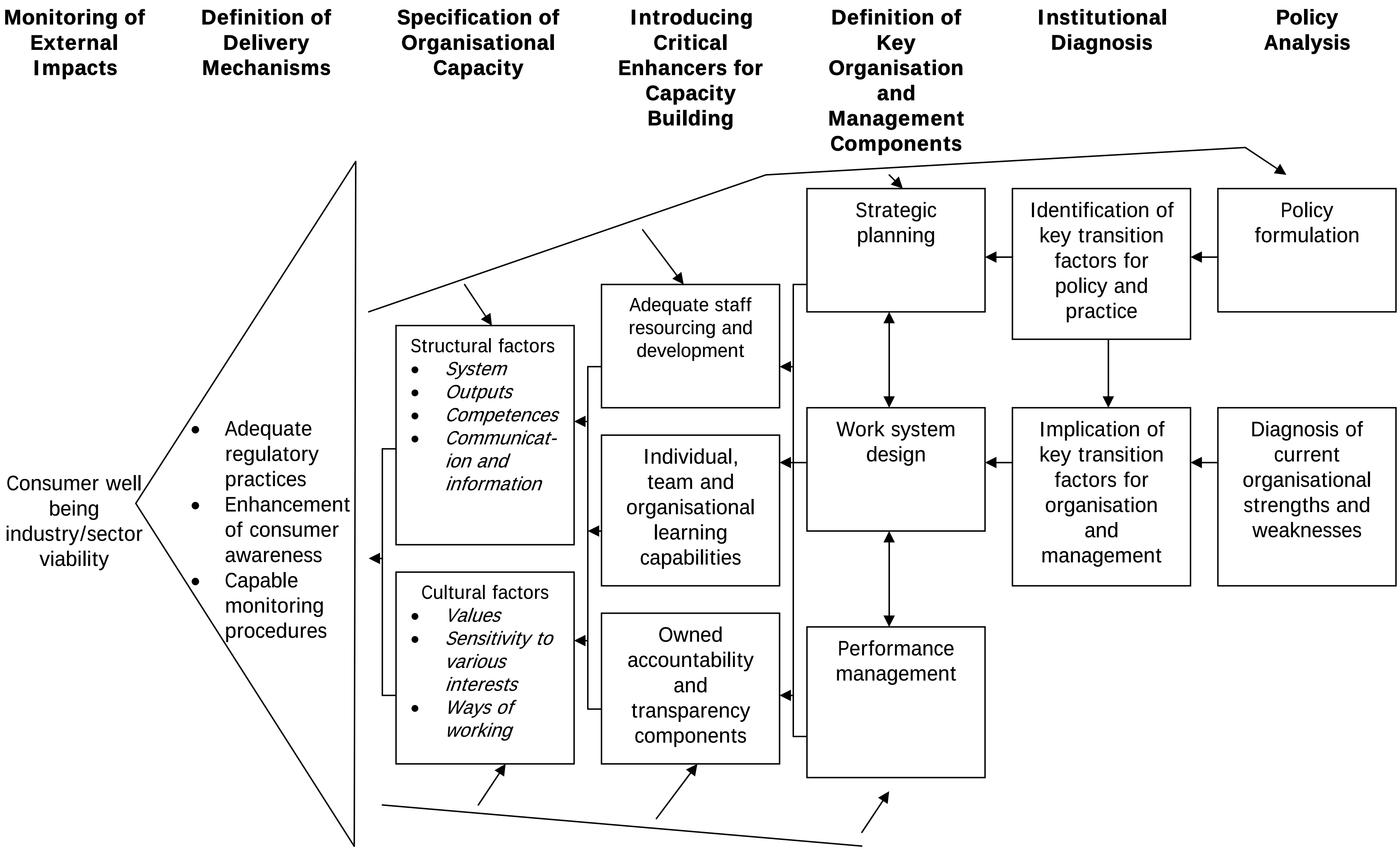


Table 1: Key Organisation and Management Components in a Regulatory Agency

Component	Likely source for information vital to component function (aims and content)
Strategic business plan	• The stated political aims of regulation • Legislation, including definition of the 'regulatory space' for intervention • Evaluation of previous regulatory practices in the sector concerned • Political climate for regulation including degree of emphasis on pro-poor provision • Views of key stakeholders including those of consumers • Financial/market performance of major private companies in sector • The type of relations expected between the regulatory agency and key stakeholders • Conditions under which 'regulatory capture' can be avoided
Work system development needs	• Nature and scope of the regulatory system implied by legislation and political objectives • Identification of supplier/client relationships in the regulatory system • Views of key stakeholders • Interpretation of key effectiveness criteria in regulation
Performance management system	• Definition of the above components o strategic business plan o system development needs (regulatory system) • Choice of management inputs o managerial style o culture o feedback mechanisms for increasing effectiveness • Knowledge of current skills and potential of the workforce • Views of staff and other stakeholders, such as human resource specialists

However, each of the key components of Table 1 is unlikely to be treated in an isolated fashion when looking at actions intended to raise institutional capability. Figure 1, drawing on ideas in Eldridge (2002), suggests the need for a congruency of thinking in terms of these three key components on the part of a regulator if the agency is to convert required policies into appropriate executive actions. They are central to institutional capacity building as interactive elements and all underpin the abilities of staff to understand the needs of the relevant external stakeholders, to design appropriate delivery systems to meet these needs, and to utilise the necessary management, technical, learning and accountability competencies. Their successful incorporation contributes towards overall systems viability for an organisation (Beer, 1985) and is at the heart of ‘embeddedness of regulatory institutions’ (Stirton and Lodge, 2002, Mehta, 2002).

Further, as suggested in Table 1, the strategic plan and the form of the work system for an agency are predominantly shaped by the types of regulatory policies to be enacted and the nature of the ‘regulatory climate’. While the performance management system also is subject to these influences, its design and implementation strategy remain to some extent within the managerial remit of a regulator, as reflected in decisions about its objectives and form. There is a degree of independence for a regulator on the choices adopted for managerial style, the internal culture, the extent of team working to be encouraged and the degree to which staff members are to be empowered as individuals and in teams in securing effective organisational outcomes through performance management. While choices in these areas may reflect personal preferences on the part of a regulator, they are not exempt from the climate existing in similar organisations and the type of institutional ethos prevailing in regulation in the country concerned or the type of regulatory bodies favoured by governments.

At a strategic level, building on Cook (2001) the performance of a regulatory agency is likely to be judged under one or more of a number of the following headings:

- the degree of success achieved in regulation in relation to political and economic considerations as judged by government, the legislature or other influential stakeholders

- the extent of implementation of any ‘business plan’ mandated by government/legislature for enhancing consumer interests and/or sector economic/financial viability

- the degree to which effective use has been made of any legislation underlying the work of the agency to address specific market issues

- the extent to which a positive impact has been made in the markets in question from the perspective of consumers, consumer interest groups and the wider public

- the extent to which views of the network of stakeholders within the industry/sector have been incorporated in the regulator's responses

- the level at which monitoring procedures to gauge the effectiveness of regulation have been established.

While not all of these criteria will be applicable at any one time in a specific agency, the combination of even two or three of them can give rise to quite complex strategic planning processes in terms of the range of stakeholders to be satisfied and the scope of the quantitative and qualitative information to be analysed and presented. Primary consideration has to be given in strategic planning, however, to the political decision making process which Bryson (1995:11) sees as inductive and based on issues which by definition involve conflict, not consensus. Such conflict revolves around expressed opinions based on philosophy, ends, means, timing, location, political advantage and reasons for change, and is subject to efforts for resolution in the planning process. Out of this resolution can emerge policies and programmes that are politically acceptable to the involved or affected parties, but which are expressed as rationally applied intentions or plans. Guth and Macmillan (1989:316) suggest that part of this process is the emergence of more general policies to capture, frame, shape, guide, or interpret the policies and programmes specifically geared to particular issues. A number of writers (Mintzberg, 1983, Pfeffer, 1992 and Peters, 1995) also stress the importance of the interface between the political process and strategic planning as a prelude to the organisational rationale of writing vision, aims, objectives and targets and placing them within a consensually agreed statement. Consequently the strategic planning component of Figure 1 has at its heart strategic thinking which encompasses not only the interpretation of hard data on direction but also insights from key stakeholders which broadens the consideration of issues and invokes a learning process (Mintzberg, 1994). As such plan formulation rests on intuition, creativity and building commitment, skills somewhat remote from the hard nosed economic competences governing regulation, but ones which a regulator needs to have on board to ensure the adequate interpretation of political direction, to stimulate a dialogue to improve political decisions and understand what constitutes effective outcomes. This line of argument implies an institutional need to conceptualise strategic planning so that the political decision making model subsequently leads to consensual agreements on what policies and programmes will best resolve key issues through a rational planning model (Bryson,1995:12). Furthermore the rational planning model potentially provides a feedback mechanism by which inconsistencies in the political outcome can be addressed (Katz and Kahn, 1978).

Coalescing with the political debate, stakeholder analysis is likely to be another key ingredient in the strategic planning process given the multiplicity of interests prevailing in a regulatory regime. Boschken (1994) refers to the inherent danger of not recognising the credentials of key stakeholders and not knowing the criteria of performance they would apply to an organisation. This lack of knowledge can contribute to inappropriate or ineffective standards of performance being accepted for the organisation. Bryson and Crosby (1992) picture a situation in which individuals and groups wrestle for control of the organisation's attention, resources and outputs, possibly an endemic feature of the regulatory process, and refer to the importance of stakeholder analysis in obtaining a more precise view of the contestants through surveys, interviews and group discussions. This is very much in line with the remit of the 'new public management' as exemplified in Osborne and Gaebler (1992) with its focus on customer needs and the generation of criteria of performance directly related to them. Bryson sees these criteria covering areas of organisation strength and weakness, overlaps, gaps, conflicts and contradictions in the quantity and quality of outputs. Most importantly he refers to a stakeholder analysis as being a process by which managers, in our case regulators, can place themselves in the shoes of others, especially outsiders, and make assessments of the organisation from these external perspectives. Not only does this form a basis for Strengths/Weaknesses/Opportunities/Threats (SWOT) analysis, strategic issue identification and strategic development but is an essential precursor for ethical action (Lewis, 1991). Additionally, stakeholder analysis may provide an understanding on what the organisation needs from each stakeholder group, a very essential process in the delicate economic balances to be achieved in regulation. Mintzberg (1994:111) reminds us that

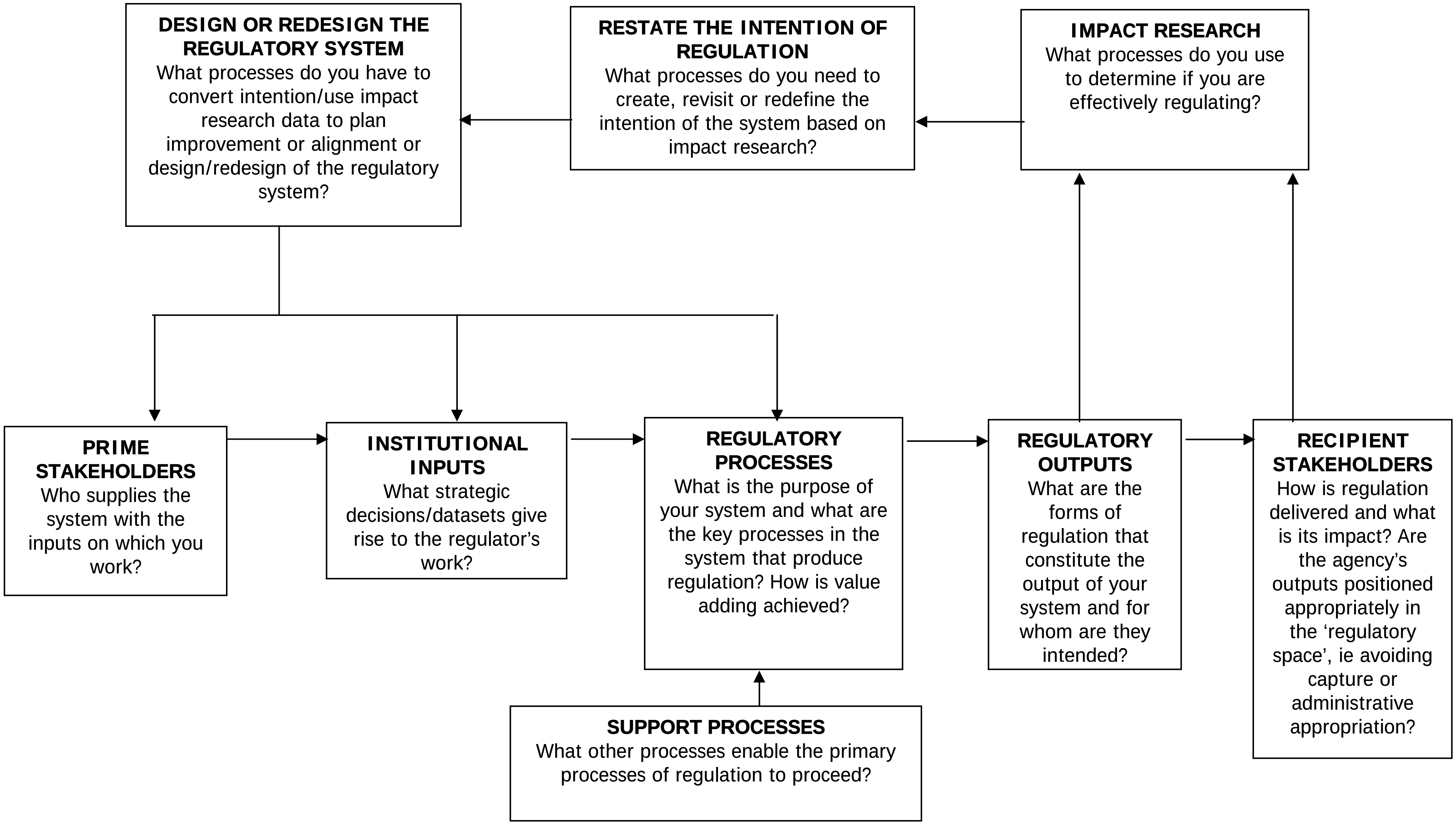
> 'vision is unavailable to those who cannot 'see' with their own eyes. Real strategists get their hands dirty digging for ideas, and real strategies are built from the occasional nuggets they uncover'.

WORK SYSTEM DESIGN

Regulators will only succeed if they are capable of harnessing internal efforts towards the required regulatory outcomes as specified in the strategic planning process. Systems of work have to be organised that enable agency staff to be coordinated in what they do and motivated to improve quality as the result of learning and group efforts. Job descriptions, as the usual organisational mechanism for ensuring that work proceeds in an effective manner, have to balance the 'upward demands' placed on job holders for accountability to senior staff with the 'lateral demands', i.e. participation in work systems that deliver results which may cut across departmental or functional lines of reporting. While the former mandate for job descriptions is a well practiced discipline within public sector organisations, although still fraught with problems, the latter is an often- neglected area much at the centre of the debate on public sector reform (Deming, 1994).

The art of dealing with this issue is for management to balance the needs of a job description, which by it very nature is individually centred, with those work system maintenance and development needs which cannot be anything other than the responsibility of people acting in groups. Portraying jobs as part of work systems also encourages a sense of purpose which benefits clients, whether internal or external to the organisation. It also helps to avoid over-reliance by job- holders on servicing the needs of the organisation's hierarchy, a 'disenchranchisement' particularly pertinent to public sector organisations, which may have too many layers of management. A sense of purpose can also inspire cooperation in work teams, and produce interdependence, and perhaps even inter-changeability of individual roles, beyond the limits of formal job descriptions.

Figure 2: The Supplier-Input-Process-Output-Customer (SIPOC) Model as Applied to the Regulatory Process



This diagram has been developed specifically for this paper based on a generic SIPOC model originally devised by Elaine Torres and referenced in an article by Tribus (undated).

To understand the importance of systems development in regulatory organisations one has only to look at the complex considerations that pervade regulation over and above the general demands of management in the public sector. A complete systemic understanding of the processes of furthering regulation from inception to delivery is important to avoid political and regulatory capture, to minimise information asymmetries and to maximise transparency of the criteria covering relationships with key stakeholders and the decisions affecting them. Limiting the randomness of approach amongst regulatory staff, ensuring the consistency of decisions and fulfilling accountability needs are also key strategic aims that can result from a systems based analysis. Such an approach is possible with the model based on Tribus (undated) shown in Figure 2, which represents a conceptualisation of the organisation well beyond what conventional job analysis can offer.

The demands of regulation as related to the continual need to improve its quality in meeting intentions, and to respond to underlying instabilities in the market being regulated, lead also, according to Ackoff (1999:158) to the need for a systemic concept of the organisation that naturally inculcates a learning function. Such a possibility is additionally demonstrated in the model of Figure 2 with its well-developed system of feedback to initiate discussions to improve performance. Latent within the system is the role of strategic planning which gives rise to key questions in every box (node) of Figure 2, which potentially stimulate learning processes amongst those involved and provide vital feedback to the regulator. Its main role, therefore, in the form shown in Fig. 2, is for regulators to utilise it as a planning tool to raise strategic questions on the experienced or projected levels of regulatory performance.

Fig.2 also represents a system which in practice would be broken down into a number of separate processes which act together to produce the work necessary for regulatory intention to be delivered. Deming (1994:61) sees this analysis resulting in descriptions that are the ‘real’ organisation chart which,

> ‘… show people what their jobs are, how they should interact with one another as part of a system’.

He refers to a system (Deming 1994:50) as a network of interdependent processes that work together to try to accomplish the aim of the system, and in the case of Figure 2 it would give rise to an understanding of (British Deming Society, 1995):

- the various tasks contained within each process
- how tasks are transformed into outputs
- the decisions that need to be made at various stages
- the essential interrelationships and interdependences between the various processes
- where weak points are in any process which may inhibit success of the whole system.

This type of system exemplifies the situation in which work flows cut across departmental or functional boundaries which, through analysis, leads to an understanding of what constitutes client satisfaction. Burr (1990) refers to the most important outcomes of this approach being common knowledge amongst the employees involved on how each link in the chain fits together, and constitutes a learning process geared towards improvement. Deming (1994:54-60) suggests further that when change is proposed, process maps allow the possibilities to be explored in terms of each process and the system as a whole, exposing for instance what constitutes value adding as against tasks conducted purely 'as norm'. Additionally, examination of process promotes a dialogue of:

- where things most easily go wrong
- difficulties arising in staff relationships at 'transaction points'
- required criteria of performance to enable the system to function.

As such, information is generated which is directly relevant to performance management.

PERFORMANCE MANAGEMENT

Performance management as portrayed in Table 1 is a derivative of the specifications of the strategic planning process and the work system development needs but also represents the means by which these two components can be fully brought to fruition. To throw light on its scope within a regulatory agency and to provide the context for decisions that initiate an appropriate system, it is worth considering how this particular paradigm for management has evolved in recent years. Performance management has its origins not just in the broad range of behavioural theories relating to how people can be managed for improved contribution but very specifically in the 'management by objectives' school of thinking that reached its height of influence in both public and private sector organisations in the 1970s and early 1980s (Humble, 1970, Reddin, 1970). It also represents a natural progression of performance appraisal, as this has moved from looking at contribution and its evaluation from the perspective of individual behaviours/traits, towards the measurement of job holder performance against objectives in a strategic framework (Locke, et al., 1981). From the perspective of public sector reform, performance management also represents an attractive tool to create cultures more conducive to performance improvement (Cabinet Office, undated). In Table 2, Armstrong and Baron (1998) lay out their view of this progression of managerial ideas from MBO and through the experience of 'appraisal' that has resulted in today's understanding of the role of performance management.

Table 2: Management by Objectives, Performance Appraisal and Performance Management Compared

Management by Objectives	Performance Appraisal	Performance Management
Packaged system	Usually tailor made	Tailor made
Applied to managers	Applied to all staff	Applied to all staff
Emphasis on individual objectives	Individual objectives may be included	Emphasis on integrating corporate, team and individual objectives
Emphasis on quantified performance measures	Some qualitative performance indicators may also be included	Competence requirements often included as well as quantified measures
Annual appraisal	Annual appraisal	Continuous review with one or more formal reviews
Top-down system with ratings	Top-down system with ratings	Joint process, ratings less common
May not be a direct link to pay	Often linked to pay	May not be a direct link to pay
Monolithic system	Monolithic system	Flexible process
Complex paper work	Complex paper work	Documentation often minimised
Owned by line managers and personnel department	Owned by line managers and personnel department	Owned by management

Source: Armstrong and Baron (1998)

The theory of performance management suggests that when applied, role definitions for work units, teams and individuals emerge from the strategic planning process which reflect the preferred success criteria for an organisation. Also the feedback on which to judge the respective contributions is generated, which is then utilised in the improvement of performance and in recognising appropriate development needs. The form and arrangements for handling this feedback are open to a number of varying methodologies, but before these can be decided upon regulators would need to make choices on the objectives, scope and major concepts for performance management, as discussed below. A major assumption underpinning the whole approach needless to say is that for professional staff, at the very least, knowledge of key success criteria for an agency would be essential and that any system would stimulate reflection on their contribution in meeting these criteria.

CHOICES IN INSTITUTIONAL FACTORS AND PERFORMANCE MANAGEMENT DESIGN

Obviously the design of a performance management system is challenging within the complexity of processes and the demands of regulatory interventions as indicated in Figure 1. Of fundamental importance in performance management is maximising meaningful feedback within the system to groups and individuals that indicates progress in achieving organisational goals, but which is handled in a way acceptable to individuals and which can be acted upon by them for improvement. In achieving this positive institutional effect three important issues have to be resolved by regulators when initiating a performance management system. Note, in raising these issues reference is made to appraisal of performance, and while performance management has superseded more behaviourally-based aspects of this, it remains a central methodology in any performance management system. The choices are also interdependent with the mandates established for the strategic planning process and for meeting work system design needs (see Table 1) but also reflect to a significant extent the type of management style the regulator wishes to adopt related to the contextual and individual options available.

Open Versus Closed Assessment of Regulatory Staff in the Quest for Transparency

Open feedback in evaluating performance is likely to be seen as a potent tool to address performance issues (Anstey, Fletcher and Walker 1976; Fletcher, 1993). However, the question arises whether prevailing organisational norms restricting openness and participation are intrinsic features of broader (national) cultures that the design of any assessment scheme must adapt to, or only express organisations' unfamiliarity with appraisal (and possibly with other systematic management practices). Evidence strongly suggests that open systems work less well in cultural settings that discourage open and frank discussions of (mutual) performance weaknesses by managers and staff, for example, in some South Asian organisations. Giving individuals feedback on performance in such organisations is often considered one sided and potentially damaging by the recipients, especially if conducted in an open manner. We may speculate in this particular debate how far openness in the appraisal of regulatory staff is to be encouraged in order to enhance transparency of operations, and whether it is possible that a closed system may be associated more directly with regulatory capture. In this respect Brigham and Fitzgerald (2001) refer to the need for 'visibility of reporting' to which performance management contributes, but also maintain that such a system constitutes a link between levels, that is between organisational coordination and control. While admittedly referring to a regulated organisation rather than a regulator, their remarks remain pertinent on the value of performance management for the latter.

Formal Versus Informal Performance Management Systems in Dealing with the Complexity of Regulation

McGregor (1957), one of the first critics of formal appraisal systems, notes that while organisations continue to require them in spite of their recognised weaknesses, many managers retain a belief that their day-to-day communication with staff, as part of an informal approach to performance management, is enough to give them all the information and influence they need. The response of Fletcher (1993: 1-2) as a believer in officially designated systems is that in the absence of a formalisation, assessment does indeed take place as people work together but this is unstructured and perhaps highly subjective, leading to a potential for bias and unfairness. In a similar vein Walker (1980) notes that the clarification of job expectations, the reviewing of accomplishments, and the planning of future performance and development efforts, constituted as a formal system, are central to effective management; and also that objective performance evaluations are necessary as a legal defence to charges of discrimination on the basis of age, sex and race.

Looking at this debate from the perspective of a regulatory agency, it is difficult to envisage how an informal system would be adequate other than in situations in which staff numbers were quite small and operations relatively straightforward. In terms of Stirton and Lodge's (2002:9) 'Presence of check and balances against capture and administrative expropriation', transparency is recognised as fundamentally important, and it is hard to conceive of a situation in which staff accountability mechanisms on important matters are other than explicit, in recorded form and checked for consistency against the demands of regulatory practice. These aspects are integral to the achievement of transparency and a formally constituted performance management system is likely to have a major part to play in this.

However, a word of caution is raised against formally applied systems by Deming (1986), the originator of quality management, who argues that appraisal is one of the 'seven deadly sins' afflicting managers in North America. His view is that managers wrongly ascribe to individual employees responsibility for performance problems which really arise from the nature of the work system itself, thereby depressing the morale of staff while doing little to improve performance. Following Deming's lead, Bowman (1994) argues that formally constituted appraisal for individual employees is a mistake, as problems need to be tackled at the level of the organisation, not the lone staff member. Latham and Wexley (1993), however, suggest that Deming's scepticism about appraisal is not generally accepted. Even after systemic or organisational problems have been tackled, there remain psychological issues of performance that still have to be addressed at the level of the individual staff member through reviews involving feedback and discussion. However, Deming's views on reforming performance management objectives and practices are highly relevant and give rise to the need expressed in this paper for congruency between work system design and performance management. Methods are required to assess the contribution of employees bound together in a work system for which they hold joint responsibility.

Performance Assessment Versus Development Versus Rewards for Employees

In reviewing work contributions, as in other areas of human resource management, the perspectives of the employee and of the organisation can be quite different. At one extreme, a performance management scheme designed exclusively for organisational benefit focuses on measuring past performance and setting performance targets for employees. From an opposite focus, a scheme designed wholly for the benefit of employees would focus exclusively on job satisfaction, and the training and development of staff.

In other words, the organisation's priority is more likely to be *assessment* for improvement, and the individual's to be personal and career *development*. These are different purposes: one points to comparing performance differences between individuals, the other to possible change in the performance of an individual now and in the future as a result of development. Can they be combined satisfactorily in a single review procedure? Randel et al. (1984: 13-14) argue forcefully that they cannot and they make a distinction between interviews used for assessment (*performance reviews*), for development (*potential reviews*), and for determining pay and benefits (*reward reviews).* However, where it is already difficult to persuade managers to spend sufficient time on reviews of performance, it may be unrealistic to expect them to conduct several interviews with each appraisee. Yet the fact remains that an interview that combines assessment and development, and possibly reward, may result in the contamination of each by the others. Fletcher (1993: 10) concludes that it is best to see the function of appraisal as employee development and motivation because:

- this approach is acceptable and welcome to appraisees and most appraisers

- it represents what is generally the highest priority for the organisation – a strategy for improving performance which relies on development and motivation

- the effectiveness of appraisal for assessing individuals' performance relative to that of their peers is doubtful.

However, Fletcher's advocacy of *development* as the primary purpose of appraisal, runs counter to a central feature of performance management, as portrayed in reforming public sector organisations, which stresses an emphasis on target setting and review for improving work contributions as directly influenced by a strategic planning process. Additionally, much of public sector reform has focused on 'rightsizing', in some countries resulting in a reduction of posts in the public sector with a more than proportionate effect on those at a senior level. This affects promotion chances and impacts on assessment systems which have been traditionally used to identify staff for advancement. Regulatory agencies are certainly not going to be exempt from this type of dilemma in weighing up the pros and cons on the focus which assessment should take. In line with the trend seen generally in public sector organisations, and given their internal complexity of operations, it seems unlikely that they can avoid the primary focus primarily falling on the improvement of performance, but linked to a recognition of development needs.

Issues of rewards are also difficult to accommodate in the same interview as performance assessment and/or development. If appraisees believe that extra remuneration may result from an appraisal, this expectation may deflect them from a fully honest and open discussion of their performance or development needs, which may be extremely problematic in regulation when maximising ‘undistorted’ feedback is necessary.

CONCLUDING REMARKS

Consideration of the above issues is fundamental in designing a performance management system that will prove resilient in the face of the complex demands made on the capabilities of regulators and which will enable strategic planning and work system design to be activated as precursors to the potential contributions of all staff. Resolution of the issues may be more taxing when the regulatory agency is part of the civil service sector or carries a residual of public sector culture from a previous existence. Such an agency may lack an ongoing and open dialogue on what constitutes effective performance and further, may lack a mutual understanding of, and widely owned commitment to, performance improvement. Many studies suggest that any unilateral imposition of performance management by senior management in such circumstances may worsen rather than remedy matters (Deming Society, 1994). A paper based prescriptive approach for performance management, for instance, may focus discussion on the functional demands of the system, including definitions of annual output targets, rather than on establishing ongoing relationships between managers and others that provide continuous feedback for improving results. Such a weakness may be compounded by the possibility that targets set for a plan period become outdated, and under developed manager/appraisee relationships may prevent adaptation to new conditions facing the agency. Further, there may be a failure to recognise the extent and type of change required, and to determine the necessary actions to bring it about through adaptations of the strategic plan or amendments of the work system.

On the other hand, an agency without a formalised performance management system, may already have working arrangements between managers and staff that are effective in achieving desired results or have the potential to do so. The issue in introducing performance management as an explicitly managed system then is whether it builds on those positive relationships, or disrupts them, leading to a fall in the quantity and quality of current outputs. Evidence from change management suggests that ignoring currently valued practice and experience when seeking improvement, runs the risk that new remedies imposed may not have the effect desired (Paton and McCalman, 2000). Further, it may deny current management capabilities and demonstrate an insensitivity to values that staff hold about themselves and their work. In other words, a new approach adopted from another context (which is typically how performance management has spread from one country to another), may be culturally inappropriate. This possibility becomes greater the more weight is given in strategic planning to budgetary requirements and output targets, at the expense of more qualitative aspects of service delivery, valued by clients, managers and staff alike.

The issue in introducing performance management into a regulatory agency is how to choose the appropriate set of concepts, bearing in mind the dilemmas portrayed in the previous section, while incorporating sound organisational practices which link it with the strategic planning process and the work system design requirements. Such an assessment enables a regulator to establish the framework for introducing performance management based on a consideration of the values held by staff in the organisation and of their affinity with the culture implied by any new system to be introduced. The timescale for this type of change puts in doubt the value of performance management systems imposed by outside consultants (or donors). What can look very attractive on paper as a performance management proposal towards a better delivery system so often fails to come to fruition because it is unacceptable to staff, and the time scales for its introduction are too short.

Complexity of performance management design and procedure can also cause problems. Again, on paper a new system might appear reasonably attractive to stakeholders. In practice, however, complications arise in relation to terminology, the ability to define work outcomes in a useful way, and purely technical issues of design. At its worst, paper outputs may expand to meet formal reporting requirements, but at the expense of a meaningful exchange of work experience and of ideas between managers and those being assessed. It may also inhibit adequate linkage with the strategic planning and work system design components.

Further, some areas of regulatory work may not fit easily into the methodology of performance management but this may not be necessarily recognised when systems are introduced. The danger is that all staff are required to follow the demands of the new system, regardless of how meaningful it is in specific job roles and in relation to perceptions held about the work outcomes expected. In addition, it is fruitless to set sophisticated standards of job performance in organisations that lack adequate information systems to produce the necessary control data.

One of the most criticised aspects of traditional ways of assessing people in the workplace flows from the work of Deming (1986), which suggests that individual target setting is nearly always destructive of customer-focused teamwork within or between work units. This is because it pressures individuals to demonstrate their own achievement in assessment, which they invariably perceive to be confined to the management reporting structure they find themselves in and which possibly represents ‘pleasing the boss’. This pressure makes appraisees want to ‘work around’ the performance management system rather than improve it. ‘Safe’ targets may be negotiated at the start of a plan period, for instance, because they are perceived as easier to achieve, hence to gain approval from senior managers. Legitimate organisational targets seen as ‘stretching’, or just more difficult, may be left out or reduced in scope by appraisees. Deming’s view is that as a result of this effect, when objective setting passes down through the levels of a hierarchy, the inevitable result is sub-optimisation of what is possible. At its worst, it becomes a source of tactical games or defensive behaviour, thereby reinforcing obstacles to continuous improvement through team effort. Such a scenario would certainly jeopardise many of the qualities expected in a regulatory process of proportionality, accountability, consistency, transparency and targeting (Better Regulation Task Force, 2003).

As an alternative to the prescriptive performance standards and targets set by managers, Deming puts forward the idea of ‘managing for results’ as the main theme in performance management. This stresses how results are achieved rather than attributing results solely to the efforts and skills of individuals. It is process orientated, concentrating on the organisation of work and how teams can cooperate across traditional hierarchic boundaries to achieve the objectives of the organisation as a whole through commonly owned and developed work systems together with an understanding of strategic planning needs. Its key idea is building trust between stakeholders, which contributes to a reduction in confusion over planning and coordination, and minimises distorting behaviour induced by setting individual objectives.

The conclusion to be drawn from this line of argument is that an abiding feature for achieving institutional effectiveness in regulatory agencies is likely to be the instigation and management of quality processes that serve the needs of stakeholders within the framework of predetermined effectiveness criteria. Quality processes encouraged by regulators (the work system component) not only allow the intentions of regulation (the strategic planning component) to be appropriately enacted, but also promote the human effort in meeting the multifarious institutional demands by the choice of an appropriate performance management system.

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