Integrating Financial and Other Performance Information: Striking the Right Balance of Usefulness, Relevance and Cost

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> ***"Management must focus on the results and performance of the organization. Indeed, the first task of management is to define what results and performance are in a given organization – and this, as anyone who has worked on it can testify, is in itself one of the most difficult, one of the most controversial, but also one of the most important tasks."***
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> ***Peter Drucker, "Management Challenges for the 21st Century"***

The Challenge

The issue of integrating financial and non-financial information is an important one for public sector organizations. This is not merely a technical challenge. Rather, it speaks to how these organizations manage themselves and how they marshal their scarce managerial resources and time to bring about the results they are there to achieve. The very way in which the question is asked suggests a problem up-front: is the organization serious and committed to a complete strategy of performance measurement that allows it to manage its resources to maximum effect, account for them and position itself in the continuous struggle to secure a future flow of the resources it needs? It can do none of these things without a fully integrated

> "As the role of the finance organization changes, it is no longer acceptable to just track financial numbers and let operations worry about operational statistics."
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> ***Reinventing the CFO**, Walther, Johansson, Dunvleavy and Helm, McGraw-Hill, 1999, ISBN 0-07-012945-2*

[1] I owe a great deal of thanks to those who kindly reviewed and commented on this paper. Among them were: Jim Ralston, Rob Monnette, Dan Tucker, Peter Este, Keith Hillier, all of the federal government, Dr. David Good of the University of Victoria and Kevin Perry of the Government of Ontario. Their insights were invaluable. I remain, as always, fully responsible for the final content.

approach to its overall performance measurement, of which, the better linkage of financial and non-financial data is only a part.

This is not a challenge for the CFO alone, but for the organization as a whole. The CFO adds considerable value when she or he takes a fully strategic role in that process. In this sense, the problem of integrating financial and non-financial data may be the wrong one to be pursuing. Examined in the broader context of performance measurement, it is well worth posing.

These are times of increasing accountability and transparency in the public sector. It is also an era of increasing capability to be accountable and transparent. As information and communications tools develop to overcome many of the inherent problems with performance information, pubic organizations that fail to use such knowledge in a full and integrated fashion miss opportunities to maximize current resources, position themselves strategically to respond to the developing policy framework, and increase public confidence in their capacity to deliver the goods. For instance, creating a culture of reallocation within current budgetary envelopes is a pure hit and miss undertaking without adequate cost and performance information.

> **This message has been heard in a lot of places for quite a while now:** "Today's CFO is not the CFO of the past. Successful CFOs possess **not only** financial acumen and subject expertise, but have the **full range of leadership skills** that are found in CFOs of well-run private sector financial management organizations. ... these financial executives and their offices have a **comprehensive understanding** of both the operational and strategic missions of their agencies."
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> Linda Springer, Controller, Office of Federal Financial Management, OMB, United States Federal Government

Such a challenge is not simply one for the CFO of the organization. He or she plays a key role, one of both strategic advocate and tactical supplier of sound information. She has an interest in ensuring not simply that the numbers are right, but that they are the right numbers. Does she ‘own’ the data? No? Is her interest beyond “her” data? Yes.

In the end, a public sector organization that does not manage itself to the advantage of the public good that it is striving to achieve, fails across the board, not simply in one of its organizational components. This, then, is about leadership of the organization as a whole.

The CFO is challenged to play a number of key roles, vital to ensuring full performance, but not singularly:

- Getting the financial numbers right: quality of financial information
- Making the numbers meaningful and relevant to their users
- Building linkages to connect internal operational and performance information to external performance reporting
- Advising the organization on short and long term implications of the financial performance data
- Advising senior management on its responsibilities to use and manage with performance data
- Advocating for capacity within the organizations to build performance data relevant and understandable to the organization

> “Our study is based on the premise that performance-measurement applicability in government, when it is routinized, improves communication within and across branches, advances learned discussions about the results of government activities and services, and enlightens budgeting decisions by providing additional and relevant information.”
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> Julia Melkers and Katherine Willoughy, ***‘Models of Performance Management Use in Local Governments”*** Public Administration Review, March/April 2005

The challenge for the CFO is to change the financial contribution to overall strategic management. This means changing from the traditional orientation of being a scorekeeper that provides purely financial and generally retrospective information to a new one that provides future orientated financial performance information. All parts of the organization must understand this information and see it as their own. The CFO needs to provide analysis that both helps and challenges managers to confront short-term issues and see long-term

> ***Case in Point: Building Common Performance Data Definitions – The Canadian Food Inspection Agency***
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> In order to ensure that all parts of the organization were prepared to sign on to and actually use common data definitions, the finance group within CFIA formed a partnership with the two leading operational branches. Rather than suggest data definitions or reporting formats that would eventually go to the President and the Executive Committee, the financial group asked the operational branches to do the initial designs. It was understood that there were some basic requirements and these were explained to the operational branches. However, the front-end work was done by those who would use the information and who would also be accountable for it to senior management. It was also agreed how the information would be gathered and used. For instance, once the Vice President, Corporate, put together a performance report based on the new format, it would be signed off by the VPs of the operational units before going to the President. The results include a reduction in discussions about data quality, a better focus on the content of the reports, and a better working partnership between the corporate groups and the operational branches.

possibilities. This is not an 'instead of' role but an 'in addition to' role. Providing basic financial controls and meeting all legal reporting requirements accurately, and consistent with the government's financial reporting needs, remain a key role of the CFO.

What exactly do we mean by integrating financial and non-financial information?

The air needs to be cleared about what this phrase means. Public sector organizations generate and receive a lot of information about how they are performing. This is because of their transparency and the legal requirements for it. Similarly, government departments pursue a large number of objectives and activities that are the source of this information. Some are inputs – e.g. how many people are employed and where. Some of these are processes – e.g.

applications reviewed. Some involve outputs – e.g. number of kilometers of roads repaved. Some involve a direct or indirect contribution to outcomes – e.g. reduced crime, a healthier public. Public sector organizations are measured in a variety of ways, often by different groups or interests. It is axiomatic in the public sector that, while there is a general desire to address results as the primary focus of organizational behaviour, the means used are extremely important in the public sector. Were the legal requirements met? Were resources distributed equitably? Were entitlements met? Therefore, there will be a series of compliance measures that are both operational and financial.

Believing that all this information can be brought together into an integrated whole is highly ambitious, seldom seen and it can cost a lot. Very few public sector organizations have realized full integration. The real test becomes what is needed and useful to make the organization meet its requirements. One of the best efforts to bring such data together in a useful way for both internal management and external reporting has been some variation of a balanced or holistic approach. In this, information about finances, operations, clients and organizational learning are balanced to provide a complete picture of organizational performance. Here too, organizations have experienced challenges to sustain such an approach whether it is with the use of the formal methodology or simply an effort to find a balanced array of measures that, in the end, provide the meaningful information needed to manage.

While other examples and methodologies abound, the simple message here is that integration takes place by ensuring that all that is important to measure be measured. In addition, the outcomes of such efforts are dealt with in an integrated fashion, with a balanced weighting being given to all the bottom lines that public sector organizations pursue.

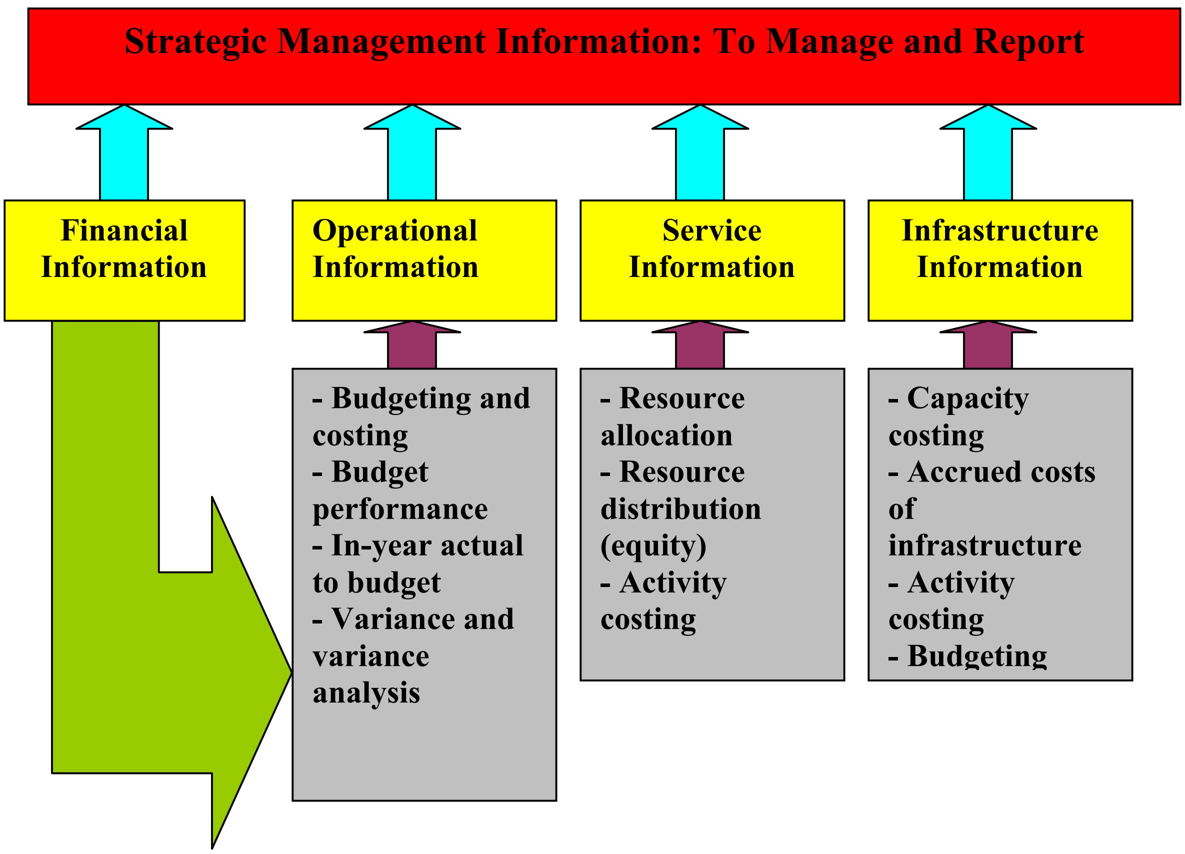
Integration of financial and non-financial data, therefore, does not mean that all data must look like financial data. Similarly, not all the information that managers need to manage need stand the tests that financial data must pass. No one single measurement - a sort of amalgamated number or, even worse, colour code – is going to do it for complex public organizations. In turn, public sector organizations that place too much burden on financial reporting alone also have a distorted picture of their performance. This also places an inordinate burden on the CFO to act as if she or he is sole purveyor of performance information that meets all the needs of the organization: internal management, stakeholder reporting and legislative reporting.

However, there is an important set of connections between financial and other performance information. That is the ability to know what things costs, to understand the nature of those costs and to apply that information in the continuing management of them. In other words, reviewing operational information without a sense of the costs of the operations means not fully appreciating the inherent risks, the potential for budgetary distortions or the creation of opportunities such operational information can produce. In like manner, assessing results, either for internal management or external reporting, without a full understanding of all the costs ignores secondary support costs or presents a distorted and inaccurate picture of the costs of public goods to legislatures and the public.

Another example is in the so-called softer areas of performance management: client satisfaction, pubic opinion, and in the vital and oft-times neglected issues of organizational capacity, ranging from infrastructure costs to staff alignment. Even in these areas, financial information plays an important role. For example, where issues of public service are involved, there are also often questions of the equitable distribution of resources, either regionally or by category of entitlement. Such information will have a financial base.

Concerning infrastructure and organizational capacity, two important themes emerge highlighting the role that financial information plays. The first is the ability to cost staff training, development and other investments in people. The second is the ability to use the potential that accrual accounting and budgeting give to overall infrastructure costing in terms of planning and costing changes. This will help the organization determine its capacity to continue to deliver the same or better levels of service.

The following chart shows how financial information integrates with other forms of information as part of the input measures for each category.



The simple reality is that financial performance information has been used for decades as a surrogate for overall organizational performance. Because financial performance can be readily measured, it has been readily available. However, it seldom tells an organization how it is performing with respect to its public policy objectives. As Norman and Gregory have noted, "The emphasis on gathering information for accountability purposes has resulted in a flood of safe, measurable, financial information about assets that are relatively trivial components in the production of outputs. Information about human capital issues, which is crucial for ensuring success in people-intensive service organizations, is relatively scarce. Similarly, public sector organizations have had legal financial reporting requirements well before any requirements to report on results.""[2]

Looking for Help: Guidance Provided by the Alberta Auditor General on Integrated Reporting

The model for the analysis—there is no generally accepted model to integrate financial and non- financial information in a results analysis. We suggest organizing the analysis around core businesses with an integrated picture of the related goals, performance measures, and strategies**. This model works to plan, monitor, and report on costs and results—as long as you:**

a) **define core businesses as a major group** of related strategies and activities producing outputs that are designed to achieve one or more goals.
b) **use core businesses** as the primary category for allocating resources**.**
c) **link planned and actual costs of core businesses** to your organization's income statement.
d) **link each goal to one core business.**
e) **include at least one performance measure for each goal.**

The components of the analysis**—use the integrated results analysis to complement and supplement the financial statements, but not to duplicate them or their notes. Discussion of core businesses must focus concisely on the significant aspects of the results. If any of the following information is already in your business plan and it is public, just summarize it in the results analysis and point readers to the business plan for more detail.**

For each core business, include the following four kinds of information:

a) **An analysis of core business costs and key components of financial statements that:**

◊ shows planned and actual costs of core businesses and

[2] Richard Norman and Robert Gregory, "Paradoxes and Pendulum Swings: Performance Management in New Zealand's Public Sector", Australian Journal of Public Administration, 62(4): 35-49, December, 2003

explains significant variances between the two. If there's comparative data from prior years, the analysis should explain any variations between it and data from the current year.

- ◊ discusses any significant changes to planned costs. These could include budget reductions or increases from supplementary estimates.
- ◊ discusses significant changes to key components in the financial statements in the context of the core business the change affects most.

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b) **Analysis of goals and performance measure results that:**

- ◊ links goals to performance measures and discusses both in the context of the unique core business.
- ◊ compares actual performance to goals, performance measures, and targets in the business plan. The section should describe the effects of any significant changes, such as funding changes, and link costs of significant programs to their goals and performance measures.
- ◊ explains the following four things:
  1) significant variances between results and targets and between the current and previous years.
  2) how the ministry is adjusting to achieve unmet goals.
  3) how strategies and programs have had a significant impact on results.
  4) the effects of significant external factors on performance.

c) **A description of any significant unusual or infrequent events**, such as a major program being discontinued.

d) **Forward-looking information** discussing known events, commitments, and uncertainties that can reasonably be expected to significantly affect future performance.

Best Practices in Preparing an Integrated Results Analysis Guidelines for Government Organizations, June 2002, Issued by the Auditor General of Alberta

Ideally, a fully integrated system of performance measurement would have a solid foundation in understanding both financial and cost performance in parallel with operational performance combined with a longer-term set of measures that relate to overall policy outcomes, stakeholder interests, public support and organizational development.

The CFO holds many roles in seeing this come to fruition:

- The quality and relevance of financial information whether it is provided by the finance function or elsewhere in the organization
- Ensuring that operational managers' financial information needs are met
- Ensuring that financial information generated through operations or policy systems is valid and comparable to the organization's standards
- Ensuring that senior managements' information needs and responsibilities are well supported
- Advocating for a full system of performance measurement
- Leading efforts to achieve this where appropriate and with the agreement of the organization's senior management
- Partnering with those leading corporate efforts at performance integration
- Growing and finding the financial expertise to support this.

Don't Reinvent the Wheel: The PAA as a Useful and Powerful Tool

The introduction of Performance Accountability Architecture (PAA) by the federal government is good example of tools that, when used and applied internally, can generate significant progress in integrating financial and performance information. It is a good start at not only meeting central agency reporting requirements, but also a useful platform for sorting out internal definitions of programs, outcomes and linkages to both costs and value outcomes.

Some of the keys to achieving a higher level of integration are:

- The use of common data definitions and coding in both financial and operation and other feeder systems, especially where the same terminology is being used
- Program costing protocols and their consistent application
- Established protocols on information reporting quality and its use

Impediments and Challenges

The integration of all performance information is built on the premise that the public sector organization knows precisely what it has to do, can articulate that in a set of performance indicators and that some form of measurement can be applied to them. This is not always the case. Public sector goals are often deliberately vague. Outcomes are at a very high level, and, increasingly, cross jurisdictional lines. The pursuit of public good also involves the private and voluntary sectors of society, not simply government. There is no simple solution to this challenge. However, there is a hierarchy of information requirements in public sector organizations. These range from input data through a range of levels to outcomes of complex public efforts. This means that the performance measurement strategy of the organization has to also address these various levels and needs. Equally, not all the performance indicators needed at all levels can be developed at one time. Often trial and error is the only way to get there. As well, not all performance measurement can be vested in a single part of the organization. It is an enterprise-wide effort.

> ***The Capacity Challenge for CFOs***
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> "We certainly need to know what programs cost and how they are performed; we need to provide good estimates to determine future costs; we need to use information to make better decisions that will enable us to allocate our resource most effectively; we need effective management control. But we also need to be careful that we do not pursue these goals at the expense of our most critical resource, our financial management employees, who now find themselves burdened by an avalanche of requirements… It's important to ask: will our financial management work force have the time and energy for the problem-solving and analytical and creative thinking necessary to serve as a catalyst for improving program management?"
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> Mitch Laine and Catherine A. Krevyche, "Internal Audit Control Reforms", The Journal of Government Financial Management, Summer, 2005. Vol. 545. Iss. 2

The other impediment to the widespread use of performance information is that a substantial proportion of key performance indicators (KPIs) were not consistent year-on-year, which makes trend analysis and comparatives very difficult. That means that KPIs will change. However, the real danger is wholesale change without a sound cause. The challenge is to balance the need to change measures to reflect substantive policy changes or to respond to the experience of using previous measures that either did not work or are benefiting from organizational learning with the equally great need for the users of the information to have period to period comparisons.

Strategic Design of Information

The CFO alone cannot meet all the organizations information needs, nor can she or he be expected to be the sole source of expertise in this area. However, she can play a strategic role in both lending expertise and advocating for better information.

Much will depend on the organization in which she or he functions. Often expertise on measurement is vested in a separate planning group. Who actually creates and uses the performance information system is secondary to the characteristics that apply to its design.

Five Questions to Ask in Designing Performance Measures:

1. Does the measure support the organization's strategic goals?
2. Does the measure support the organization's operational processes?
3. Is the measure easy to understand?
4. Can the measure be found in obtainable data?
5. Is the measure a good indicator of the organization's performance?

Some of the strategic design features for any performance information management system are:

- **Performance information must flow from the strategic direction of the organization**: Some form of strategic path development, one that identifies short, medium and long term objectives, needs to inform the performance indicator design process.
- **Organizations have to decide what they need to know:** Through a process of experimentation, organizations need to develop their information use needs in a conscious way. Time is a precious commodity for both creators and users of information. They need to focus on what they need and avoid distractions.
- **Organizations have to establish and stick by their 'systems of record':** Complex organizations such a government departments will have a myriad of information systems to meet a variety of needs. While the point has already been made that, ideally, common data definitions would be used throughout the department, this ideal is often a difficult one to achieve. In order to ensure that there is consistency in reporting, therefore, the department has to establish its systems of record, the ones that it will use for internal control, decision-making and external reporting and accountability. It is only in this way that all parts of the organizations will have a vested interested in ensuring that these systems of record have accurate information.

The Value Added by the CFO in Building an Effective Performance Information System:

- *Underlying discipline associated with financial information*
- *Having external standards to bring to the table*
- *Rigour and consistency*
- *Commitment and mandate to ensure "clean results statements" for the organizations*
- *Independence and objectivity*

- **What is measured must be meaningful and useful**: Often organizations, in particular the finance function, produce a great deal of performance data because they can. This can produce a glut of information that its producers think is being helpful but that its supposed users find overwhelming or of little use.
- **Measures have to be reduced to eliminate complication:** It is important for organizations to focus on a select group of measures, reducing their number to the 'vital few' that are actually used.

You Can't Make It Perfect

There are very few cases where there is an exact fit of costs to result. Similarly, all-in costing of initiatives and programs remains, at best, imprecise. But, perhaps one the greatest challenges to the successful bridging of financial and performance data is the issue of data quality. Data quality on operational performance varies dramatically. While the public sector has had a major focus on improving its financial information reporting, developing or adopting common standards, the adoption of GAAP-driven accruals, etc, and have all increased the confidence in such information. However, less work has gone into operational information. This is both mission-centric information and information about key support functions. For example, public sector organizations, along with their private sector counterparts in far too many cases, do a notoriously poor job of measuring human resource information effectively and usefully. In addition, the issues of timeliness of data entry have an impact on their quality and relevance.

Organizations that fail to bring their data quality up to requirements cannot effectively trust the overall information they receive. In turn, they cannot confidently inform their public, their Minister, Parliament or stakeholders about their operations. The conundrum is where to start. It is generally known that the maintenance of timely and accurate information costs dedicated resources. However, the pursuit of corrections to poor information or efforts to reconstruct faulty data probably costs more, in the long run. Further, there is little use in trying to get all the information right at the outset of any effort to build an integrated management culture. Data is only verifiable in real-time testing, as it is used. Also, there is little real motivation to maintain data well unless there is a sense that the effort is worth it. How is that determined? By action, not words. For instance, is the information used regularly for internal management? Is the performance information that it contains part of the accountability process within the department? Is the information reported out – to Ministers, the public, Parliament? In other words, is something riding on it? When that happens, organizations pay attention and put the efforts they need to into the quality issue.

> The CFO of Forestry Tasmania, Penny Egan FCPA, says the evolution of the role depends on the area of the public sector in which CFOs are employed. '*They are required – and correctly so – to have an understanding of the industry and the business environment in which they work,'* she says. *'They need to be involved in, and be aware of, the many aspects of the business from a commercial point of view, the environmental sensitivities and the social aspects of the organization. Reporting needs to be transparent. Certainly within the public sector, these changes over the past few years have made a huge difference to the role of a CFO.'*
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> **http://www.cpaaustralia.com.au/cps/rde/xchg/SID-3F57FEDF-AE7E60A4/cpa/hs.xsl/724_14931_ENA_PRINT.htm**

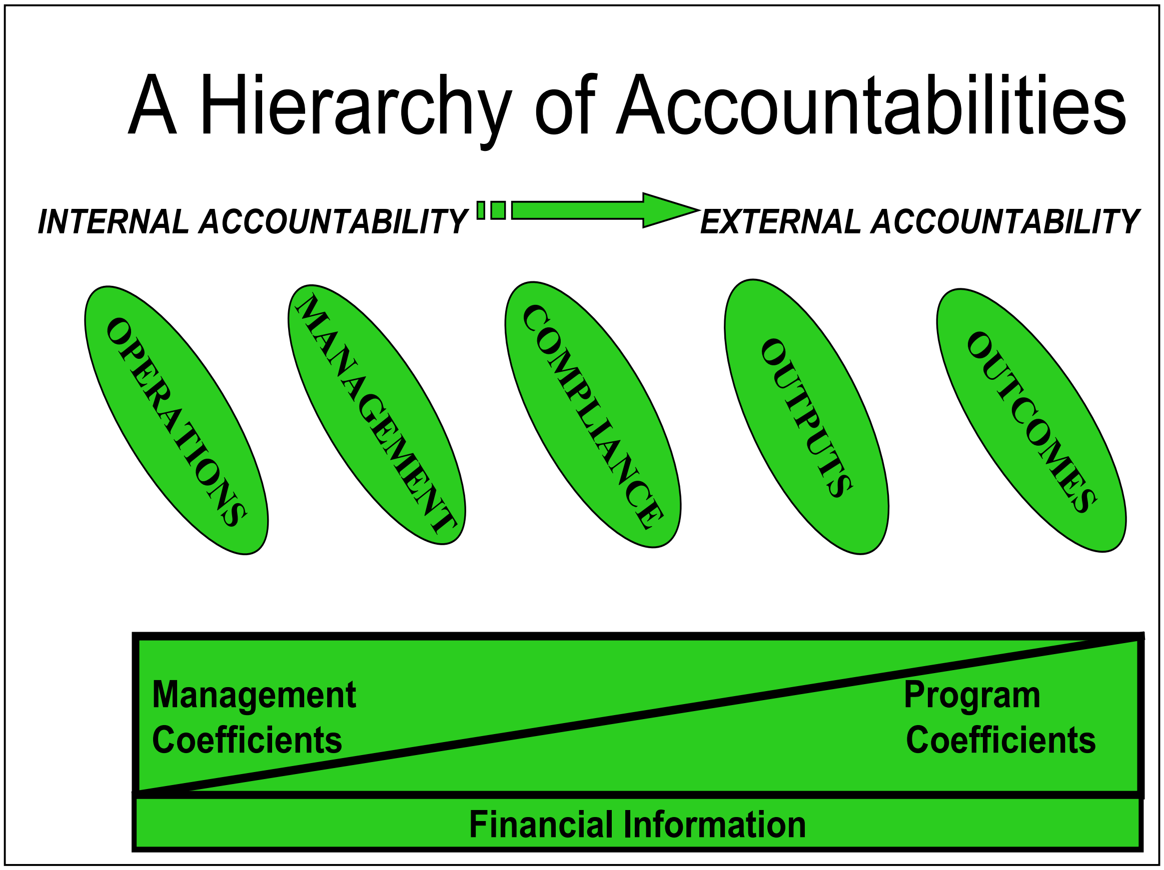
Integrating all performance information is about raising the bar of organizational excellence for a government department or agency. Treated in that context it becomes a major tool for the senior management group to improve overall performance. This is not simply quixotic managerial speak. The efforts that integration demands involve bridging the gap between the resource management side and the overall performance management side of the same organization. The CFO plays a key but not the singular role in such a process. Exercising that role demands recognition of the CFO as an advocate not simply of good numbers, but good management in general.

To arrive at a state of useful information for internal management and reporting will involve a period of experimentation. In all probability, there will be a series of trade-offs about what is measured. Such trade-offs involve finding ways to meet all the needs around the management table not just in terms of what is measured, but how, when and how much. The CFO has to be an active player in this. There is a danger that the CFO would only be seen as the voice of external control or oversight agencies and would not be seen as adding value to the mission of the organization itself. These exigencies are real and necessary, but should not drive how a departmental management team works its way through this challenge.

A Hierarchy of Information: Matching the Basics to External Demands

A valid criticism of much data and information that is gathered now is that it focuses on processes or parts of the results puzzle without any linkages or explanations. However, it is not valid to say that the gathering of information that is less than fully integrated, adequately aggregated or results focused is a waste of time. The opposite is often true.

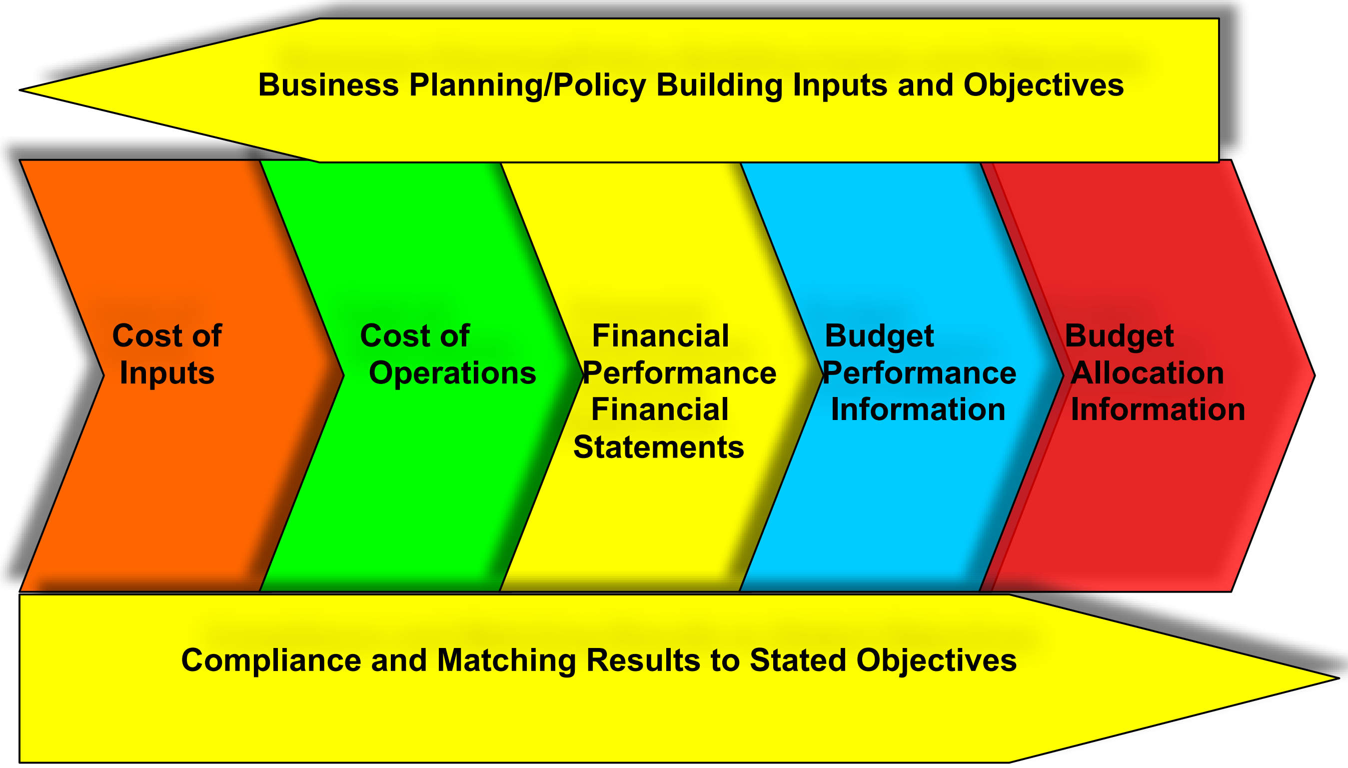
In the public sector there are important process and compliance requirements that demand the gathering of such data. However, its translation into information for the internal management of the organization and then for reporting to the legislative authority or the external auditor means that public sector organizations will require an agreed-upon hierarchy of information. Ideally, the more detailed information will lead to the creation of higher-level, more aggregated data. This is not always the case.



Just as there is a hierarchy of accountabilities, so too information has to match up to those accountabilities. One basic reality is that an excessive focus on external reporting and achieving strategically integrated information that has no meaning to the internal operations of the organization is a distortion of the organization's priorities. It has to have its internal house in order before it can adequately provide performance information.

Integrating the financial and non-financial aspects of this continuum is a management challenge, not an accounting one. Getting the information right and well balanced for internal operations, control and decision-making should be the priority. After-the-fact performance reporting will reflect the internal robustness.

A Hierarchy of Financial Information:



Similarly, there are many sub-systems, black books, feeder systems that generate important results information and operate entirely outside the realm of the financial reporting system. For that reason, the organization has to clearly

Case in Point: Improving Integrated Reporting – New Zealand Ministry of Education

Like other New Zealand government ministries, the Ministry of Education has undergone significant reforms. The introduction of Statements of Intent, essentially costed planning documents against which performance is measured, is an example of how results are linked increasingly to planning. While much has been done to have high quality financial reports with external independent auditors, the emphasis is increasing on the provision of non-financial performance data. Some of the tools used to do this are:

- Use of case studies in performance reports highlights and humanizes the information provided
- Full integration of financial statements into the performance section of the Annual Report, but with a clear linkage to the program outputs voted by Parliament
- Presentation in graphic form of these linkages
- Directly addressing both external and internal risks in planning and in its Statement of Intent (long-range planning documentation).
- Preparation of Prospective Financial Statements that outline anticipated costs, levels of expenditures, compliance with intent, based on risk and program pressures. Such a document is clearly intended to signal anticipated performance and provide a benchmark for retrospective measurement later on.
- Direct linkage of expenditure changes to classes of outputs, the form that results statements take in the New Zealand system. This then leads to the adjustment of the output measure itself, e.g. "Ongoing development of adult and community education ($0.9 million) with a focus on adult literacy and foundation education and a new international survey on adult literacy and life skills. These are mainly under output classes D1 (Policy Advice) and D5 (Provision of Information) "
- Creation of **Output Statements of Financial Performance** structured by departmental output, including policy advice
- In outlining the output class performance objectives, a combined narrative and financial description of the output, the following information is provided in an integrated fashion:
    - Overall description
    - Performance dimensions
        - Quality, quantity and timeliness
    - Cost of output overall class
    - Cost of individual output categories
- Application of a common presentation and costing technique to all aspects of the department's activities, including policy advice as an intended output
- Full application of indirect costs to output classes
- A clear statement and understanding of financial policies, including depreciation rates on all facilities and cost attribution (as above)

For further information: http://www.minedu.govt.nz

indicate what information is important to it, how it is reviewed and used and the responsibilities of the various owners of that information for its quality and integrity. This requires a level of co-ordination and integration that often does not reside with the CFO, but demands that he or she play a crucial role.

Some Questions to Ask on the Road to Greater Integration

The greater integration of financial and non-financial information appears to many public sector CFO to be an elusive thing. In all probability, there is not an ideal state that can be easily described and measured against. Few examples exist. The number of variables at play in the public sector – changing senior management, differing central agency demands, and shifting parliamentary and public focuses – mean that the target is changing as well. Therefore, to remain sane but also constructive with respect to this goal, some signposts are needed. None alone gets the organization to the desired state. All contribute.

The following are a series of questions that could be used in assessing whether the organization has reached an improved state of integration:

- Is there a full range of performance measures – financial, operational, compliance, end-user and stakeholder satisfaction and internal staff commitment and alignment – in place and reported to senior management in a consistent fashion and used in a consistent way?
- Is the quality and quantity of financial reporting useful and relevant to all end users?
- Do end users understand the financial information they receive? Are they provided with an analytical support from the financial and strategic perspective?
- Does the information contribute directly to the establishment of trend analysis, both retrospective and prospective? Does the identification of such trends lead to the effective identification of risks and opportunities for the organization? Does the provision of such trend analysis lead to

build possible action scenarios for senior management decision making?

- Does program and operational data provide enough information to permit relating it to budgets and costs? Can that data be married to financial and budgetary trend analyses and scenarios?
- Can results information be subjected to any form of one-off or continuing value for money analysis within the organization?
- Does evaluation and outcome information have sufficient information to develop views on:
  - Alternative costing options
  - Potential shifts in savings or investments?
- Is the technology needed to support this effort in place? Are systems compatible to enable the cost-fertilization of information?

Developing and Using the Right Measures at the Right Time

Complex pubic sector organizations have a variety of information needs to meet their responsibilities. No single set of metrics are going to do it. Similarly, even if an appropriate economy of measures that have some coherent linkage to the strategies of the organizations are in play, they will have to vary based on a number of variables:

- **Short-term/Long-term**: Short-term information on operations, on cash flows for in-year management, on critical performance areas and on compliance with legislated or policy requirements versus longer-term information on performance against targets, stakeholder evaluations, financial commitments and budgetary concerns and program evaluation
- **Retrospective/Prospective**: In general, most financial reports are retrospective — e.g. they report what has happened to the finances of the organization. Successful linkage with operational results should show a concurrence of operational event (e.g. an increase in service demand) and financial impact (e.g. increased overtime and term staffing costs). In many

instances, a purely retrospective approach is useful in terms of understanding past events, assessing performance and accountability, explaining the current state of finances. However, such information gains tremendous additional worth when it can then be used to project future behaviour. It can signal the need to either alter a course of behaviour and seek some form of internal reallocation or new funding if some form of 'new normal' is developing. This requires analytical capacity, a good handle on historical trends, both financial and operational, and a projection capacity that engages both the financial analyst and the operational manager.

- **End-User**: The concerns of a front-line manager are different than those of the organizational executive or those of a parliamentarian on a Standing Committee. At play here are issues of detail, level of concern, scope and breadth. What each level looks at will be affected by its orientation. The challenge to public sector organizations is to provide the kinds of information needed by each level that is useful and timely.

A Useful Example of a Performance Management Logic Model: Government of Ontario

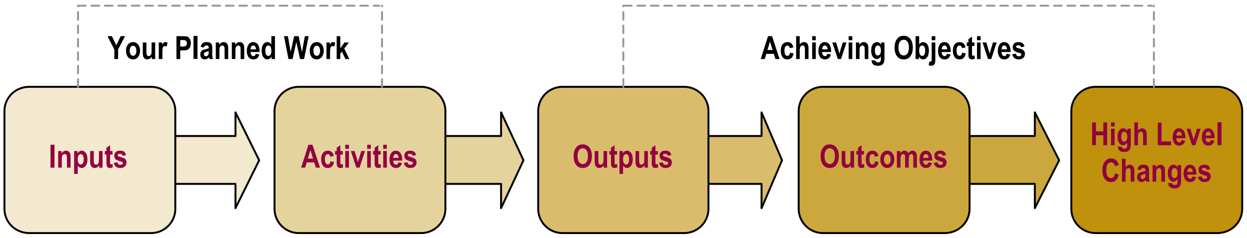
Larger Public Interest:
(Government Priorities are usually here)

Customers: Who Benefits

Objectives Of The Strategy:
What does the strategy hope to accomplish

Inputs	Activities	Outputs	Desired Short-Term Outcomes	Desired Intermediate Outcomes
List all inputs	List all activities	List the tangible products of the activities	List the changes in participation, awareness, behaviour, compliance or capacity that are expected to result from the activities in the short term	List the benefits or changes in conditions, attitudes and behaviour that are expected to result from the activities in the intermediate-term

Logic Model Process – How Each Component Leads To The Next Stage



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What the CFO Can Contribute

Here is where the CFO has an important role to play: to ensure that the information he or she provides is not only what both the end user needs but also what the organization should have before it as part of its fiduciary responsibilities. The right information at the right time should be:

- **Linked:** There is no one single bottom line in the public sector. Having performance information linked does not mean achieving a full level of integration of the sort that would see a single set of metrics. In fact, public sector organizations have increasingly found that a balanced approach to measure trends provides the best set of performance information. The degree of integration that is desirable will be dictated by the complexity of the organization and the level of detail needed. Therefore, it is reasonable to understand some operational performance metrics in fully costed terms, e.g. how much an extra hour of overtime cost actually costs. However, at a higher level, overall cost information and budget performance set against the achievement of program goals in assessing performance may suffice. In others, however, especially where questions arise about the potential for reallocation actual costing analysis of program delivery and examination of alternative scenarios may mean either one-off or continuing costing information.

- **Balanced**: Taking into account operational performance, financial performance, stakeholder interests and the organizational capacity measures offer a good potential to build a full-picture set of performance measures. It also enables public sector managers to address their multiple accountabilities.

- **Time Sensitive:** The performance information should readily provide analysis of present performance (in-year) with past performance and with planned performance. It should enable the user of the information, either intuitively or using formal projections, to come to a view about the future state of performance, using projections.

- **Relevant:** The end user should want the information that is being provided. This may sound somewhat obvious, but many organizations founder on this gap between what managers need to get their job done and what they need to report on. There are obvious corporate information needs that differ from those of the line manager. While no one can relieve managers of their responsibility to "feed the goat", organizations should strive to design systems that meet managers' needs. They are active users of information to get their job done and will find it where they can. When they have to develop black book systems to get at it, they double their effort but half their return on that effort. It is a key responsibility of the CFO to see that managers have the information they need to have.

> ***A Modern Day Managerial Proverb:***
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> *Information is like water: too little and you die of thirst; too much and you drown.*

- **Pragmatic:** All organizations have to weigh the need for information with the cost and availability of such information. Most organizations will start with what they have and build from there. Often, the act of using the management information that they now generate will be the only way to get to better information. While there may a strategic notion of the ideal state and pressure to get there, rushing will only distort information and may also fail to give sufficient time to sort out underlying quality and availability issues. Most public sector organizations that have moved toward more strategic information have taken several management and reporting cycles to reach any state of comfort.

- **Consistent:** Public sector organizations are notorious for changing what they measure. New reporting requirements, generally from central agencies and all for good causes, tend to create an information glut that devalues what information the organization needs to manage and account for itself. To actually have sound performance information, year-to-year comparisons are needed. Similarly, reporting against performance targets or compliance mandates means some form of consistency of definitions. Therefore, the public sector organization puts itself at risk when it changes its performance reporting too frequently. It also creates an information weariness among managers.

- **Organic:** Balanced against the need for consistency is the need to ensure that performance information continues to meet the needs of the organization and the end-users. Rather than suggesting that this means continuous change in the information gathered and used, it actually means that end-users are regularly engaged in assessing how the information has been of help or hindrance, whether it remains relevant, what reports can be eliminated without losing either context, history or accountability. Further, refinements in the significance of some information are inevitable as users grow more sophisticated over time in its application or as new technologies emerge that help, not complicate, the information gathering process.

Where This Positions the CFO

The integration of financial and non-information performance information is really about making performance information strategic in content and use. Being strategic in this context means focusing clearly on the true needs of the organization to meets it public policy goals and accountabilities. In general, the most commonly used performance data in the past has been financial. It had to be done. However, strategic performance measurement forces the organization as a whole, and the CFO in particular, to adopt a new approach, one that begins with the objectives of the organization.

Case in Point: Building Integrated Reporting – Canada Revenue Agency

The CRA has introduced innovative public performance reporting that makes significant progress towards the goal of linking results to costs. The Agency's enabling legislation requires that it provide Parliament with an annual Performance Report demonstrating the Agency's achievement of results projected in its Corporate Business Plan. The Performance Report must contain an assessment by the Auditor General of Canada of the fairness of the Agency's performance reporting, somewhat analogous to an auditor's report on a set of financial statements.

Given the importance of having a favourable assessment by the Auditor General of Canada, there has been an impetus for attention to the question of choosing the correct non-financial information to present and for attention to quality control over that information. Given the legislative basis for the report, the emphasis has been on making the report suitable for demonstrating accountability to Parliament and other external stakeholders rather than on internal decision making. The Agency took a number of years to experiment and develop this reporting vehicle and has learned a number of lessons.

Some of the lessons learned from CRA are:

- Focused attention by the CEO over a long period time in 'getting it right' is needed. The CEO must recognize the importance of sound information and balanced reporting, showing poor performance along with good performance.
- It is possible to adapt the externally focused report for internal management purposes. This facilitates the introduction of performance reporting as a periodic item in executive meetings,

The success of the externally focused performance report is now being used as a leverage point for some other internally focused improvements.

- The Agency is beginning to use activity based costing as a way to get important diagnostic information to guide process improvement and resource allocation. Initially, efforts are directed to full integration of performance and cost information where it is most useful and important, not on everything at once.
- The Agency is revamping its financial coding structure to serve internal analytical purposes as well as the accountability and responsibility purposes they are generally designed for.

The CFO has to both encourage this step, but also make sure that in doing so the organization keeps on track on its fiduciary responsibilities. The CFO has to advocate not simply getting the numbers right, but also getting the right numbers. This means that she or he, personally, and the finance organization as a whole must nurture and use skills in areas where they may not have done so in the past:

- An understanding of why the organization exists, what it does, what are its key processes, accountabilities and risks – i.e. being mission-savvy.
- Broader understanding of overall performance measures, not just financial ones.
- Predictive and analytical skills that enable it to apply the considerable knowledge of costs and resource use to operational information and draw independent conclusions about performance and future behaviour. This a major challenge function not well liked but much needed.
- A capacity to use information that it does not itself generate, often residing in other parts of the organization.
- At a personal level, the CFO may have to form judgments about mission-centric performance issues that are relevant and useful to senior managers. The CFO needs to be a respected voice, not kept in a box and only listened to when financial numbers are in play. Key to having such authority is a strong commitment by the CFO that the information being discussed is neither just financial nor operation, but part of the same performance information framework.

Some Thoughts for Future Action

The creation of a performance measurement framework for an organization involves all the players in that organization. It cannot be the CFO alone who carries such a responsibility. That is because, to be integrated, it must be part of the way the organization manages itself and discharges its public policy responsibilities. Therefore, the creation of such a framework has to be a conscious activity, involving the creation of a formal policy on performance measurement.

⇒ **Public sector organizations should adopt a formal performance measurement policy, outlining the information and reporting needs of the organization as a whole, with assignment of responsibilities for the creation of information, its collection, dissemination and use along with responsibilities for quality, analysis and regular review within the decision making structure.**

⇒ **All forms of information should be part of this policy: operational, financial, cost, compliance, internal and external.**

⇒ **All levels of the organization should be involved in the process of creating this policy and it should be applied to all levels of the organization.**

⇒ **Organizations should develop a process of presenting their performance information in a way that presents both financial and operational information with as much costing information as is useful. Separate reporting should also occur when it is absolutely necessary, e.g. required formatted reports such as financial statements.**

⇒ **Organizations should develop comparative information, using similar organizations in other jurisdictions, or benchmarks that are usefully recognized as providing touchstone comparative information.**

⇒ **Government as a whole should adopt a policy on the use of performance information within public sector organizations, outlining not only its already clear commitment to improved financial reporting, but also**

- **the behavioral expectations of the departments to regularly review performance information;**
- **to take into account a fully balanced and adequately integrated set of performance information;**
- **to adopt a departmental policy that outlines its performance management framework, roles and responsibilities: and**
- **means to evaluate the use of its performance information.**

⇒ **Central agencies need to provide a more consistent and clear set of information requirements with an understanding of the cost of collection, the end uses and the expertise necessary to assist departments and agencies to assemble such information.**