

Views from the executive suite: lessons from the introduction of performance management

Zhanming Liang and Peter F Howard

Abstract

Performance management introduced to the senior health executive levels in the New South Wales public health care system included the senior executive service in 1989 and, as a key element of that service, performance agreements in 1990. This is the first qualitative study examining senior health executives' personal experiences of these changes. In consideration of what has been learnt from the most relevant literature and this study, this paper concludes that the introduction and implementation performance management is a continuous process. This process includes the key steps of planning, measuring, monitoring and evaluating. It can be used as a means to achieve overall effective organisation performance by bringing in a two-way management process for the organisation and its senior health executives.

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HEALTH CARE REFORM has been a global phenomenon since the early 1980s, with a major focus on managerial restructuring to produce a more responsive and efficient system.¹ "Performance management" was a term first used in the 1970s² but only became a recognised management process in the Australian public sector in the 1980s.³ It is acknowledged as a contributor to overall organisation performance. One of the central components is performance agreements, which link the performance of an individual public servant to organisational goals by measuring, monitoring and enhancing the performance of staff.³⁻⁸ This practice has been introduced gradually into public sector health care over the last 2 decades² and is largely limited to national

What is known about the topic?

The senior executive service (SES) and performance agreements introduced performance management to senior health executive levels in the New South Wales public health care sector in 1989 and 1990. Although the literature has confirmed the importance of performance management for improved outcomes of health care organisations, there has been no systematic research investigating the impact of these changes in New South Wales.

What does this paper add?

This paper provides a window into the positive and negative experiences of NSW Health senior health executives after the introduction of the SES and performance agreements. Although the study participants generally agreed that the objectives of the SES and performance agreements were beneficial, they did not believe the full benefits had been achieved.

What are the implications for practitioners?

The paper discusses a number of factors essential to the introduction and implementation of performance management to senior health management levels and suggests that it is important to recognise performance management as an ongoing multilevel process that requires support from the organisation as a whole.

health systems from OECD countries.² Performance management systems have evolved since their introduction and continue to evolve with the experience of implementation,² but the evaluation of their impact in the health sector is limited.

Performance management

Landrum and Baker developed a conceptual framework for performance management in the public health system based on a literature review and a survey of performance management practices in the United States.⁹ They defined performance management as a practice of actively using performance data to improve the public's health, which involves strategic use of performance measures and standards to establish performance targets and goals. They recommended that an integrated performance management

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approach be adopted to deliver active performance management efforts in order to achieve expected results. This conceptual framework includes the following four integrated parts:

- Establishment of performance standards including relevant targets, goals and indicators to improve practice
- Application and use of performance indicators and measures
- Documentation and reporting of progress in meeting the standards and targets and the sharing of such information through feedback
- Establishment of a quality improvement program or process to manage change and achieve quality improvement.⁹

This conceptual framework combines elements of direction setting, measurement, accountability and management of change in a cohesive manner.⁷ Landrum and Baker emphasised that a performance management system is the continuous use and integration of these four parts into an organisation's core operations⁹.

Sheldon used the National Health Service in the United Kingdom to highlight the importance of establishing benchmarks and setting measurable targets in implementing a performance management system.¹⁰ He pointed out that, where possible, indicators should be developed alongside the production of evidence-based practice guidelines or guidance to which people are contracted at a local or national level. Indicators should be measurable, interpretable and useful for action at a local rather than at a national level to ensure that the underlying processes are visible and that local knowledge is used.⁸

Ferlie and Shortell pointed out that efforts to improve the quality of health care will fail to realise their potential unless both policy makers and practitioners consider and implement a more comprehensive, multilevel approach to change.¹¹ This multilevel approach includes improved leaderships at all levels, a pervasive organisational culture that supports learning throughout the care process, an emphasis on the development of effective teams and greater use of information technologies for both continuous work improvement and external accountability.¹¹ They also suggested that the individual, the group or team, the overall organisation and the larger system or environment in which the individual organisation is

embedded needed to be considered to maximise the probability of success:

While it is possible to achieve a small, limited impact by focusing on only one of the four levels for change, we believe that the greatest and longest-lasting impact will be achieved by considering all four levels simultaneously.¹¹ (p. 288)

They explained further that the multilevel approach to change does not mean that every change effort must be directed to all four levels concurrently. Rather, it means that a change aimed primarily at one level would be considered within the context of the other three levels.

In addition, Sheldon drew our attention to the importance of relevant knowledge and skills in the implementation of performance management. He advised that applying performance measurement requires considerable skills in analysis and interpretation and needs experienced people to work at a local level to help clinicians, hospitals, and managers take appropriate action to improve performance.¹⁰ When change becomes constant in health care, implementing and managing the process is no longer a skill required occasionally by senior managers, but a core skill required daily by all.^{12,13} After critical analysis of recent relevant studies in health service management, Liang et al concluded that health care reforms and the subsequent changes resulted in new roles and competencies for senior health care managers.^{14,15} Effective leadership and team skills were critical to successful change, decreasing the likelihood of cynicism and discontent.¹⁶ In addition, the literature indicated that the success of implementing change not only requires strong leadership skills from senior managers,^{12,13,17} but is also affected by other characteristics of the system and organisations.^{16,18,19} Veninga²⁰ and Sunseri and Kosteva²¹ reinforced that specific strategies needed to be developed by organisations to support their senior managers to keep pace with rapid changes and to allow sufficient measurement and feedback of results to support those changes.²²⁻²⁵

Staff performance is a core element of performance management, which is tightly linked to the overall performance of the organisation. In NSW, the introduction of the Senior Executive Service (SES) and performance agreements in 1989 and 1990 are prime examples of performance management of the senior

health executives of a public health system. NSW Health is the largest health care employer in Australia, with almost 90 000 full-time-equivalent staff in 2006.²⁶

Performance management in NSW Health

The SES is the leadership cadre of the public service and was introduced at the federal level in Australia in 1984. The purpose of the SES is "to make the service at senior levels more open, mobile and competitive and to achieve a greater degree of management leadership in development and placement of senior staff".²⁷ (p. 78) Since 1984 the states and territories have invested substantially in leadership and management improvement and all have established an SES.²⁷ Members not only provide high-level support to their own agency, but also are required to cooperate with other agencies and promote the value of the Australian public service and compliance with its code of conduct.²⁷ In NSW, the SES and performance agreements heralded a new era in responsibility and accountability in health services management.²⁸ A performance agreement is the main document that defines the accountabilities of each executive, and a major tool in assessing performance. It is a key part of the performance management cycle that includes regular feedback, coaching and review throughout the year.²⁹ The NSW Health Policy Directive stated that effective performance management could increase motivation, foster productivity, improve communication and encourage professional and managerial development.³⁰ For the first time, health plans and budgets were directly linked to the performance of the organisation and its senior management. The goals, initiatives and targets for the senior health executives for the next financial year were detailed in the agreement.

This study examined the outcome and lessons learned from the introduction of the Senior Executive Service and performance agreements in NSW. With change as a constant phenomenon in health care, two questions were raised. First, did the introduction of performance management in the NSW senior health executive level achieve its expected outcomes? Second, what can we learn from the experiences in NSW? Drawing on the lessons from the literature and from the experiences of the senior health executives who were directly involved in the introduction of

performance management in NSW between 1990 and 1999, this paper aims to highlight the important steps and factors when introducing performance management at a senior level of the health workforce.

Methods

The study targeted the following four levels of senior health executives within NSW Health:

- Director General
- Deputy Director General
- Department of Health Division Director; and
- Chief Executive Officer of an area health service (rural and metropolitan).

Between 1990 and 1999, 71 senior health executives occupying positions in these categories were eligible for the study, and contact details were available for 60 (80%). Questionnaires were mailed to all 60 managers to gather information on their demographic characteristics and employment status, and to seek their agreement to participate in a telephone interview. Of twenty-nine responses to the questionnaire (48%), 22 of the 60 (37%) agreed to participate in an interview. Thirteen were randomly selected for interview.

Thirteen in-depth telephone interviews were conducted in mid-2005 using open-ended questions. Ethical approval was granted by Griffith University and consent from interviewees was received before the interviews. During the interviews, participants were asked to describe freely their experiences of the introduction and implementation of the SES and performance agreements in NSW from 1989 to 1999. At the end of the interview, they were invited to comment on the interview process and express any concerns or issues. All interviews were tape-recorded and transcribed. Transcriptions were examined for accuracy, subjected to content analysis and sorted for their relevance to the research questions. All data were scrutinised for emerging patterns.

Interview design

Two questions were used to gather the personal opinions of the interviewees regarding the implementation of the SES and performance agreements.

Q.1 Did you enjoy the time as a senior health executive in NSW Health?

Q.2. What were your overall experiences with the introduction of the SES and performance agreements in NSW, especially during the period of 1989–1999?

I Positions of respondents, contactable population and study population

	Respondents <i>n</i> (%)	Contactable population <i>n</i> (%)	Study population <i>n</i> (%)
Director General/Deputy Director General/Director of Division	6 (20%)	15 (25%)	17 (24%)
CEO metropolitan Area Health Service	12 (42%)	16 (27%)	16 (22.5%)
CEO rural Area Health Service	11 (38%)	29 (48%)	38 (53.5%)
Total	29 (100%)	60 (100%)	71 (100%)

Results

Participants

Among the study population of 71 senior health executives, only 21% were still employed by NSW Health at the time of data collection. The distribution of questionnaire respondents' positions is shown in Box 1. Compared with the study and contactable populations, there were more CEOs from the metropolitan areas who responded and fewer rural CEOs.

There were no significant differences ($\chi^2=1.23$; $df=1$; $P>0.05$) in the gender distribution among the respondents, the contactable population and the study population.

Box 2 shows the distribution of tenure of the questionnaire respondents. More than 50% had been in their positions for no longer than 3 years.

Opinions from senior health executives

Senior health executives enjoyed their time in the position

Nearly all of the interviewees ($n=12$) said that they enjoyed their time as a senior health executive with the NSW Department of Health between 1990 and 1999 for the following major reasons:

- professionally satisfying ($n=12$);
- a challenging position, although sometimes the expectation for the position was certainly well beyond the capability of the executive ($n=3$);
- the challenges and opportunity to manage health services for a whole population ($n=1$);
- the opportunity to work with senior people within the system, including politicians ($n=1$).

The one participant who did not say that he enjoyed the time as a senior health executive indicated:

I found it very challenging. I wouldn't say that I enjoyed it ... but I found that what was required of you was certainly well beyond not only your capability, but the organisation's capability.

SES and performance agreements should have brought greater accountability and guidance to senior health executives

The vast majority of the 13 interviewees indicated that the intention of the SES and performance agreements was good, but their attitudes toward the effectiveness and usefulness of the changes in practice varied. There was consensus that SES and performance agreements did initially give senior health executives hope that they would be able to manage the system better, guided by these performance management arrangements without unnecessary political interference. However, the weaknesses of the SES and performance agreements themselves and the flaws of the introduction, implementation and monitoring processes made achievement of the expected benefits unlikely.

The intention of performance agreements was good. When it was first introduced, there was a belief that managers should be allowed and enabled to manage without too much political interference. That was the most powerful and overriding philosophy in the early stages.

Initially, the SES and performance agreements aimed at bringing explicit management accountability

2 Tenure within the most senior positions among respondents

	Number (%)
≤ 3 years	16 (55%)
> 3 years to ≤ 5 years	7 (21%)
> 5 years to ≤ 10 years	6 (24%)

to senior health executives by linking their performance to the overall performance of the systems/areas under their management. The SES and performance agreements also aimed at placing more focus on evaluating performance of both senior health executives and the organisation and drilling down into what senior health executives were actually achieving or had achieved. In theory, they provided senior health executives with a clearer direction of government or department objectives with more formal reporting processes, and allowed specific targets to be established, utilising process and output indicators.

It was a good mechanism for control by the government for CEOs and health services to do as they were told and do what was required. The long-term result of them hasn't necessarily improved the system or made it more effective. It's all been mostly about controlling and containing the system rather than advancing the system.

SES was strongly appreciated at the time. There was an immediate jump in remuneration. Basically, people at the senior level virtually doubled what they were earning, so there was a strong sense of recognition of the value of the contribution. It was also initially established to put a high level of responsibility and accountability on the managers and designed also to provide a reward for accepting that sort of responsibilities.

Therefore, in one sense, the SES and performance agreements gave senior health executives a better idea from a state perspective what was required strategically. On the other hand, they could be seen as an effective means of increasing the control over senior health executives by the government. In reality, the SES and performance agreements did not provide adequate guidance to senior health executives in how to operationalise the strategic objectives to achieve the expected outcomes at local levels.

Protection of NSW Health

More than half of the interviewees believed that the SES and performance agreements were in fact a model of one-sided management and a one-dimensional relationship, and protection for the Department rather than the senior health executives. Initially, a split between political policy setting and the management of the services was intended. However, over time, the ethos tended to melt away and there was a reassertion of political control over the management of health services.

In fact, there were views that the SES and performance agreements allowed the government to bring in legislation that provided no security for senior health executives, enabling NSW Health to fire their senior staff more easily, mainly based on unachievable targets. This could explain why the majority of the senior health executives among the study population (refer to Box 2) did not finish their 5-year senior executive contracts.

... the SES is an executive service in name and the only distinction between the SES and other ranks within the public sector now, is they can be terminated easier. Under the Labour Government, their philosophy has much more political control over executive management in the public sector.

The SES contracts were worthless ... weren't worth the paper they were written on; there was no industrial certainty in them and they haven't made any difference other than enabling state health to sack the senior staff more easily. It certainly didn't provide any incentives to performance. No, not at all.

In the early days the SES was seen as offering substantial financial incentives, although with higher accountability and thus with higher risk. Two interviewees mentioned that the SES did not provide as much financial reward to senior health executives as was intended, as the relative remuneration for a senior salary position was based on the lower SES rates.

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In fact, the SES provided minimal incentives for better performance, other than enabling NSW Health to fire their senior staff more easily.

Lack of experience in design, implementation and evaluation

The interviewees mentioned that the Department did not have enough experience in formulating and implementing performance agreements, especially at the early stage of formalisation and implementation. They believed that the performance agreements were too generic and that the targets were too broad, unrealistic and unachievable. Furthermore, individual performance was not closely monitored, positive

outcomes were not recognised and no incentives were provided for senior health executives to do more than the minimum.

The targets set in the performance agreements were unachievable but were about getting the Minister of the day re-elected.

Our system is so incredibly complex and the ability for the senior executive to completely influence outcomes was quite variable, so performance agreement initially was quite rubbery and brief. [Since] then there has been an evolution where they went from being fairly rubbery and subjective to being overly detailed and attempting to be very precise and beyond reality. With the experiences learned from the past 15 years, they've evolved in a positive way and are much better now than previously in terms of directing and reviewing individual performance.

Interviewees claimed that it was difficult to deliver on the strategic targets agreed in performance agreements. Senior health executives either were not given enough opportunities to plan and develop strategies in achieving the strategic targets, or did not get the opportunities to fully implement and monitor the strategies, as they were forever being diverted by "events of the day". In fact, the performance assessment, based on the agreement, was not carried out regularly. The performance agreements were neither well implemented nor monitored.

Furthermore, a number of interviewees highlighted the importance of having competent professionals within the Department who had experience in introducing, implementing and monitoring the introduction of performance management, such as the SES and Performance Agreement, to senior health executive levels.

I don't think that performance agreements were done as well as they could have been done. I hasten to add that they were early days and things can usually improve with time. But, what I found was that over the time that I was there, in fact by the time I left, the process was even worse than it was when it began and it should have been the other way around ... quite frankly I don't think there was the will to make it happen and I don't think we had extremely competent people in this field who were in positions of authority to make this system happen. Because at no point did I feel that there was someone who really knew what they were doing with putting performance management systems within the department and within the senior executive service. I never felt

that there was anyone extremely competent actually running the show.

There was consensus that the process of introduction and implementation of the SES and performance agreements was not carried out successfully due to the lack of relevant experience within the Department and also due to the lack of experienced and competent experts employed and involved in the process.

Discussion

This study has explored the personal experiences of senior health executives in relation to the introduction of the senior executive service and performance agreements in the NSW public health care sector in the 1990s. Overall, the experiences of senior health managers of the SES and performance agreements were varied and sometimes negative. However, senior health executives did acknowledge that these initiatives had the potential to achieve very positive outcomes, which had been predicted when the SES and performance agreements were first introduced.²⁷⁻²⁹ They also acknowledged that the initial purpose was to strengthen management responsibilities and accountability, improve management performance and simultaneously increase the motivation of senior health executives by providing financial rewards and recognition. These initial objectives were similar to those suggested in various papers and reports.^{14,27,29}

A number of limitations were raised by the interviewees. Firstly, the two initiatives were widely believed to provide greater protection to the Department than to the senior health executives. It enabled the NSW Health Department to fire senior staff more easily, but at the same time, inadequate financial rewards had been offered to those exposed to greater accountability and higher risk. In addition, these two initiatives provided one-sided protection to the Department with no security provided to senior health executives. Secondly, the initiatives required senior health executives to demonstrate greater accountability to the Department and focussed more on their performance. However, due to the lack of experience in design, implementation and evaluation of the initiatives, the agreements were not clear in purpose and in the targets to be achieved. These problems have been identified in other studies by Leggat et al³¹ and Potthoff.³² Thirdly, inadequate evaluation of the reform initiatives, the lack of opportunity to provide

feedback and the poorly planned implementation process further limited the realisation of the potential. Lastly, interference in the management processes of senior health executives by political agendas was a factor that prevented the full achievement of the potential benefits of the SES and performance agreements. This was also recognised by the participants of a study of Australian public sector employees.³³

There is limited evaluative literature on performance management in the public sector, particularly in the health sector. Much of what is available is more theoretical than practice-based. Learning from the NSW experience, a number of factors should be considered when introducing performance management to improve the likelihood of successful implementation and real improvement to organisational performance. It is important to recognise that performance management is not a one-off action, but an iterative process involving the key strategies of measuring, monitoring and evaluation.^{2,34} To allow these key strategies to be put in place, clear, realistic and measurable targets have to be established before introduction. Indicators should also be developed guided by evidence-based practice with mechanisms for translating data into knowledgeable actions.^{12,32-35} The introduction, implementation and evaluation of a performance management system requires competent professionals who have acquired the relevant skills, knowledge and experience^{10,12,13,16} and the necessary support from policy makers and funding agencies in improving performance monitoring and implementation.²⁹

In addition, performance management should be seen as a two-way improvement of the management process, which involves a multilevel approach across an organisation.^{11,34} The two-way process embraces the policy makers and the performance management targets. In addition, this two-way, multilevel approach needs to be supported by the organisational culture.^{1,23,25} An appropriate reward system for senior health managers should provide appropriate incentives and recognition for risk-taking, heavier workloads and greater responsibilities and accountability.³³

Despite the reported negative experiences associated with the introduction and implementation of the structural reforms in NSW since 1989, nearly all of the senior health executives interviewed indicated that they enjoyed being a senior health executive

during this turbulent and difficult time. They benefited from the challenges they faced in their positions, the professional satisfaction they experienced and the opportunities to work with more senior colleagues within the system. This qualitative study is limited by its small sample. However, it has enabled the collection of in-depth views and opinions — normally impossible using quantitative methods with large sample sizes.

Conclusion

This systematic study provides a window into the experiences of senior health executives on the introduction of the senior executive service and performance agreements. Although the participants clearly enjoyed the opportunities and challenges offered, it became apparent that the most obvious benefits were enjoyed by the government, who held them accountable for financial and other crises that occurred in the health system from time to time and who held the power of terminating the employment of senior health executives.

Combining what has been learned from the NSW experience and the literature, this study has highlighted factors essential to the introduction and implementation of performance management to senior health management levels. Performance management is an ongoing process consisting of planning, measuring, monitoring, evaluating and feedback. Without developing clear strategies on how to implement each of the steps, the potential benefit of performance management is unlikely to be achieved fully. Furthermore, performance management should be implemented as a multilevel approach, seeking support from the organisation as a whole.

Performance management can be a means of achieving effective and efficient organisational performance, but may also affect senior health executives negatively if used as a one-sided management tool.

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Competing interests

The authors declare that they have no competing interests.

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