

**Selecting an Appropriate Organisational Performance Management
System for South African Municipalities.**

By

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Commerce**

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DECLARATION

This work has not been previously accepted in substance for any degree and is not being concurrently submitted in candidature for any degree.

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ABSTRACT

This study is aimed at understanding the potential organisational performance management systems that could be used by municipalities and hence the topic. “Selecting of an Appropriate Organisational Performance Management System for South African Municipalities”.

The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) and Local Government: Municipal Planning and Performance Management Regulations, 2001 place a legal obligation on local authorities to establish, develop and implement a performance management system. The Act also suggest that the system must be devised in such a way that it may serve as an early warning indicator of underperformance.

This research is conducted in KwaZulu-Natal and covers all categories of municipalities in the province. With respect to data collection, it principally relies on mail surveys and targets municipal and IDP managers irrespective of the category of the municipality. Each municipality was provided with an electronic copy of an Excel Likert-based questionnaire. Respondents ranked their opinions on a variety of positively phrased statements on a five-point scale.

The study has the following conclusions and recommendations: in those municipalities with organizational performance management systems, there is a need to re-develop them in consultation with the public as required by the legislation. Seemingly, municipal objectives and plans are not reviewed in the light of operating performance. The risks faced by the municipalities in both rural and urban areas are neither properly identified nor addressed. This trend confirms that KwaZulu-Natal municipalities have not established policies and procedures to support organisational objectives and mitigate the identified risks. Therefore, there are no risk management strategies. Given the inadequate management information systems, it is apparent that municipalities do not have adequate information to operate as desired. It is recommended that must come together to deal with issues of organisational performance by entering into service level agreements (SLA). Associated with this is the development of service centre. The service centre will address

issues pertaining to internal Audit (Risk issues), strategic controls and strategy implementation (IDP and PMS), information Technology (IT) solutions and research and development (socio- economic issues)

Areas for further research include the identification and development of a tailor-made approach to the Balanced Scorecard and Business Excellence Model, the identification and development of an electronic system for reporting and monitoring performance, the development of a training intervention that will prepare the incoming leadership to deal with challenges of local government and the establishment of an independent conflict management mechanism to ensure that objectives of a shared service centre are maintained.

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CHAPTER ONE: INTRODUCTION

1.1. Introduction

This study is aimed at understanding the potential organisational performance management system that could be used by municipalities in KwaZulu-Natal and hence the topic. “Selecting of an Appropriate Organisational Performance Management System for South African Municipalities”. More specifically, this chapter gives an outline of the current study in addition to discussing the legislative mandate, organisational performance management and associated models and key terms and concepts guiding this study.

The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) and Local Government: Municipal Planning and Performance Management Regulations, 2001 place a legal obligation on local authorities to establish, develop and implement a performance management system. In particular, Section 41 of the Act stipulates that the core component of the performance management system must:

- Set appropriate key performance indicators (KPI's) as a yardstick for measuring performance, including outcomes and impact with regard to the municipality's development priorities and objectives set out in its integrated development plan (IDP).
- Set measurable performance targets with regard to each of the development priorities and objectives.

With regard to each of the development priorities and objectives and against the KPI's and targets set in terms of the above, the municipality must:

- Monitor performance, and
- Measure and review performance at least once per year.

The Act also empowers the Municipal Authority to take steps to improve performance with regard to those development priorities and objectives where performance targets are not met. This would include establishing a process of regular reporting to:

- The council, other political structures, political office bearers and staff of the municipality, and
- The public and appropriate organs of state.

The Act also suggest that the system must be devised in such a way that it may serve as an early warning indicator of underperformance. Some indicators are explicitly stated in the Regulations of the Municipal Systems Act, and community involvement is also required. Interpretation of the provisions of the Act clearly indicates that the prescribed management system is to be an organisational performance management system (OPMS) as opposed to individual employee performance appraisal.

This research is conducted in KwaZulu-Natal and covers all categories of municipalities in the province. With respect to data collection, it principally relies on mail surveys and targets municipal and IDP managers irrespective of the category of the municipality. In sum, it explores the strategic control initiatives that municipalities develop and employ in an effort to meet their strategic destinations. The study shows that the control environment is not conducive for most municipalities to perform as expected. A majority of hindrances in most municipalities emanate from the fact that the resources committed to municipal activities are not commensurate with the activity levels of the municipality.

The integrated Development Planning and risk assessment is not done as expected by the Auditor General. The IDP objectives are not properly established and communicated to support the organisation's objectives. The objectives and related plans do not include measurable performance targets and indicators. To this end, those significant risks faced by the municipalities in the achievement of their objectives are not properly identified and addressed.

The study indicates that policies and procedures have not been established to support the business organisation's objectives and hence mitigate any identified risks. Adequate management information is not produced and employed in the management of the municipality. Performance is also not monitored against the targets and indicators identified in the municipality's objectives and plans. In essence, most municipalities do not have monitoring, assessment control systems and mechanism to report deficiencies.

1.2. Organisational Performance Management and models

Organizational Performance Management is an emerging term. Other names are also used to describe the same concept (for example, the IT analyst firm Gartner uses 'Corporate Performance Management'). Some vendors use the phrase 'Performance Management' to imply simple scorecards, dashboards and Key Performance Indicators (KPI's). Others may argue that the term Organizational Performance Management means the same thing as decision support system (DSS) and business intelligence (BI) and thus there is no need for yet another term. Organizational Performance Management supports a company or organization's overall business goals by linking the work of each individual employee or management to overall mission of the work unit. The central aim of performance management is to develop the potential of staff, improve their performance and, through linking an employee's individual objectives to business strategies, improve the organization's performance. Performance management is about directing and supporting employees to work as effectively and efficiently as possible in line with the needs of the organization (Williams, 1998:16).

For this study a performance management system means a framework that describes and represents the manner in which the municipality's cycle and processes of performance planning monitoring, measuring, review and reporting are organized and managed, coupled with the determination of the roles of different role-players.

A performance management model is a central aspect of that framework for performance management. The framework for a performance management system consists of largely two components (Palmar Development Group 2001):

- How does performance get managed?
- What gets performance managed?

The “How” aspects of performance alludes to the set of activities that need to happen in order to manage performance, clarity as to when they will happen, who will conduct them and what will the consequences be. These activities relate to the planning, monitoring and review of performance. The “What” aspect relates to the aspects of performance around which the organization plans, monitors and reviews their performance. These aspects of performance should be sufficient to tell whether an organization is performing well or not (Palmer Development Group: 2001). A model for performance management provides a framework for what aspects of performance get managed. While all models differ in the aspects of performance that they prioritize for measurement and management, most models rely on clearly stated performance areas, objectives and indicators. It is in how they organize these objectives and indicators into performance areas and which performance areas they prioritize, that they differ significantly (Palmar Development Group 2001).

For this study, a performance model is defined as the grouping together of indicators into logical categories or groups, as a means to enhance the ability of an organisation to manage and analyse its performance.

1.2.1 The Business Excellence Model

It is a framework designed to assist organizations to achieve business excellence through continuous improvement in the management and deployment of processes to engender a wider use of best practice activities. It enables the calculation of scores against a number of criteria that can be used for either internal or external “benchmark” comparisons. It is hoped that the results of these relative comparisons will lead to increased focus on improving key process performance and so generate “business excellence”.

1.2.2 The Balanced Scorecard

The Balanced Scorecard is a framework that expresses an organization's strategy as a set of measurable goals from the perspectives of owners/investors, other external stakeholders and the organization itself. If these goals and associated measures, and targets are well chosen, the balanced scorecard will help managers focus on the actions required to achieve them, so helping the organization achieve its overall strategic goals and realize its strategic visions.

1.3. Key terms and concepts

1.3.1 Integrated development plan (IDP)

A participatory approach to integrate economic, sectoral, spatial, social, institutional, environmental and fiscal strategies in order to support the optimal allocation of scarce resources between sectors and geographical area and across the population in a manner that provides sustainable growth, equity and the empowerment of the poor and marginalized (Palmer Group, 2000).

1.3.2 Strategy

Represents the broad priorities adopted by the organisation in recognition of its operating environment and in pursuit of its mission. All performance measures should align with the organisation's strategy (Niven, P, 2003).

1.3.3 Mission statement

A mission statement defines the core purpose of the organisation, that is, why it exists.

1.3.4 Stakeholder

Any person or group that has a "stake" in the success of the organisation. Stakeholders for municipalities may include: employees, customers and clients, funders, elected officials, citizens, special-interest groups, suppliers, media, financial community, and

partners e.g. other spheres of government. All stakeholders must be considered when developing and reviewing the IDP (The Best Practice Guide, DTLGA 2003).

1.3.5 Objectives

A concise statement describing the specific things organisation must do well in order to execute its strategy. Objectives often begin with action verbs such as “increase,” “reduce,” “improve,” “achieve,” and the like.

1.3.6 Key Performance Indicators (KPIs)

A standard used to evaluate and communicate performance against expected results. The key performance indicators are sometimes referred to as measures. KPIs are normally quantitative in nature, capturing numbers, percentages and so on. Reporting and monitoring measures can help an organisation to gauge its progress towards effective implementation of strategy.

1.3.7 Targets

Represents the desired result of key performance indicator (KPI). Targets make meaningful the results that are derived from measurements and provide organisations with feedback with regards to performance.

1.3.8 Monitoring

A continuous activity to measure KPIs and performance targets. Monitoring provides for the systematic collection of information that enables management to evaluate whether satisfactory progress is being made with projects and action steps aimed at the achievement of performance targets and KPIs.

1.3.9 Evaluation

A process designed to measure whether and to what extent the KPIs and performance targets are impacting on the development objectives. It measures the impact and results of

the work in progress and as such provides information required to re-appraise performance targets, KPIs and development objectives.

1.3.10 Review

A process that can be undertaken when information on current performance is known i.e. when monitoring and evaluation have taken place. This information indicates where things are working and where they are not working and thus it informs the planning process, including project planning, design and implementation.

1.3.11 Control

The process of comparing actual performance with standards and taking any necessary corrective action. A good control system is designed to keep things from going wrong, not just to correct them afterwards (Mondy RW and Premeaux 1997:512). Mosley at all (1996) defines controlling as the process of devising ways and means of ensuring that planned performance is actually achieved. According to Mosley forms of control commonly used by managers in organisations include inspections, progress reports and financial statements. In essence, control involves five basic steps:

1. Setting performance standards;
2. Determining methods for measuring performance;
3. Measuring actual performance;
4. Comparing performance with established standards
5. Taking corrective actions when necessary to bring actual performance into conformity with the standard.

1.3 The Current Study

1.3.1 Scope of the study

This study focuses on organisational performance management systems in contrast to individual performance management systems. Strategy development is not part of this study. This research is more concerned with the hindrances faced by municipalities in implementing those strategies that enhance organisational performance.

The research focuses on the province of KwaZulu Natal (KZN) and covers all municipal categories. In South Africa, municipalities are categorised on the basis of the Structures Act Section 177 of 1998. According to this Act municipalities are categorised as A, B or C. The province of KwaZulu-Natal has all these types and is hence a representative sample of South African municipal structures. In KZN, there is one metro and ten district municipalities (DC) spread over both rural and urban areas. Each district is divided into local municipalities (LC).

1.3.2 Rationale

Managers in municipalities are continually challenged to make effective decisions in face of often incomplete or contradictory facts about their environment both external and internal. Decisions are made on the move, and are often wrong or only partially correct. Where hard facts are scarce, managers rely on reserves of opinion and experience to fill in the knowledge gaps by using a variety of tools sourced from the private sector to implement their strategies. Sometimes they use their actual experience in past similar situations, observations made by consultants, mentors or peers that they accept as fact, or, as a last resort, their own personal bias coupled with an intuitive understanding of the matter at hand.

It is for the aforementioned reasons that this study attempts to explore the strategic control initiatives that municipalities develop and employ in an effort to meet their

strategic destinations. The fact that no comprehensive literature on municipal performance management systems exists should not be taken as an indication that such systems are not required. At heart, is the proposition that that basic strategic management issues are relevant in both private and public sector organisations. The study hence focuses on those issues that possibly hinder municipalities in the implementation of their IDPs.

1.3.3 Objectives

The research has the following objectives:

1. To critically analyze the “As Is” situation with regards to strategic controls and management controls in the municipalities. In South Africa, most municipalities have not been able to effectively plan, implement and monitor their activities. Country wide municipal performances suggest a gap with respect to the new integrated planning framework and performance management requirements.
2. To critically assess the existing performance management models that can potentially be used by municipalities.
3. To propose a practical and simple performance management system that can possibly enhance the capacity of municipalities to comply with statutory requirements.

1.3.4 Research problem/questions

This study addresses the following research question: What types of strategic control initiatives do municipalities use to monitor and sustain organisational performance in order for them to develop and implement their IDPs? At heart, is that, local, provincial and national governments need to use appropriate measurement systems to monitor progress made on respective national and provincial priorities on the basis of individual municipal IDPs. According to the municipal status report of 2004, KZN only has eight organisational performance management systems and twelve performance management

frameworks in place (DTLGA KZN October 2004 status report). The aforementioned report also indicates that sixteen (16) of the sixty-one (61) municipalities in KZN completed their Integrated Development Plans for the 2004/5 financial year, and subsequently submitted these to the MEC prior to the commencement of the new municipal financial year on 1 July 2004. A striking revelation is that close to 70 per cent of the municipalities are lagging in terms of aligning their local IDPs with provincial and national government programmes.

Another area of concern is that the tender specifications for performance management systems found in recent Government Tender invitations, as well as draft policy guidelines for performance management currently circulating, suggest that performance management systems which were discarded by competitive business a decade ago, are still considered appropriate for implementation in the public sector. Given the desire by national government to improve service delivery, the fundamental question relates to understanding those factors that explain the failure of municipalities to develop and implement an ideal performance management system. In an effort to enhance service delivery and achieve the millennium development goals, a new performance management system may be needed in the immediate term.

1.3.5 Structure of the report

This report falls into 5 chapters. Chapter One provides the introduction to the study. In this section the key area of research is discussed. Added to this are the fundamental concepts and terms that guide the study.

Chapter Two reviews the literature on organisational performance management in different parts of the world. It is in this chapter where the legislative mandate of the municipalities and various models are discussed.

Chapter Three is the methodology followed by chapter 4 which presents the findings of the study. The conclusions and policy recommendations are discussed in Chapter five.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter will describe the legislative requirement for the development of IDP and Organizational Performance Management System. It will also highlight approaches that have been tried by other countries. The existing performance management models and their origin will be discussed coupled with a critical analysis of the principles that govern these models. More specifically, the principles and criteria for an ideal best model will be discussed.

Greater strides have been made with the preparation and implementation of the Integrated Development Plans (IDPs) of municipalities and many of the programmes and projects will continue to fuel improvements for many years to come. The task ahead is to build on this improvement to ensure that the full impact of developmental local government is felt throughout the country and beyond.

The objective of this study is to critically assess hindrances to organizational performance management system implementation and suggest the possible interventions.

Developmental local government has a tremendous impact on the community and affects every aspect of industry, commerce and government. Municipalities must therefore ensure that their integrated Development Plans are continuously monitored and reviewed so that the municipality performs at optimum levels in order to realize the dreams and aspirations of marginalized communities.

2.2. Legislative mandates

The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) and Local Government: Municipal Planning and Performance Management Regulations, 2001 place a legal obligation on local authorities to establish, develop and implement a performance

management system. In particular, Section 41 of the Act stipulates that the core component of the performance management system must:

- Set appropriate key performance indicators (KPIs) as a yardstick for measuring performance, including outcomes and impact with regard to the municipality's development priorities and objectives set out in its integrated development plan (IDP).
- Set measurable performance targets with regard to each of the development priorities and objectives.

With regard to each of the development priorities and objectives and against the KPIs and targets set in terms of the above the municipality must:

- Monitor performance, and
- Measure and review performance at least once per year.

The Act also empowers the Municipal Authority to take steps to improve performance with regard to those development priorities and objectives where performance targets are not met. This would include establishing a process of regular reporting to:

- The council, other political structures, political office bearers and staff of the municipality, and
- The public and appropriate organs of state.

The Act also suggest that the system must be devised in such a way that it may serve as an early warning indicator of underperformance. Some indicators are explicitly stated in the Regulations of the Municipal Systems Act, and community involvement is also required. Interpretation of the provisions of the Act clearly indicates that the prescribed management system is to be an organisational performance management system (OPMS) as opposed to individual employee performance appraisal. This chapter will discuss the various approaches to organisational performance management and will then propose the

adoption of one model as the framework for all categories of municipalities in South Africa.

2.3. Background to performance management

A variety of community entities in many countries have put pressure on the public sector to approximate more closely private industry, in terms of greater productivity and efficiency, better value for money, and so on (Beckett, 2000). However, because of the enormous deficits in the public budgets, as a result of the economic recession which followed the oil crisis of the 1970's, it has become necessary to implement reforms in the structure and functioning of many state governments and administrations (Kickert, 1997).

“In the private sector, it's much easier to define your goals and recognize success” (Elish, 1977s) as quoted by Barker *at all* 1998. In industry, the goal is making money, and it's a simple goal with obvious rewards and consequences. In the public sector, however, answering questions like ‘Why are we here?’ and ‘What do we want to produce?’ and ‘What does success look like?’ is complicated. For example, at the housing authority it may seem that their reason for being is obvious- to provide housing. But to achieve the best result for the community the municipality serves, they must address more fundamental issues: Can government or the private sector or some combination of the two do the best job at best cost? Would a more mainstream approach to housing align better with current self-sufficiency programmes for the welfare population? What outcomes do residents want, and are they being accomplished? Most municipalities would try to answer these questions during the IDP reviews or during performance reviews as required by the Act.

While self-examination, goal setting and performance measurement are some of transformation's most difficult challenges, many governments are beginning to move in this direction.

In the United States, the Government Performance and Results Act of 1993 requires each federal agency to produce five –year strategic plans that include a mission statement and goals for major programs and operations. These have to be submitted to the Office of Management and Budgets. The Act also requires annual performance plans that define the level of performance to be achieved during each budget year and annual evaluations of performance in relation to goals. In creating their plans, agencies must consult with the relevant congressional committees and consider the views of interested or affected parties. In South Africa, municipal performance management has its policy origin in the White Paper on Local Government (1998). It proposes performance management together with Integrated Development Planning (IDP) and public participation, as important tools central to the notion of developmental local government. The White Paper noted that, “involving communities in developing some municipal key performance indicators increase the accountability of the municipality”.

This is a tall order, and agencies are encountering obstacles in adopting the approaches. Issues such as an agency’s limited or indirect ability to influence an outcome, continued lack of information on program performance, and the need to align strategic plans with budget processes continue to be addressed.

Faced with the problem of implementing performance management the Department of Traditional and Local Government in KwaZulu Natal did a study in the following countries Australia, New Zealand, and the United Kingdom. They found that these countries are faced with similar challenges when they introduced comparable changes, but each has persevered (Frick Brooks 2003).

Today, practices enabling a results focus are fundamental to the way government departments in these countries do business. In Australia, for example, each portfolio minister is required to prepare an evaluation plan every three years, which is submitted to the Minister for Finance. The evaluations of outcomes and effectiveness focus on programs with major resource and/or policy implications. In New Zealand, heads of government departments are formally accountable for results (Boyne 1996). They sign

contracts related to performance targets – and their compensation is based on their success. In South Africa the legislative mandate for measuring individual performance is found in section 57 of the Municipal Systems Act, which requires the municipal manager, and heads of departments to sign performance contract that must include, inter alia:

- Performance objectives, target and timeframes.
- Standards and procedures for evaluating performance with the intervals for evaluation being indicated.
- The performance objectives and targets must be practical, measurable and based on key performance indicators set out in the IDP

The United Kingdom's Next Steps agencies make their performance evaluations public in a review published each year, which reports on more than 1,400 performance targets for government services (Aucoin, P. (1990).

2.4. Performance and the new public management

Many changes in the strategy and structure of public services in recent years have been based on the principles of the 'new public management' (NPM). The exact content of NPM varies across nations and between institutions in individual countries (Aucoin, 1990; Kernaghan, 1993). Nevertheless, Hood (1991) argues that it is possible to identify the core elements of NPM, which include the disaggregation of organizations into smaller units and an emphasis on performance rather than procedures.

Similarly, Gray and Jenkins (1995: 86) note that "new theories of public management...unite in attacking the traditional bureaucratic model of administrative structure and advocating efficiency and responsiveness through some form of decentralisation"; and Rhodes (2004:142) argues that the effect of NPM reforms is to disaggregate public service. While the above is important but there is also a need to monitor the effectiveness of the initiatives taken by different agencies in trying to implement this NPM.

Flynn (1993:163) argues that if there was “change in consensus in the immediate postwar period it is surely that large centralized public bureaucracy is not the ideal organizational form”. However, it was not until the 1980’s that the disaggregating of public sector organizations in the UK became widespread. During the 1960’s and 1970’s the idea that ‘big is beautiful’ held sway. In local government, reorganizations in London in 1965 and the rest of the country in the 1970 have created some of the largest local councils in the world (Norton, 1994).

The reforms to the largest local government cut the number of separate authorities by 64% in England, 73% per cent in Wales, 80% in Scotland and 64% in Northern Ireland (Boyne, 1993). In South Africa the Demarcation Board adopted the approach of categorizing municipalities to A,B and C. Category A being the Metro Council and B being the small local Council while C being the District Council that has five to six category A Councils under it.

This reform at local level drew upon the concept of concerning economies of scale and service co-ordination. Large units were expected to provide services more efficiently because the employment of specialist staff and equipment would be more feasible at higher levels of output. In addition, bigger organisations would find it easier to distribute services across larger client groups and could thereby ensure reliability and equity of provision. This research will find out as to whether there is a difference in provision of service in local government.

At local government level in particular, it was also expected that larger authorities would attract higher calibre politicians and officials. Big organisations were viewed as consistent with policies that stressed planning rather than markets, co-ordination rather than competition, and professional service in the public interest rather than bureaucratic manoeuvring for private gain.

By contrast, since 1979, one of the main thrusts behind the Conservative Party’s policy towards the public sector has been “an antipathy to large bureaucracies and the structured planning of services” (Taylor-Gooby and Lawson, 1993: 1) as quoted by Boyne. Many

sections of central government departments have been divided into 'Next Steps' agencies. As Gray and Jenkins (1993:16) argue, "a fundamental tenet of the Next Step philosophy...is that agencies will be better able to serve their clients or customers. This assumption is based on the argument that smaller, more clearly identifiable organisational units will attract a more motivated and committed staff that will take a greater interest in the recipients of their services. This will result in performance improvements at local authorities".

There has also been a move away from large organisations in local government. The biggest local authorities in the United Kingdom, the Greater London Council and the six Metropolitan councils, were abolished in 1986 and many of their powers transferred to smaller councils. Similarly, most of the large Scottish regional councils and Welsh county councils were abolished in 1996. Their responsibilities have been taken over by 'unitary' authorities which, the government argues, will operate at a more local scale and thereby be more accountable, responsible and efficient (Boyne and Law, 1997).

Some municipalities have excellent measurement systems, but many are still unsure of whether they are progressing because their executives and managers do not have the measures necessary to understand how their municipality works, how it is performing, and why it is performing as it is. Managers in these municipalities are forced to make decisions based on subjective information, anecdotal evidence, and beliefs about what drives results none of which are accurate.

A review conducted by Beckett (2000) shows that countries such as the US, UK, New Zealand, Australia, Canada, Israel, Finland and Sweden have brought about a widespread revolution in public management by introducing political reforms that result in public management becoming more market-driven and entrepreneurial. The term "public management" was coined as a generic label for solutions with emphasis on competition, desegregation, and incentivisation and, generally speaking, making the administration of the public sector services more business-like (Kickert, 1997; Rowley, 1998).

As a result, the question of how to enhance customer service quality has received considerable attention in public management research (Milakovich, 1998; Poister and Henry, 1994). From a community perspective, the performance of public sector services is an integral part of community prosperity. Improved service quality will make public sector organisations more productive and less of a drag on the economy, and because of the reduced necessity of increasing taxes, will make domestic industry more competitive in the global market (Cohen and Brand, 1993). From an individual perspective, a satisfied customer, client, or citizen-beneficiary of the public organisations will be more willing to pay for the services provided. For example, Furnham (1983) suggested that the relationship between a citizen's perceptions of government performance and his willingness to pay taxes is positively correlated.

2.4.1. The adoption of total quality management (TQM) by the public service

To respond to the increasing demands from customers and to be entrepreneurial, a variety of the public sector services in many countries, such as health care, education, social services, and government services, have adopted the total quality management (TQM) philosophy and practices to enhance service quality and improve performance by providing customer-oriented services (Chi (1994); Cohen and Brand (1993); Morgan and Murgatroyd (1994); Milakovich (1994/5)). TQM is the culture of a profit-making organisation that is committed to customer satisfaction through continuous service quality improvement. High service quality can increase customer satisfaction, reduce customer complaints and service costs, secure greater market share, and attain maximum possible profits (Pike and Barnes, 1996). This performance management model could also help municipalities in dealing with the above problems.

In the 1970's, quality management was identified as a major contributing factor to Japan's competitive advantage in the world market and, as a result, the Japanese model of quality management began to diffuse into Western nations (Pastor *et al.*, 1998). Many more entrepreneurially oriented models such as 'reinventing'; 'reengineering' and the

'virtual organisation' have been developed on the basis of TQM-based concepts. However, the relationship in the public sector is controversial.

Some researchers have found successful cases to support the effectiveness of TQM in enhancing the service quality of public sector services (Cohen and Brand (1993); Morgan and Murgatroyd (1994); Rago, (1994)). In addition, many writers have suggested that TQM is suited to the public sector for several reasons. These reasons include the nature of TQM itself, the nature of the public sector itself, the work cultures of the professionals in the public sector, and the more problematic concept of the customer in the public sector, all of which may make the public sector services hostile to TQM (Morgan and Murgatroyd (1994); Swiss, 1992).

Cohen and Brand (1993) suggest that the success of TQM in profit-making organisations hinges largely on the right standard operating procedures for satisfying target customers. This research intends to help municipalities to analyse and identify the main hindrances that could be of major concern when TQM and other organisational performance management models are introduced to municipalities.

2.5. Corporate governance, strategic control and risk management.

Risk, and the need to manage it, is nothing new. Hoffoman observes that Maslow implicitly recognized risk in his famous hierarchy of needs by placing food and shelter, both essential to survival, on the first rung of the ladder (Hoffman, 2002). A failure to manage the risk of these needs not being met can have catastrophic results, as much for organizations today as it was for the earliest life forms. Bernstein cites the impacts of wars on markets, and storms and piracy on shipping routes as some of the major risks facing and managed by our predecessors (Bernstein, 1996a). He also notes that only 350 years separate today's risk management techniques from decisions made on the basis of superstition and instinct (Bernstein, 1996b)

Seeking to understand the likelihood and impact of future events, be they favourable or unfavourable, in order to maximise future business performance, is a decades old activity by the late 1960's, Royal Dutch Shell had began to developed scenarios that were designed to help management prepare for future uncertainties. This preparation was useful in enabling management to react more quickly to the 1973 oil crisis, for example (Wack, 1985). In 1978 King *et al* (1978) were describing 'long-range planning' in terms similar to those used for risk management today. Here the authors discussed the need to generate predictions of the future along multiple dimensions (staff, product, competition, etc) and compare these predictions to the desired future organisational state, so as to identify management interventions required. They noted that this planning process would not eliminate risk, but should identify and help to manage risks, thereby increasing "benefit/risk ratio". In 1981 Pomeranz *et al* (1981) used similar words to describe 'strategic planning'. They observed that companies were increasingly engaging in strategic planning in an effort to better manage the "shifting conditions, which can disrupt achievement of a company's long-rang plan". They characterise strategic planning as a process that attempts to match environmental threats with corporate resources, and go on to suggest that the auditing of strategic plans can help to define business risks and verify that these risks have been "appropriately considered". The South African municipalities are not immured to this risk hence the suggestion that Integrated Development Plans (IDPs) be reviewed from time to time.

It is noteworthy that, although managers have been addressing risk for centuries, a formal definition is still not agreed. In the early 1990's a definition of operational risk was first proposed, based on what it is not, rather than what it is. This early definition described operational risk as any type of risk not market-related (a risk caused by changes in asset prices) or credit-related (a risk caused by a failure to meet payment obligations) (Bernstein 1996b). More recently, the influential Risk Management Group of the Basel Committee on Banking Supervision has proposed a more inclusive definition: "the risk of loss resulting from inadequate or failed processes, people, and systems or from external events" (The Basel Committee, 2001). This research is more interested in this definition of risk as the study will try to understand as to how municipalities are managing risks

2.6. The auditing of performance measures

2.6.1. The role of internal audit in terms of performance management

The Municipal Finance Management Act No. 56 of 2003 (MFMA) requires that the Municipality must establish an internal audit section which service could be outsourced depending on its resources and specific requirements. Section 45 of the Municipal Systems Act stipulates that the results of the Municipality's performance measures must be audited by the said internal audit section as part of the internal auditing process and annually by the Auditor-General.

The Municipal Planning and Performance management Regulations stipulates that internal audit section must on a continuous basis audit all performance and the auditing must include an assessment of the following:

- (i) The *functionality* of the municipality's performance management system.
- (ii) Whether the municipality's performance management system *complies* with the Act.
- (iii) The extent to which the municipality's performance measurements are *reliable* in measuring the performance of municipalities by making use of indicators.

Each of the aforementioned aspects will now be looked at briefly.

Functionality

To function could be defined as a proper or expected activity or duty or to perform or operate as expected (Chambers Handy Dictionary, 2000). This could also be applied to the operation of any system such a PMS. The internal audit section must therefore on a regular basis audit whether the PMS of the Municipality is functioning as developed.

Compliance

To comply can be defined as to act in the way that someone else has commanded or wished (Chambers Handy Dictionary, 2000). In this respect it is clear that the legislature wishes to ensure that the Municipality's PMS complies strictly with the requirements of the Systems Act, Regulations and the MFMA. This compliance check would require that the Municipality's internal audit unit, at least on an annual basis, verifies that the Municipality's PMS complies with the said legal requirements.

Reliability

To rely could be defined as to trust or depend (upon) with confidence. Reliability in the context of PMS refers to the extent to which any performance measures reported upon could be seen as being reliable, e.g. if the performance target was to build 500 houses and it is reported that the target has been met or exceeded, it must be established whether the information is factually correct or only an estimation or even worse, purposeful misrepresentation. Undertaking a reliability audit will entail the continuous verification of performance measures and targets reported upon. This will require that the Municipality sets in place a proper information management system (electronically or otherwise) so that the internal audit section is able to access information regularly and to verify its correctness (PMS Framework Vantage, 2005).

The Municipality's internal auditors must submit quarterly reports on the audits undertaken to the Municipal Manager and the Audit Committee.

2.6.2. Audit Committee

The MFMA and the Municipal Planning and Performance Management Regulations require that the municipal council establish an audit committee consisting of a minimum of three members, where the majority of members are not employees of the municipality. No Councilor may be a member of an audit committee. Council shall also appoint a chairperson who is not an employee.

The Regulations gives municipalities the option to establish a separate performance audit committee whereas the MFMA provides only for a single audit committee. The operation of this audit committee when dealing with performance management is governed by section 14 (2-3) of the Regulations which require that the audit committee must:

- review the quarterly reports submitted to it by the internal audit unit
- review the municipality's PMS and make recommendations in this regard to the Council of the Municipality
- at least twice during a financial year submit an audit report to the municipal Council

In order to fulfil their function a performance audit committee may, according to the MFMA and the Regulations,

- communicate directly with the council, municipal manager or the internal; and external auditors of the municipality concerned;
- access any municipal records containing information that is needed to perform its duties or exercise its powers;
- request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the committee; and
- Investigate any matter it deems necessary for the performance of its duties and the exercise of its powers.

2.7. Integrated development planning and performance management system as required by the Act

The Systems Act requires that the municipality must, through integrated development planning establish a development plan for the short, medium and long term. These plans will need to:

- Assess the current state of development in the municipal area, identifying vulnerable and marginalized citizens and communities
- Formulate a long term vision for the municipal area over, for example, a 20 year timeframe
- Develop strategies and a set of municipal priorities for the term of office (5 years) to take the municipal area closer to the long term vision. Strategies as to how to use available resources and internal transformation priorities, that would enable the municipality to deliver on its other priorities, should be identified.
- Develop a Medium Term Income & Expenditure Framework (MTIEF) that will inform the resourcing of the implementation of the 5 year plan
- Align annual budgets to the MTIEF and IDP
- Set performance measures and targets for the priorities in the IDP

A good model for performance in local government in South Africa should thus accommodate:

- Measures for identified developmental outcomes based on identified needs and the long term developmental vision for the municipal area
- Measure for service delivery strategies and priorities to effect the achievement of developmental outcomes
- Measure for institutional transformation priorities and the management of resources to enable the service delivery strategies
- Measures relating to the financial strategy of the organization and its Medium Term Income and Expenditure Framework.

The model should enable local government to continuously assess needs of citizens and communities, whether these are being addressed, whether service delivery strategies are being fulfilled and whether they are having the desired impact on these development outcomes. In other words a good model should not only tell the municipality whether its “doing things right” that is fulfilling its service delivery strategies, but also whether it is “doing the right things” which is whether its strategies and policies are having the desired effect.

2.8. General issues relating to performance management

The following is some general issues related to performance management that needs to be taken into consideration in implementing the PMS of the Municipality:

2.8.1. Annual review of the performance management system

As stated earlier, one of the functions of the audit committee is to on at least an annual basis, review the PMS of the Municipality. It is envisaged that after the full cycle of the annual review and reporting is complete and the audit committee has met as required; the internal audit section will compile a comprehensive assessment/review report on whether the Municipality’s PMS meets the system objectives and principles as set out and whether the system complies with the Systems Act, PMS Regulations and the MFMA. This report then needs to be considered by the audit committee and any recommendations on amendments or improvements to be made to the PMS, submitted to the Council for consideration.

The Municipal Systems Act requires the Municipality also annually evaluate its PMS. The review undertaken by the audit committee and its recommendations could serve as input into this wider municipal review of the PMS and it is proposed that after the full cycle of the annual review is complete; the Municipal Manager will initiate an evaluation report, taking into account the input provided by departments. The report will then be

discussed by the Management Team and finally submitted to the Council for discussion and approval.

2.8.2. Integrating PMS with the Council's existing management cycle

International best practice indicates that PMS stand the best chance to succeed if it is integrated with the current management cycle of the Municipality. The purpose of such a cycle would be to guide the integration of important processes such as the strategic planning or development process in terms of the IDP methodology, the annual budget process and the formal process of evaluating and assessing Council's performance in terms of the approved PMS and this framework.

2.9. The case for models in performance management

What is a model?

A performance management model is a central aspect of framework for performance management. A framework for a performance management system consists of largely two components:

How does performance get managed?

The "How" of performance management alludes to the set of activities that need to happen to manage performance, clarity as to when they will happen, who will conduct them and what will the consequences be. These activities relate to the planning, monitoring and review of performance.

What gets performance managed?

This relates to the aspects of performance around which the organization plans monitors and reviews. These aspects of performance should be sufficient in telling as to whether an organization is performing well. Measuring solely a set of financial indicators or whether

an organization has been training its staff is insufficient in telling whether the organization is performing well.

2.10. What makes a good model for the measurement of local government performance in South Africa?

Palmer Development Group (2001) recommends a set of principles and criteria for a good model for performance management in South Africa local government. They recommended a set of principles and criteria that are central in informing a critical evaluation of available models. These principles and criteria for are shown below:

Table 1 Principles and criteria for a good model

Principles	Criteria
1.Simplicity	Is the model simple and accessible to all potential users?
2.Relevance	Is the model and its categorization of performance areas relevant to local government in South Africa and relevant to the lives of citizens in municipal areas?
3. Holism and Integration	<ul style="list-style-type: none"> • Does the model facilitate integrated planning and management? • Does it holistically and comprehensively reflect the priority performance areas of a municipality? • Does it catch all priority performance areas of local government? • Does it sufficiently accommodate outcomes, outputs, processes and inputs? • Does it sufficiently capture qualitative and quantitative indicators?
4. Aligned to the IDP	<ul style="list-style-type: none"> • Does the model capture the long term vision and development outcomes of the IDP • Does it accommodate the service delivery strategies and priorities of the IDP? • Does it capture the institutional transformation, resources management and financial management priorities of the municipality?
5. Objective and Reliable	<ul style="list-style-type: none"> • Does the Model rely on objective and reliable measures?
8. Diagnostic	<ul style="list-style-type: none"> • Will the model assist municipalities in identifying areas of poor performance and determining causes of poor performance? • Will the model tell us whether we are “doing things right” and “doing the right things”?
9. Reliability	<ul style="list-style-type: none"> • To what degree can the model be cascaded to functional areas and departments? • To what degree can the model be used in employee performance management?

(Source Palmer Development Group; 2001)

2.11. The Total Quality Model

The foremost goal of orthodox, business-oriented TQM is to aggressively satisfy customers by meeting and exceeding their expectations and, as a result, enhancing their perceptions of an organization’s quality (Morgan and Murgatroyd, 1994).

At its core, the TQM approach serves to specify the standard operating procedures of every aspect of work that every relevant individual in the organization follows in order continuously to improve production quality at every stage of value chains (i.e. from input, through transformation, to output) (Cohen and Eimicke, 1994; Morgan and Murgatroyd, 1994; Pike and Barnes, 1996).

These standard operating procedures include:

- How to communicate closely with customers to identify and understand what they want and how they define quality,
- How to work with suppliers to ensure correct supplies for work processes, and
- How to analyze work processes continuously to reduce process variation (Cohen and Brand, 1993; Morgan and Murgatroyd, 1994).

Through group and interactive processes, empowered employees and managers together constantly analyze what target customers want and how to redesign work processes at the input and transformation stages of value chains. As long as work processes at the input and transformation stages can be standardized, the quality of outputs (services and products) will be consistent (Morgan and Murgatroyd, 1994).

The consistency in outputs has been shown to be positively related to customer service quality perceptions. Thus, the degree of job standardization is an essential basis for implementing TQM successfully and, thus, for continuously improving service quality.

In research into profit-making organisations, job standardisation has been shown to be capable of narrowing the gap in service quality perceptions between service providers and customers (Parasuraman *et al.*, 1991). Job standardisation can lead to congruent service quality perceptions because it helps to eliminate uncertainty and variability in the customer value creation processes (Klein, 1991 as quoted by Chi, 1994). This uncertainty and variability can be attributed to the differences in contact-employees' competence,

abilities, or behaviours. With specific and by-the-book rules, job standardisation helps to eliminate variation in a specific task that is performed by different employees (Cohen and Brand, 1993). The Minister of Provincial and Local Government when making amendment to the Municipal Performance regulation for municipal managers and managers directly accountable to municipal managers suggested the chapter 4 which provided the framework for competency requirements and basic job descriptions for post of the above incumbents in local government.

The positive relationship between job description and quality is supported in research into profit-making organisations. However, this relationship may not be applicable to the public sector because of the following differences in between the public and private sectors (Chi, 1994). The first characteristic of the public sector that may inhibit TQM application is the limited commitment and the lack of continuity of top managers in the public sector services. Because politics works against long-term leadership and mission stability, the turnover of top-level managers is rapid in many public sector organisations. As a result, top managers of public sector services cannot be continuously involved in improving quality management with single-minded commitment. This is also true for South African local government less than 50 percent of municipal manager performance contracts have be renewed after five years in office.

However, this research would suggest that a lack of commitment by top-level managers to service quality should be considered as a confounding variable of the relationship between TQM and service quality.

Secondly, most public sector agencies produce services rather than goods. Because services are labour intensive, it is difficult to make the output uniform and the service quality concept is difficult to define (Morgan and Murgatroyd, 1994; Swiss, 1992; Wilkinson *et al.*, 1998). However, Rago (1994) argues that, with a deployment flow chart, service delivery processes can be standardised. Standardised service delivery processes lead to the effectiveness (Wilson, 1989) and uniformity (Fitzsimmons and Fitzsimmons, 1994) of outputs and, as a result, improve customer service quality

perceptions. In terms of the definition and measurement of service quality, the SERVQUAL scale developed by Parasuraman *et al.* (1993), has been shown to be valid and reliable for measuring service quality in the private sector. But for the municipal managers and those reporting to them this is difficult in the sense that municipal managers are expected to manager stakeholder of which it is difficult to standardise their jobs.

Thirdly, public sector organisations have traditionally focused less on outputs than on inputs and processes for several reasons. This may include, for example, that outputs are politically debatable and difficult to measure (Morgan and Murgatroyd, 1994;; Wilkinson *et al.*, 1998). As a result, employees in the public sector services have fewer incentives than those in profit-making organisations to achieve cost reductions, operating efficiency, and effective performance. However, Rego (1994) suggests that a well-designed process management with well-defined performance goals is conducive to performance improvement. One of the distinctive features of job descriptions is to specify distinctive performance indicators (Cohen and Brand, 1993). By strictly following standard operating procedures, employees can achieve goals set by the organisation without undue difficulty. This provides employees with incentives to do jobs more efficiently and effectively. This is true for employees reporting to Section 57 employees but it is not possible for section 57 employees to stick to job descriptions.

Fourthly, given the earlier problem of traditionally being focused relatively less on output, public sector services have fewer incentives to become customer-oriented (Milakovich, 1994; Morgan and Murgatroyd, 1994; Wilkinson *et al.*, 1998). Further, uncertain and inconsistent goals resulting from political considerations make both the definition of the customer and the specification of standard operating procedure difficult (Morgan and Murgatroyd (1994); Swiss, 1992). It is further suggests that this is the single most important problem in applying TQM to the public sector because pleasing customers is TQM's most important principle. However, Rago (1994) suggests that the unit of analysis in public sector service quality research should be measured within the individual department rather than across the whole organisation, because each department

deals with a far more unambiguous sector of the organisation's customers. The research in this dissertation follows Rago's suggestion and will argue that each municipality in a family of municipalities should have more clearly defined customers.

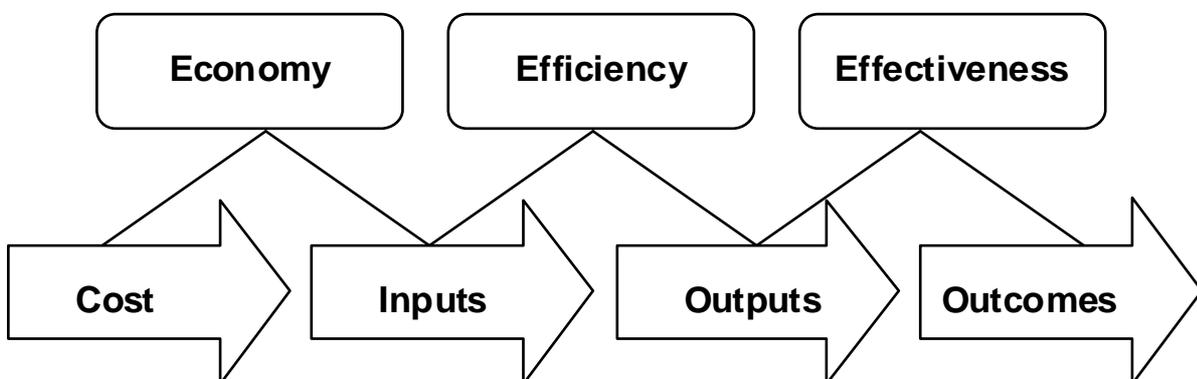
2.12. The Three Es

Major features

Local government in the UK is statutorily required by the Audit Commission to report on national set indicators, as a basis for comparison with other municipalities. The model for performance management put forward by the audit commission was the three Es: Economy, Efficiency and Effectiveness (Palmer Development Group, 2001). Before understanding the three Es it is important to understand a sample systems model. Any process has inputs, a set of activities or processes, outputs and outcomes. In addition, inputs have costs related to them. If the set of activities is regarded as a black box, then inputs are what goes into the process, outputs are the products of the process and outcomes are the effects or impact experienced as a result of both the products and the process. The economy is seen to be the ratio of input to cost. Efficiency is seen as the ratio of output to input and effectiveness is the ratio of outcome to output. Additionally, cost effectiveness is often seen as the overall ratio of outcome achieved to cost. The major features of the 3Es model are shown in

Figure 1.

Figure 1 The Three Es Model



(Source: Palmer Development Group, 2001)

A general critique of the 3Es

Despite the terms economy, efficiency and effectiveness having been used since the early 1980s they remain poorly understood and are often given varying interpretations (Rogers, 1999). In his 1833 book *On War*, Karl von Clausewitz declared, “The first task of any theory is to clarify terms and concepts that are confused.... Only after agreement has been reached regarding terms and concepts can we hope to consider the issue easily and clearly and expect others to share the same viewpoint...” (Paul Nivan, 2004: 145).

Reaching “agreement on terms and concepts” is not as easy as it sounds, especially when considering the meaning for most commonly used words English Language. With that in mind this makes it difficult to consider this model for any public sector organization.

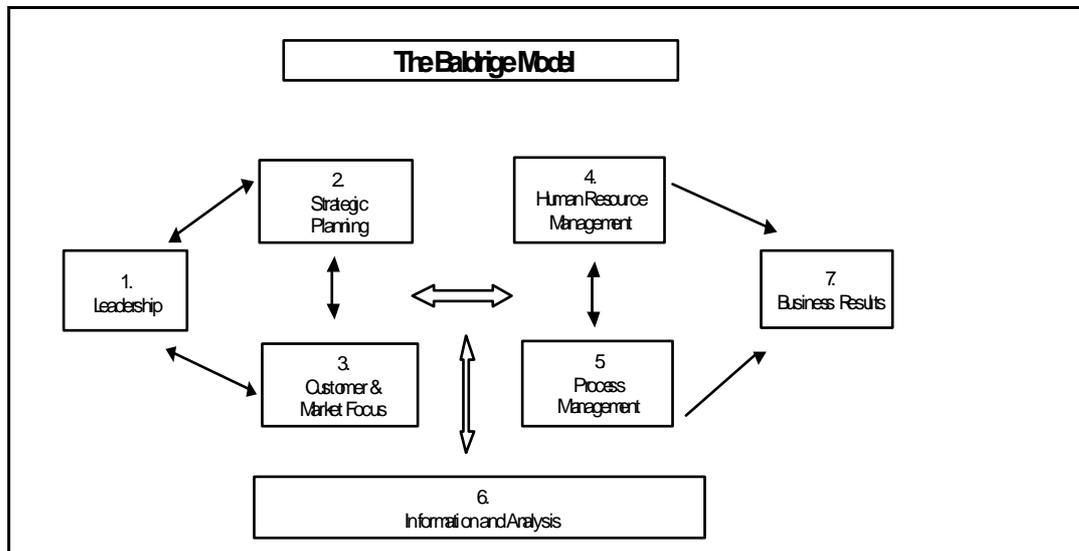
2.13. The Malcolm Baldrige Awards (USA)

The Malcolm Baldrige National Quality Award is an annual award to recognize US companies, who apply for the awards, for business excellence and quality achievement. Martinez, Monor and Montesinos (2001) as quoted by DPLG Best Practice Guide (2003) see the purpose of these awards is to promote awareness of quality as an increasingly important element in competitiveness, understanding of the requirements for performance excellence, and sharing of information on successful performance strategies and the benefits derived from the implementation of these strategies.

The Baldrige Awards criteria are composed of seven categories which represent a model for performance as shown in *Figure 2*. They are:

1. Leadership
2. Strategic Planning
3. Customer and Market Focus
4. Information and Analysis
5. Human Resource Focus
6. Process Management
7. Business Results

Figure 2 The Baldrige model



(Source: Baldrige National Quality Program, 2006)

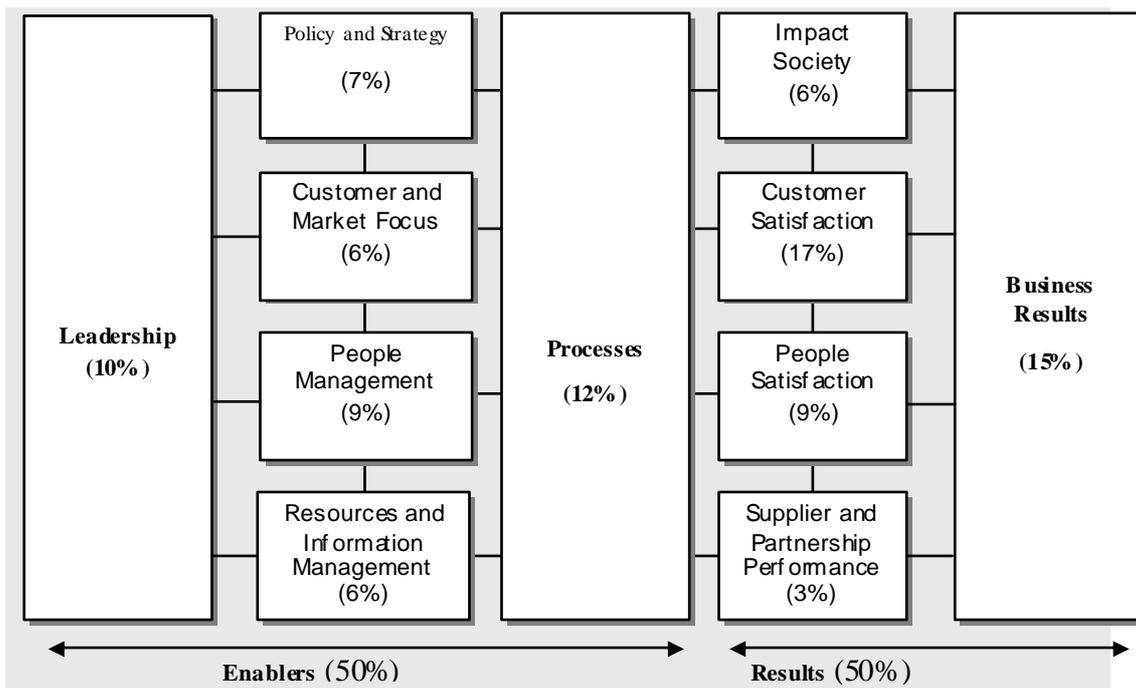
According to *Figure 2* the first three categories, Leadership (Category 1), Strategic Planning (Category 2), and Focus on Customers, and Markets (Category 3), represent the leadership triad. These Categories are placed together to emphasize the importance of a leadership focus on strategy and customers. Senior leaders must set organizational direction and seek future opportunities for the organization. Staff Focus (Category 5), Process Management (Category 6), and Organizational Performance Results (Category 7) represent the results triad. The organization's staff and its key processes accomplish the work of the organization that yields the performance results. All actions point toward Organizational Performance Results which include customer, financial, and operational performance results, including staff results and public responsibility. The process followed in assessment is very similar to that of the SAEF.

2.14. The EFQM model (Europe)

Similarly, in Europe, the European Foundation for Quality Management (EFQM) developed the European Quality Award with the same intention as the Baldrige Awards. An alternative model called the EFQM Model for Business Excellence was developed. This, according to Wilkison and Dele (1999) intended to show that customer satisfaction, employee satisfaction and impact on society (stakeholder satisfaction) are

achieved through leadership driving policy and strategy, the management of people (employees), and the management of resources and processes, which will ultimately lead to improved/excellent business results. The EFQM model is shown in Figure 3.

Figure 3 EFQM Model for Business Excellence



(Source: DTGA Best Practice Guide 2003)

The South African Excellence Foundation recently developed the South African Excellence Model, which it claims incorporates the best of the EFQM and Baldrige Models. Their main aspiration is to “manage and encourage continuous performance improvement through the use of their model so as to primarily enhance South Africa’s global competitiveness ranking” advocate van der Watte, van Wijck and von Benecke (2000).

Major features

The South African Excellence Model is based on the following premise (van der Watt, et al, 2000):

- Customer Satisfaction
- People Satisfaction
- Impact on Society
- Impact on Supplier
- Partnership Performance

To them this is the result from the following drivers:

- Leadership
- Policy and strategy
- People Management
- Resources
- Information and Processes

This leading to the ultimately excellence in Business Results

Similarly to the European and American equivalents, the SA excellence model has the award system associated with it that recognizes the best performing organization according to criteria set to the above categories. Organizations undergo a self-assessment, by scoring themselves according to the set criteria, periodically. A panel and an annual award then audit high scoring organizations that apply for awards than decided

The greatest strength of this model is apparent from the international uniformity of focus areas and criteria. These allow international benchmarking with other organizations to both measure and foster competitiveness.

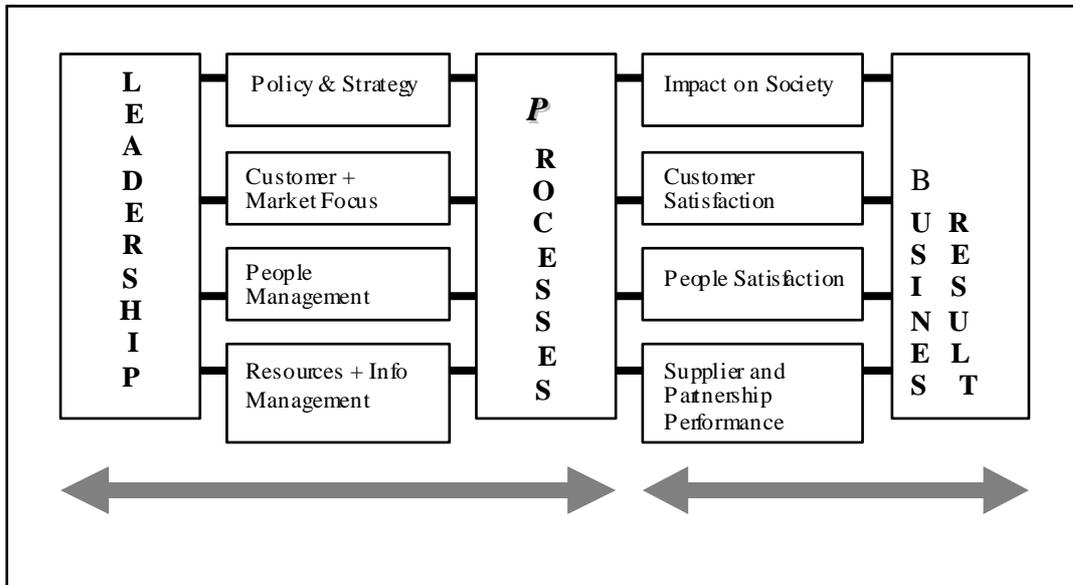
2.15. The South African Excellence Model

A brief history

The South African Excellence Model was developed by the South African Excellence Foundation in 1997. This model is a combination of two models, that is, the Malcolm

Bridgite and the EFQM models. It uses a performance as the framework for assessing the 'excellence' of an organisation as shown in Figure 4.

Figure 4 : SAEF Performance Excellence Model



(Source: Palmer Group. 2001)

The model focuses on the important enablers required to produce the necessary results. It consists of 11 criteria which are linked by the principle that: *“Customer Satisfaction, People Satisfaction, Impact on Society and Supplier and Partnership Performance are achieved through leadership driving policy and Strategy, People Management, Customer and Market Focus, Resources and Information Management and Processes leading ultimately to excellence in Business Results.”*

The enablers are assessed by considering both the approach followed and the extent to which it is deployed in the organization to achieve continuous improvement. The approach must be appropriate, systematic, planned, constantly reviewed and improved, and an integral part of the way things are done (i.e. part of the organizational culture). Results are measured according to the excellence of the results achieved and the scope of the results.

The SAEF uses both an award scheme and a self-assessment mechanism. There are 3 levels of awards based on the number of points scored and a number of categories. The current categories are:

- Regional Awards within SADC (Southern African Development Countries)
- Public sector awards, mainly within health and education and local government
- Non-governmental (NGO) Awards

Applicants have to prepare a report addressing each of the assessment areas. The report is scored by certified assessors, who list the areas requiring confirmation as well as note strengths and areas for improvement. Areas for confirmation are addressed during the site visits by the assessors. Following the site visits a presentation is made to a panel of judges, who decide which of the organizations winners are. Each organization receives a feedback report detailing their strengths and areas for improvement

To date only one organization, viz. Honeywell, has succeeded in winning the highest level of award (Gail Packerm 2000).

2.16. The Balanced Scorecard Model

Origins of the Balanced Scorecard

In 1990, Kaplan and Norton led a research study of a dozen companies exploring new methods of performance measurement. The impetus for the study was a growing belief that financial measures of performance were ineffective for the modern business enterprise. The study companies, along with Kaplan and Norton, were convinced that a reliance on financial measures of performance was affecting their ability to create value. The group discussed a number of possible alternatives but settled on the idea of a scorecard featuring performance measures capturing activities from throughout the organization-customer issues, internal business process, employee activities, and of course shareholder concerns. Kaplan and Norton labeled this new tool the Balanced

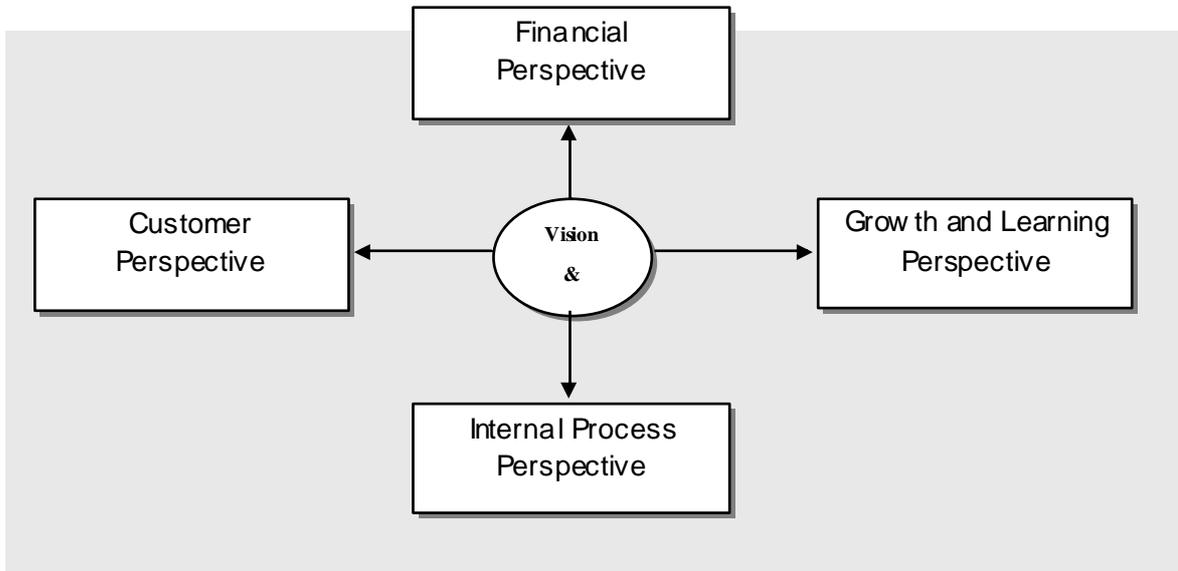
Scorecard and later summarized the concept in the first of three *Harvard Business Review* article, “The Balanced Scorecard- Measures that Drive Performance.”(Kaplan and Norton 1992: 71-79)

Over the next four years a number of organizations adopted the balanced scorecard and achieved immediate results. Kaplan and Norton discovered that these organizations were not only using the scorecard to complement financial measures with the drivers of future performance but were also communicating their strategies through the measures they selected for their Balanced Scorecard.

What is the Balance Scorecard?

Niven (2001:14) describes the balanced scorecard as carefully selected set of quantifiable measures derived from an organization’s strategy. He sees the measures selected for the scorecard represent a tool for leaders to use in communicating to employees and external stakeholders the outcomes and performance drives by which organizations will achieve its mission and strategic objectives. A simple definition, however, cannot tell everything about the balanced scorecard. The balanced scorecard is shown in *Figure 5*

Figure 5 Kaplan and Norton’s Balanced Scorecard

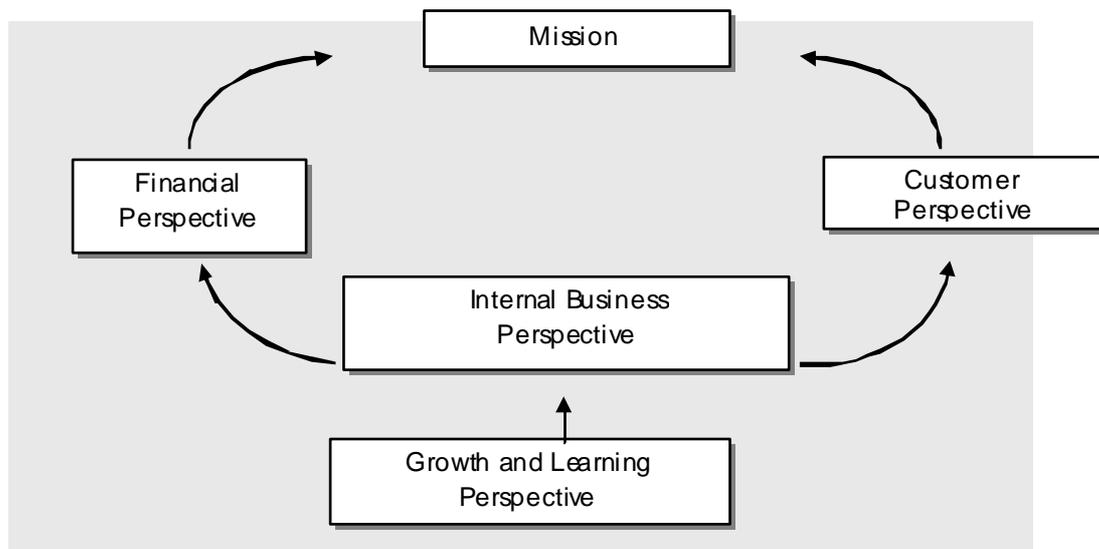


(Source: Niven, 2002)

- The strategy and policy are correct
- Resources are spent appropriately
- Internal processes yield results, and
- The impact on the society

It also relies on customer surveys as tools for measurements.

Figure 6 Figure Kaplan and Norton's revised Balance Scorecard for the Public Sector



(Source: Niven, 2002)

Figure 6 shows an adapted and improved version for the public sector.

The city of Charlotte has managed to cascade its corporate scorecard to all functional areas, which have developed their own departmental scorecard that align to the corporate scorecard. There has also been evidence in the private sector where the corporate scorecard has been translated into personal scorecard for management staff (Niven 2003)

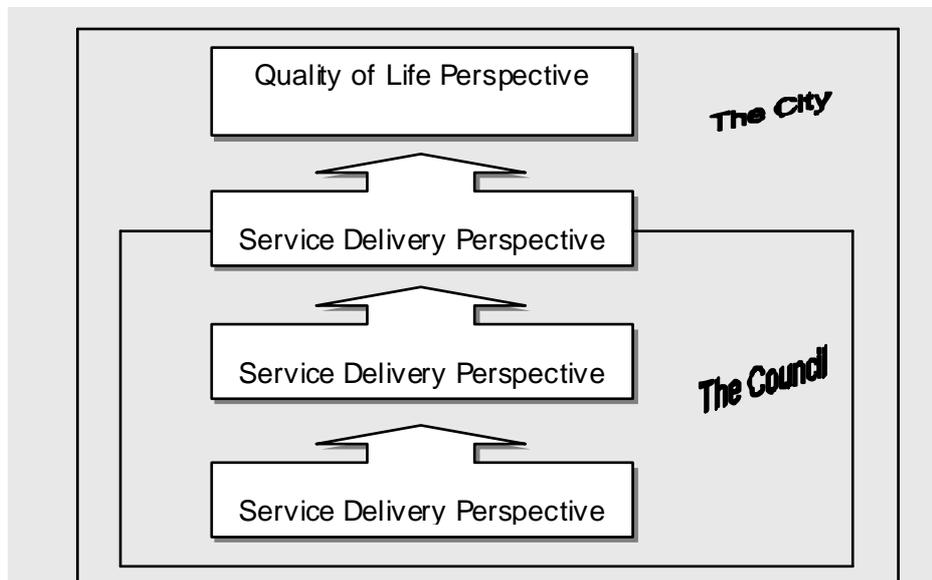
As part of the evolutionary processes, a number of practitioners and academics have proposed versions of Balanced Scorecard specific to public sector organisations. It is commonly observed that the strategic priorities for public sector organisation are different from those in the private sector. Public sector organisations are usually less focused on financial results (Smith, 2000; Irwin, 2002) as quoted by Marshall et al 2003, and also reflect a different notion of value. Some authors argue that the Balanced Scorecard in its

original form is appropriate to the public sector and a useful tool to manage strategy (Smith, 2000; Piotrowski & Rosenbloom, 2002). Others suggest that Balanced Scorecard should be modified to reflect the different characteristics of the public sector. These proposed modifications fall into two categories:

- The addition of new perspectives(Provost & Leddick, 1993; Potthoff *et al*, 1999; Zelman *et al*; 2003)
- The modification or re-ordering of the original perspectives (Rimar, 2000; Elefalk, 2001; Irwin, 2002)

Overall, these suggestion changes are focused on the modification of, or addition to, the traditional perspectives to which measures are allocated. The following is the performance management model developed and implemented by the City of Cape Town (TLC) from 1999 to 2000, not to be confused with the new Unicity also called the City of Cape Town.

Figure 7 City of Cape Town’s PM Model



(Source: DPLG, 2001)

This is an adapted Balanced Scorecard model for the (then) city of Cape Town Municipality.

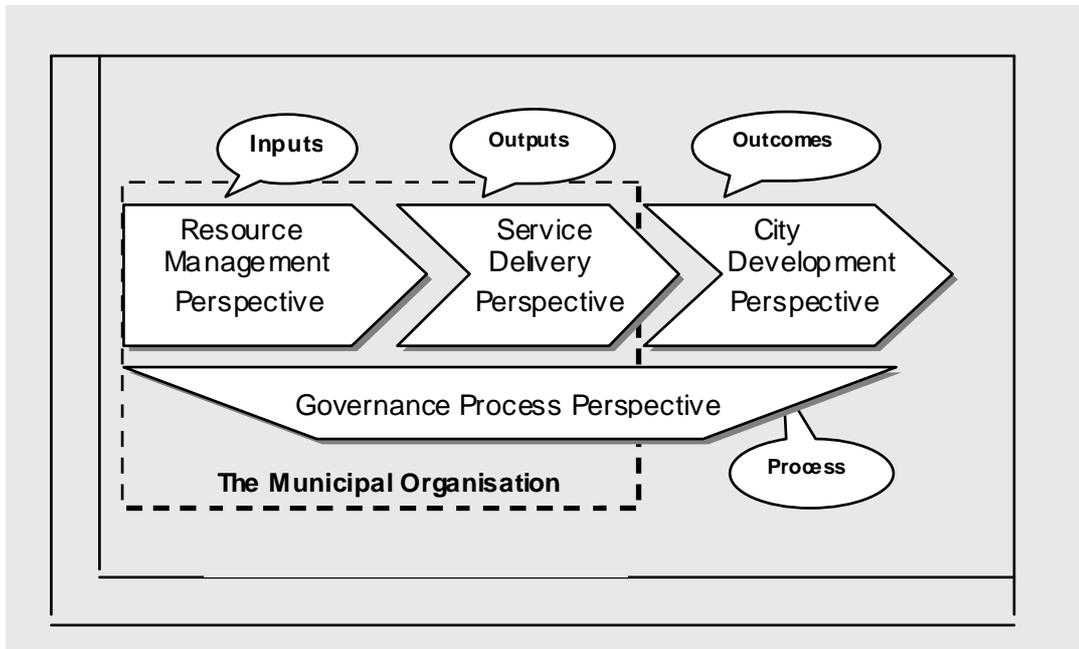
2.16.1. An assessment of the models:

These models are very useful organising tools for performance measurements. They become even more useful in the absence of a framework that sets indicators and targets up front. (Where an organisation has set its own indicators and targets in the absence of a framework, the information it gains is only useful to assess progress in those areas for which indicators were set). These models are consistent with the performance measurement framework outlined in the Act. The framework says that in measuring performance, municipalities need to look at:

- Inputs (resources, financial perspective)
- Outputs (results, service delivery perspective)
- Outcomes (impact, customer satisfaction, growth, quality of life)

Figure 8 below may be useful as an integrated model for measuring performance.

Figure 8 A suggested model for local government in South Africa



(Source: DTLGA, 2003)

Table 2 A Critical Evaluation of performance models using principles and criteria

	Three Es	SAEF	Balanced Scorecard
Simplicity	Notions of efficiency and economy may prove too abstract for public interest.	Too many areas to prioritize some focus such as Leadership, Policy and Strategy can become complex at the level of actual indicators or criteria.	The customer perspective is complex when uncritically applied in the public sector
Relevance	It's relevance to SA local government is reduced by the lack of equity and equality.	The primary driver of performance is competition with other organisations using similar criteria.	The primary driver of performance is the achievement of the mission and vision for which the organisation is accountable.
Holism and Integration	It ignores citizen participation and how processes are undertaken. Only quantitative KPIs not qualitative information.	It is a complete catch-all for all possible priorities areas. The only outcome that it measures is satisfaction of stakeholders.	The categories of the scorecard are a catch-all if a wider definition of customer is accepted.
Aligned to the IDP	Other components of the IDP such as the institutional transformation, resource management and financial management priorities can find it difficult to find a home in the 3Es.	BEM architecture does not assist organisations in the execution of task related to the IDP.	The Balanced Scorecard perspectives can be used to implement the IDP by linking the indicators to key performance areas by means of objectives
Objective and Reliable	Different interpretation of concepts such as efficiency or cost-effectiveness can introduce a lack of objectivity and reliability.	It is difficult to find objective and reliable measures for leadership and policy and strategy. It would also be necessary to fully understand exactly what self-assessment means in reality, to assess the overall objectivity and reliability of the model.	The Balanced Scorecard relies on clearly stated objectives and measures that are objective and reliable.
Diagnostic	It allows diagnosis of casual problems relating to poor performance. Its measurement of outcomes and outputs, efficiency and effectiveness, it will be well positioned to tell the municipality whether it is "doing things right" and "doing the right things".	BEM is diagnostic assessment tool that would enable an organisation to assess its performance objectively against a number of internationally recognised criteria BEM can tell the municipality whether it is "doing things right" but may not be able to tell whether it "doing the right things"	Explicit linkages between the categories can prove useful for diagnosis of poor performance. It requires strategy to be mapped, clearly showing the linkages between focus areas in each category. This is particularly useful in identifying causal factors in poor performance.
Reliability	Can be cascaded up to departments and functional areas. But to employees can be criticized as being reductionist and mechanistic	There is no evidence to evaluate the applicability of the excellence model to be cascaded.	The Balanced Scorecard can be cascaded.

2.17. Conclusion

This chapter brings together various schools of thought on performance management systems. It highlights the legislative mandate of South African municipalities with regards to performance management. Literature on the experiences and approaches to performance management systems adopted by other countries in the world is also discussed. The attention of the reader is drawn to those issues at the core of risk management and performance management at organizational level.

The Integrated Development Planning (IDP) is discussed in an effort to show the link between performance management systems and municipal strategy. It is in this chapter where some important concepts are defined, explained and critically analysed in detail. In addition to this performance management models are introduced and analysed in order to show their relevance to local circumstances.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

One of the most important aspects of research in business and management studies, is to decide on an appropriate starting point for the research and on the conceptual framework or research strategy within which the evidence will be collected and analysed (Remenyi, Williams, Money and Swartz 1998: 120) Deciding on where to start and establishing the basic framework for the research is frequently challenging and can present considerable difficulties. In this chapter, all the steps and reasons for adopting particular choices are outlined.

3.2 Sampling techniques

Sampling designs can be divided into probability and non-probability sampling designs. In a non-probability sample, the probability that a particular unit will be included in the sample is unknown (Ghauri *at al* 1995: 74, Leedy, 1983:200) .For the purpose of this research purposive sampling techniques were used. The researcher decided to collect evidence by targeting all municipal managers in KwaZulu Natal. The municipal managers in terms of the Systems Act are the accounting officers in the municipalities and are hence not only able to respond to all questions in the questionnaire but are on the overall responsible for what the municipality does or fails to do .

Initially, all 286 municipalities in South Africa were considered. However, this was deemed to be practically impossible given the limited resources. One assumption is that the major challenges facing most municipalities in South Africa are likely to be similar in all provinces irrespective of location. In this study all the 61 municipalities in KwaZulu-Natal were selected. KwaZulu-Natal has one metro, 10 district municipalities and 50 local municipalities. Given this distribution, it is true to say that the province of KwaZulu-Natal is a representative sample of South African municipal structures. Added to this is the geographical distribution whereby municipalities occur in both rural and urban parts of the province when compared to other provinces.

3.3. Data collection

A first distinction in data collection is that between secondary and primary data sources. Secondary data is that which is collected by others for purpose, which may not necessarily be similar to other potential users. Primary data is original data collected for the research problem at hand (Ghauri, *at al* 1995:54). Data sources may also classify into various categories. The most common categories are observation, self-reporting (also called “indirect observation”), archival sources and physical sources (Mouton 2001: 99). For this study, primary and secondary data was used.

Each municipality was provided with an electronic copy of an Excel questionnaire (spreadsheet with five sheets) through e-mails that were sent to all municipal managers. The questionnaire was supported with a letter explaining the purpose of the study and the manner in which it was to be electronically completed. In cases where problems were encountered, explanations were given over the phone. In essence the reasons for using the e-mail system were:

- Most municipal managers have computers in offices and at home
- Bias is removed as the respondent is not influenced by the presence of an interviewer
- Respondent could administer the questionnaire in their own time.

The main disadvantage with the above method is that some of the municipal managers are computer illiterate and could not use the Excel programme. To overcome this arrangement was made with the municipal managers’ secretary to produce a printout.

3.4. Questionnaire design

There are basically two options for gathering data, either one uses an existing instrument or designs and constructs a new one (Mouton 2001: 100). In this study, an existing

instrument from the PricewaterhouseCoopers Performance Improvement Through Business Management was used. This particular instrument is used to do a health check of an organisation. A revised version was used to address issues that relate to the municipal environment. As indicated earlier the questionnaire was in a spread sheet format with five sheets and each with broad positively phrased statements. The respondent would then complete by way of ticking from a scale of one to five.

3.4.1. The Likert scale

In gathering the data for this study, respondents made choices to statements on a Likert Scale ranging from Strongly Disagree (1) to Strongly Agree (5). Developed by Rensis Likert, Likert scales are useful tools for gaining insight into respondent's feelings, opinions and attitudes (Likert, 1932). Although they offer the advantages of measuring a range of responses, Likert scales suffer from two basic problems. First is the tendency of some respondents to assume a neutral or "fence-sitting" position on some, or all, issues. The second is the difficulty in determining the relative strength of conviction for each response, as the response values of 1, 2, 3, 4, 5 are ordinal rankings with no corresponding interval and ratio scales. Selecting a survey group composed of municipal managers who also serve as accounting officers in the municipality effectively minimized the first problem. Under normal circumstances they are not supposed to be certain on most issue that concern management controls. Municipal managers are responsible for developing the structure, strategy, policies, management information systems and the monitoring mechanisms for the organization. The second problem was addressed by accepting the ordinal nature of the responses, and applying statistical analysis focused on location of response. Due to the discreet nature of the observations, the data were summarized as counts occurring in various categories of municipalities.

3.5. Negotiating entry into survey area

The targeted respondents were contacted through the Department of Traditional and Local Government Affairs KZN. The KwaNaloga Office, which is the association of

municipalities in KwaZulu-Natal, was used to provide all municipal contact details. The association assisted in introducing the researcher to municipal managers during the preparation meetings. The meetings were useful for purposes of explaining the questionnaire to the respondents given that they were going to be circulated through email. During this session the respondents were given the opportunity to ask questions regarding the study as well as specific questions in the questionnaire.

The questionnaires were subsequently distributed by e-mail. Each questionnaire was accompanied by a letter explaining the purpose of the research and instructions on how to complete it. Telephonic and/or facsimile communications was also done as and when necessary for purposes of further explaining to the respondents' any hitches encountered in completing the questionnaire or parts thereof. Upon completion the respondents were expected to e-mail or fax back the responses.

3.6. Administration of the questionnaires

After meeting the municipal manager at the KwaNaloga meeting the questionnaire was edited and checked by Senior Public sector consultants from the private sector organizations and chief directors in the Department of Traditional and Local Government Affairs in KZN. The questionnaire was then pre-tested with five municipal managers from different municipalities. Pre-testing provided the opportunity to assess such things as clarity of the instructions and questions, the covering letter, the comprehensiveness of the code/categories chosen for the pre-coded questions, the quality of the evidence and the ability to perform meaningful analysis of the evidence obtained.

The survey allowed survey participants to rank their opinions on a variety of positively phrased statements on a five-point scale ranging from strongly disagreement to strongly agreement. Several of the survey statements were linked to other statements, usually providing a reciprocal view of the same issue. This linkage was designed to test the survey participants' commitment to a specific response distribution, and therefore

minimize the possibility of misleading responses generated by reading too much into a single statement.

3.7. Advantages and disadvantages of using questionnaires

The main purpose of a questionnaire research is to obtain information that cannot be easily observed or that is not available in written or computerized form. Data from the questionnaire survey is then used for one or more of the following purposes – description, explanation, and hypothesis testing (Remenyi et al 1998: 150). In this case the questionnaire was used to identify internal hindrances that explain the failure of municipalities to select a suitable approach to performance management system. According to Brynard and Henekom (1997:41) errors of using questionnaires may be found when collected data is analyzed. The following are the general sources of error (Bless and Higson-Smith 1995:144-146):

- Vague definitions and faulty hypothesis: This leads to inadequate or inaccurate collection of information.
- Inadequate design and planning of the research project: This means that all possible variables are not identified, or important factors are overlooked.
- Sampling errors: These errors occur when the sample is not representative of the population.
- Imperfection in the research instrument: For example, using leading questions and unfamiliar vocabulary.
- Interviewer bias: The deliberate incorrect recording of the information, or the interpretation of answers according to the researcher's own views.
- Respondent bias: Giving false information on purpose. Should the researcher detect a respondent is giving false information he or she should, by means of structured questions, try to obtain the truth.
- Analyst bias: Misinterpretation of answers, computational errors, and projecting own expectations and prejudices in the presentation of results.

- Researcher bias: The beliefs of researchers as well as their own political religious and racial attitudes could and underly in grole in their research.

In attempting to deal with the above the researcher made use of the Depatment of local Government KZN reports to the MEC as submitted by the municipalities in terms of Section 6 of the Systems Act which suggest that municipality should report to the MEC. The report was used to confirm or refute some of the response in case of inconsistencies’

3.8. Variable description and analysis

This research largely relied on related questions that were used to establish consistency in responses.

3.8.1 Variable description

Respondents answered questions grouped under the following broad categories: control environment, IDP objectives and risk, internal controls, management information system and monitoring. Respective questions in these broad categories were then used to test the perceptions of the municipal managers. Ultimately the responses to specific questions and gave an indication of the consistency in the responses in terms the given municipality, category of municipality and the geographical location. A consistent response by municipalities operating under similar conditions may mean that there is no difference in terms of the interventions that are needed. The implication is that the municipalities have a common problem and may need a more or less similar uniform approach in dealing with the hindrance. In essence it means a common approach to performance management could be possible. A negative response to related criteria also means that the problem identified is true in all respects.

3.8.2 Descriptive analysis

Descriptive statistical analysis was used to establish most hindering negative criteria on each broad statement. The assumption is that proportions do matter in terms of assessing

the extent to which a particular hindrance affects the successful implementation of a particular organizational performance management system. The most negative criteria in each broad category were further analyzed on the basis of other issues, geographical location and the municipal category.

4.4 Limitation of the study

The limitation of the study is that only the municipal managers and those reporting to them were the main source of information. The other stakeholders were not interviewed e.g. unions. While it is good to get the view of those in power, a problem could arise when they start protecting themselves.

Although the questions were structured such that each question would lead to the next, the number of questions may have been too many to respond to, for some municipal managers who in the end did not respond to all.

4.5 Conclusion

The province of KwaZulu-Natal reflects the spread of municipalities in South Africa. All categories of municipalities as suggested by the Municipal Structures Act exist in this Province. The researcher made sure that each performance management criterion is tested against these categories and against the geographical location of the municipality in order to test for validity and consistency.

The author is confident that the methodology used in this study resulted in findings that may be used to help municipalities think about their internal environment and internal controls before embarking on the process of measuring their performance in addition to helping them identify monitoring mechanisms that could be used to help them meet the expectations of the Auditor General in terms of performance management.

CHAPTER FOUR: ANALYSIS AND INTERPRETATION OF DATA

4.1. Introduction

This chapter discusses the key findings of the study, organizational performance management systems in KwaZulu-Natal's municipalities. The findings are based on 40 responses from senior municipal managers. This represents about two-thirds of all municipalities in the province with all categories represented as per the Municipal Structures Act. The managers were presented with positively phrased questions on issues that address organizational performance management and systems. The researcher chose to use the Likert scale to record responses. This scale can record ranges in varying degrees of intensity. The scale consisted of a checklist with the checking being done electronically on a variable scale from strongly disagree (1) to strongly agree (5). The assumption is that the view of the managers represents the view of the municipality as whole since municipal managers are the only accounting officers of the municipalities.

The discussion of results is presented in 5 broad categories:-

- The Control environment, which establishes the foundation for the internal control system by providing fundamental discipline and structure
- Integrated Development Plan (IDP) which addresses objective-setting risk identification and assessment and planning.
- Control activities which address the issues of policies, procedures, and practices that ensure management objectives are achieved and risk mitigation strategies are carried out.
- Management Information System (MIS) which enables management to assess whether the Municipality is operating as desired, identifying opportunities or problems and assessing changes and
- Monitoring which is the assessment of control systems and mechanism to report deficiencies.

The analysis puts emphasis on the most hindering criteria expressed as a proportion of perceptions. The assumption is that not more than a third (30 per cent) of the municipal managers should express negativity on any aspect. If more than 30 per cent of the municipal managers feel negative on any criteria, that particular criteria should be considered a major hindrance to organizational performance and therefore worth analyzing in greater detail.

4.2. Control environment

The control environment is assessed on the basis of fourteen criteria that principally focus on three broad positive statements. These broad statements are as follows:-

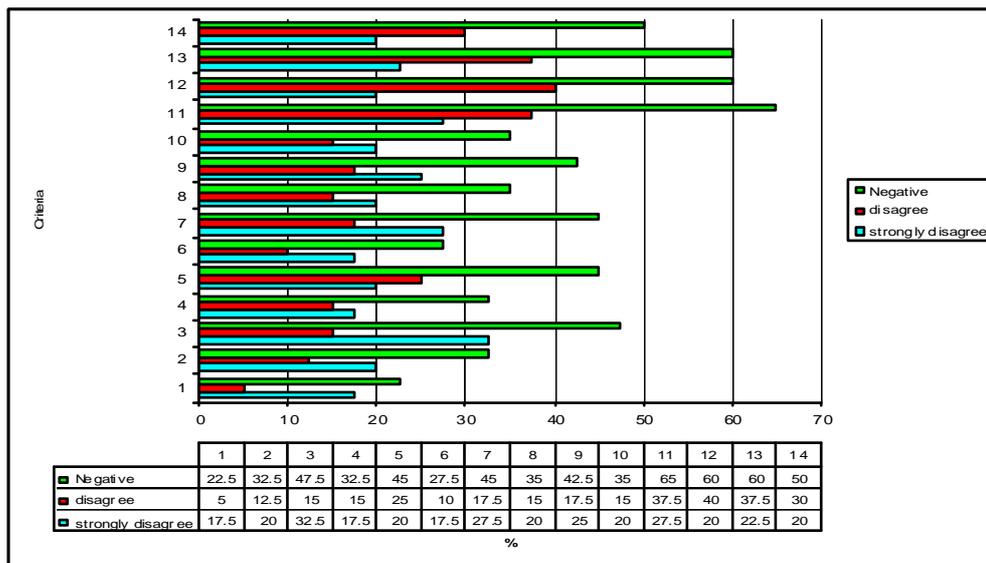
- The municipality organization structure is conducive to the effective management and control of the business.
- The assignment of responsibilities and delegation of authority supports effective management and control
- Resources committed to the municipal activities are commensurate with activity levels.

The findings are reported and discussed based on the most negative criteria to find the hindering criteria to organizational performance.

4.2.1. Foundation for the internal control system

The figure 4.1.1 shows the proportion finding that the control environment does not establish the foundation for internal control.

Figure 9 Proportion finding that the control environment does not establish the foundation for internal control



1= Structure reflects operations competence and experience

2= Structure and flow of information

3= Skills required analyzed JD

4= Managers knowledge and experience

5= Time to carry out controls

6= Responsibilities defined, communicated and understood

7= JDs ref to control responsibilities

8= Responsibilities and authority delegated to staff with

9= Limits on auth determine

10= Incompatible responsibilities segregated

11= HR allocation sufficient

12= Physical resource sufficient

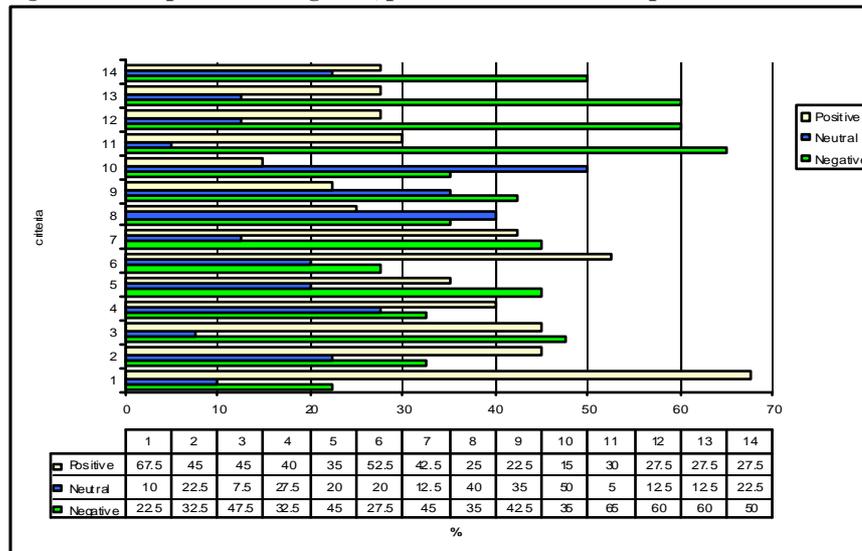
13= Finance resource sufficient

14= Staff trained

The respondents are negative to all the criteria within the broad statement on resources committed being commensurate with activity levels. They are 65 per cent negative on human resource, 60 per cent negative on physical and financial resources, and 50 per cent negative on training of staff. On the assignment of responsibilities and the delegation of authority 45 per cent of the respondents are negative meaning job descriptions does not contain specific reference to control related responsibilities. On the other hand 42.5 per

cent of the respondents are negative to the fact that limits on individual's authority are determined and specified in writing. From the survey 47.5 per cent of the respondents are negative on the criteria referring to knowledge and skill analysis required to perform the job.

Figure 10 Proportion of negative, positive and neutral responses on the control environment



- 1 = Structure reflects operations competence and experience
- 2 = Structure and flow of information
- 3 = Skills required analyzed JD
- 4 = Managers knowledge and experience
- 5 = Time to carry out controls
- 6 = Responsibilities defined comm and understood
- 7 = JDs ref to control responsibilities
- 8 = Responsibilities and authority delegated to staff with
- 9 = Limits on auth determine
- 10 = Incompatible responsibilities segregated
- 11 = HR allocation sufficient
- 12 = Physical resource sufficient
- 13 = Finance resource sufficient
- 14 = Staff trained

Figure 10 shows the proportion of negative, positive and neutral responses on the control environment. On the broad statement about the assignment of responsibilities and delegation of authority 50 per cent of the respondents are neutral on criteria regarding incompatible management responsibilities and areas of authority being segregated. The survey also shows that 40 per cent of the respondents are neutral on delegation of responsibilities and authority to staff with appropriate levels of competences and experience.

Figure 11 Dominance of most hindering criteria on the control environment

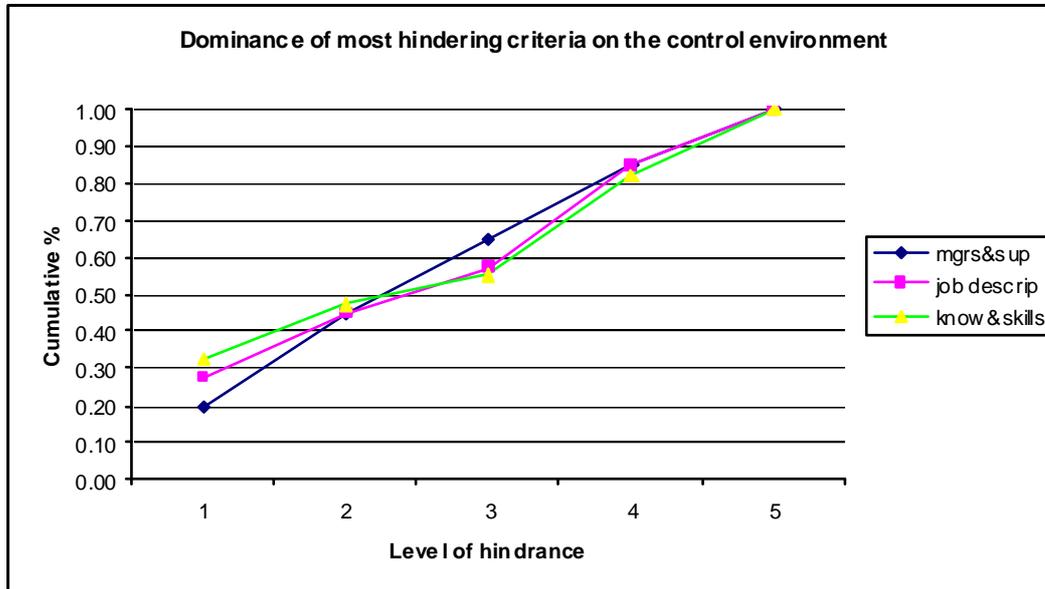


Figure 11 shows the hindering criterion that is most dominant on the control environment. Out of three criteria analyzed that is, managers and supervisors having sufficient time to be effective, job descriptions referring to responsibilities, and knowledge and skills adequately analyzed and job descriptions produced and communicated. Out of all the above criteria there is no criteria where the respondents were more negative.

4.2.2. Control environment in relation to municipal category

Table 3 below shows findings on the control environment in relation to the category of municipality.

Table 3 Sufficiency of time by managers and supervisors to carry out control responsibilities by municipal category

Managers and supervisors have sufficient time to carry out control responsibilities	Category			Total
	Metro	District	Local	
strongly disagree	0	1	7	8
	.0%	12.5%	22.6%	20.0%
disagree	0	4	6	10
	.0%	50.0%	19.4%	25.0%
Unsure	1	1	6	8
	100.0%	12.5%	19.4%	20.0%
Agree	0	1	7	8
	.0%	12.5%	22.6%	20.0%
strongly agree	0	1	5	6
	.0%	12.5%	16.1%	15.0%
Total	1	8	31	40
	100.0%	100.0%	100.0%	100.0%

Table 3 shows that 62.5 per cent of the district municipal respondents are negative to the criteria managers and supervisors have time to carry out control while 41 per cent of the local municipal respondents are negative to the criteria. Respondents' comments suggest that the negativity is explained by the numerous workshops and conferences that managers have to attend at national and provincial offices.

Table 4 Sufficiency of physical resources allocation by municipal category

Physical resources allocation is sufficient	Category			Total
	Metro	District	Local	
strongly disagree	0	0	8	8
	.0%	.0%	25.8%	20.0%
disagree	0	3	13	16
	.0%	37.5%	41.9%	40.0%
Unsure	0	2	3	5
	.0%	25.0%	9.7%	12.5%
Agree	1	3	6	10
	100.0%	37.5%	19.4%	25.0%
strongly agree	0	0	1	1
	.0%	.0%	3.2%	2.5%
Total	1	8	31	40
	100.0%	100.0%	100.0%	100.0%

Table 4 reflects on the perceptions regarding the allocation of physical resources by different types of municipalities. From the survey 67.7 per cent of the local municipalities' respondents are negative on this aspect. In district municipalities there is an even distribution of those that are negative and positive at 37.5 per cent.

4.2.3. Control environment and geographic location of municipality

Table 5 reports on the perceptions of managers with respect to the availability of knowledge and skills required to perform particular jobs adequately. The availability of such knowledge in turn feeds into the ability of the municipality to produce, analyze and communicate respective job descriptions.

Table 5 Knowledge and skills required to perform job adequately analyzed by location

Knowledge and skills required to perform job adequately analyzed	Rural/Urban		Total
	Urban	Rural	
strongly disagree	2	11	13
	10.5%	52.4%	32.5%
disagree	4	2	6
	21.1%	9.5%	15.0%
Unsure	2	1	3
	10.5%	4.8%	7.5%
Agree	7	4	11
	36.8%	19.0%	27.5%
strongly agree	4	3	7
	21.1%	14.3%	17.5%
Total	19	21	40
	100.0%	100.0%	100.0%

Table 5 shows that rural respondents are 61.9 per cent negative to the criteria; knowledge and skill to perform jobs adequately have been analyzed. While urban municipalities' respondents are 31.6 per cent negative to the same criteria. This indicates that the hindrance is dominant in rural municipalities.

Table 6 Human resources allocation by location

The human resources allocation is sufficient	Rural/Urban		Total
	Urban	Rural	
strongly disagree	2	9	11
	10.5%	42.9%	27.5%
disagree	12	3	15
	63.2%	14.3%	37.5%
Unsure	2	0	2
	10.5%	.0%	5.0%
Agree	3	5	8
	15.8%	23.8%	20.0%
strongly agree	0	4	4
	.0%	19.0%	10.0%
Total	19	21	40
	100.0%	100.0%	100.0%

Table 6 reports the sufficiency of human resources allocated by location. From the survey 73.7 per cent of the urban respondents are negative and 57.2 per cent of the rural respondents are negative to the criteria that allocation of human resources is sufficient. From this finding the comment coming from the rural municipalities was that rural politicians are not interfering so much with the recruitment process as in urban municipalities.

4.2.4. Discussion: control environment

Control cannot be postponed until the work has been completed and the results can be compared with the aims, indicators must be found that will reflect that progress is being made along the correct route. If a deviation occurs, the indicators must warn that it is occurring. In this manner, timeous warning is given that the aim will not be achieved if the current course is maintained.

In terms of the new vision of developmental local government, municipalities had to change the way they provided services and move away from being administrators with an over emphasis on regulation and control to improving the lives of their citizens. This necessitated reviewing the effectiveness, efficiency and economy of municipal organizations in terms of how they provided services and determining whether staff employed are empowered to do the work. The municipalities were then required to review their structures and developed new organograms as well as conducting a skills audit and implementing a structured human resource development programme.

With regards to the control environment it is clear that most municipalities do have organisational structures, which appropriately reflects the nature of the Municipalities operation. The problem seems to be on management that show the lack of knowledge and experience to meet their control and other responsibilities. As the legislation requires municipalities to review their structures and develop new Organogram and conduct the skills audit most municipalities seem to have developed the structure but no skill analysis was done.

Having developed the structures the survey found that the assignment of responsibilities and delegation of authority to supports effective management and control was not properly done. The researcher concludes by saying these areas seem to be a problem to all municipalities as they have not yet developed job descriptions and most of them are not even sure as to whether the incompatible management responsibilities and areas of authority are segregated or not.

On the issue of resources committed to the municipal activities as to whether they are commensurate with activity levels could help in understanding where the problem is. Understandably so the issue of resources could not be dealt with overnight but this comes out as the biggest hindrance from the respondents although the DTLGA has tried to intervene but it seems as if its intervention is on project bases which are not sustainable. The conclusion is that municipalities need more resources for them to operate effectively they need both physical and human resources. Resource alone could not help if there is no strategic direction from the senior leadership of the municipality. From the survey the researcher found that in both rural and urban municipality's staffs is not properly trained to deal with developmental challenges of the municipalities.

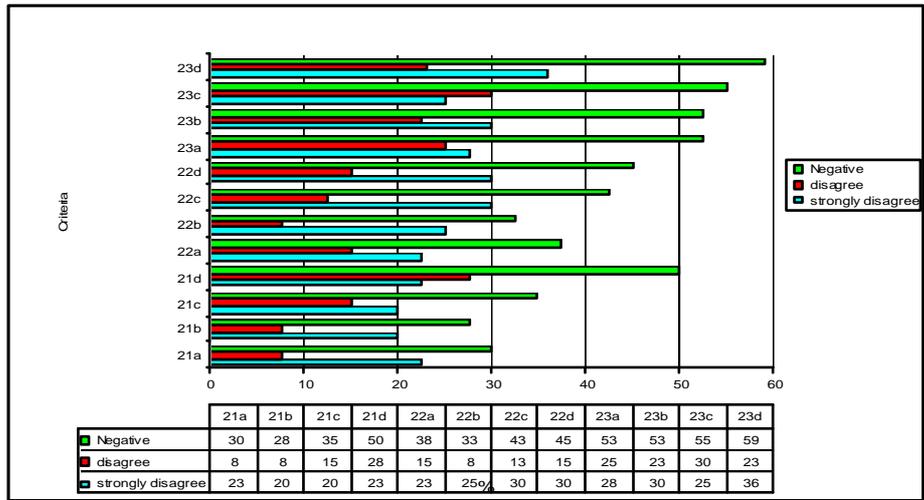
4.3. Integrated development plan (IDP) and risks

This part of analysis addresses objective-setting, risk identification and assessment, and planning In this section the analysis will be based on three broad statements and there are as follows:

- IDP's objectives properly established and communicated;
- Objectives and related plans include measurable performance targets and indicators;
and
- Significant risks facing by the municipality in the achievement of its objectives properly identified and addressed.

Figure 12 shows the proportion finding that the IDP and Risks do not address objectives setting, risk identification and assessment, and planning.

Figure 12 Proportion finding that the IDP and risks do not address objective setting, risk identification, assessment and planning



21a = Objectives properly def and approved
 21b = Objectives compatible with broader ones
 21c = Objectives balance stakeholder needs, risk & opport
 21d = Individual group understands role in achieving
 22a = Objectives & Dept plans stand comm.
 22b = Objectives & plans include KPI & target

22c = Objectives and plans reviewed in light of ops and change
 22d = Assumptions in plan periodically validated
 23a = Risk id & assemt perf for each function
 23b = Risk id estimate impact and likelihood
 23c = Actions to mitigate risk determined
 23d = Individual and group understood risk

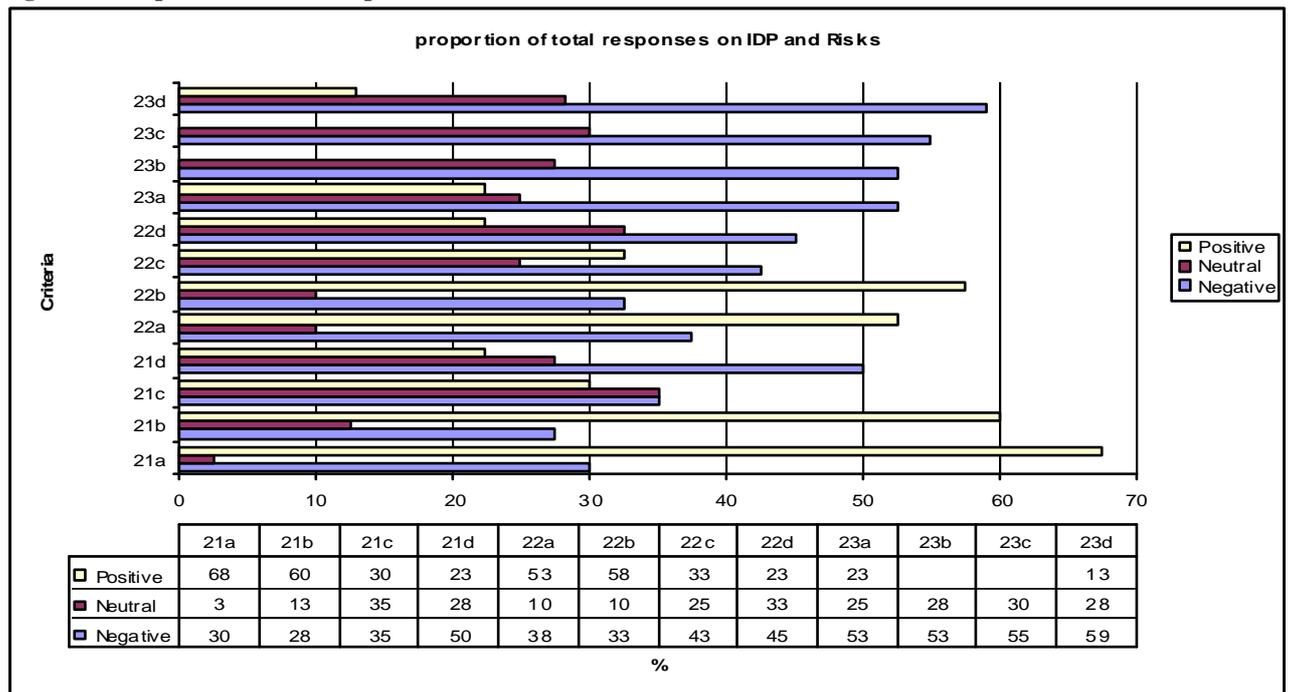
4.3.1. Objective-setting and planning

Regarding the broad statement that IDP objectives are properly established and communicated to support the organization’s overall objectives, 50 per cent of the respondents are negative to the criteria that individuals and the group generally understand their role with regards to achieving organizational objectives. In terms of objective-setting, balancing the needs of stakeholders and balancing the risks and opportunities, 35% of the respondents were negative about these aspects.

On the broad statement on objectives and related plans including measurable performance targets and indicators 45 per cent of the respondents are negative to the criteria that assumptions are periodically validated. The other negative perception relates to the reviewing of objectives and plans in the light of operating performance and changes (43 per cent).

On the significant risks faced by municipalities 59 per cent of the respondents are negative to the criteria that individuals or the group understands the level of acceptable risks, negative on actions to mitigate risks (55 per cent) and also negative on the aspect of identifying the risk associated with estimating the significance of impact and assessment of such an impact (50 per cent).

Figure 13 Proportion of total responses on IDP and risks



- 21a = Objectives properly def and approved
- 21b = Objectives compatible with broader ones
- 21c = Objectives balance stakeholder needs, risk & opport
- 21d = Individual group understands role in achieving
- 22a = Objectives & Dept plans est and comm.
- 22b = Objectives & plans include KPI & target
- 22c = Objectives and plans reviewed in light of ops and change
- 22d = Assumptions in plan periodically validated
- 23a = Risk id & assemnt perf for each function
- 23b = Riskid estimate impact and likelihood
- 23c = Actions to mitigate risk determined
- 23d = Individual and group understood risk

Figure 13 reflects the proportion of total responses on IDP and Risks. From the survey 33 per cent of the respondents are neutral to the criteria that assumptions in the plan are

periodically validated, while 30 per cent of the respondents are neutral on the criteria that actions to mitigate such risks have been determined.

Figure 14 Dominance of most hindering criteria for IDP and risks

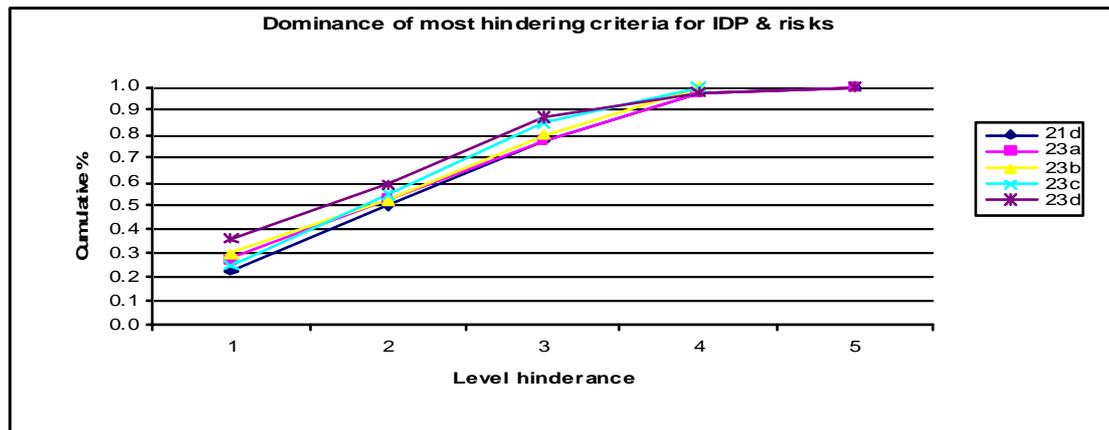


Figure 14 shows the dominance of the most hindering criteria in relation to the IDP and risks. The extent of dominance is extrapolated on the basis of that criterion for which municipal managers identify as most hindering. The issue then is, of the major hindrances, which dominates the other through and through. The criteria are as follows:

- Every individual and group in the municipality understands their role in achieving the objective (50% negative)
- Risk identification and assessment performed for each significant function (53% negative)
- Identification of risks estimating the significant of impact and likelihood of occurrence (53% negative)
- Actions to mitigate significant risks determined (55% negative)
- Individual or group understanding of acceptable risk (59% negative)

From the above, the capacity of the individual or group to understand acceptable risk is seemingly the major dominant hindrance.

4.3.2. Significant risks faced by municipalities

Table 7 presents the extent to which individuals and the entire municipal group understands acceptable risk by the location of the municipality.

Table 7 Understanding of risk by municipal location

Individual and group in municipality understand acceptable risk	Rural/Urban		Total
	Urban	Rural	
strongly disagree	2	12	14
	10.5%	60.0%	35.9%
disagree	6	3	9
	31.6%	15.0%	23.1%
Unsure	8	3	11
	42.1%	15.0%	28.2%
Agree	3	1	4
	15.8%	5.0%	10.3%
strongly agree	0	1	1
	.0%	5.0%	2.6%
Total	19	20	39
	100.0%	100.0%	100.0%

Table 7 shows 75 per cent of the rural respondents have negative perceptions on the risk criteria while 42.1 per cent of the urban respondents are neutral.

From the comment section of the questionnaire the respondents indicated that municipalities do not have a capacity to deal with risk issues. Some of them were able to indicate that they are unable to attract qualified internal auditor to deal with risk issues faced by municipalities. The intervention by national government was seen as a sign of hope in nodal municipalities.

Table 8 Determination of actions to mitigate significant risks by location

Actions to mitigate significant risks have been determined	Category			Total
	Metro	District	Local	
strongly disagree	0	0	10	10
	.0%	.0%	32.3%	25.0%
disagree	0	3	9	12
	.0%	37.5%	29.0%	30.0%
Unsure	1	3	8	12
	100.0%	37.5%	25.8%	30.0%
Agree	0	2	4	6
	.0%	25.0%	12.9%	15.0%
Total	1	8	31	40
	100.0%	100.0%	100.0%	100.0%

Table 8 shows the perceptions of managers on the ability of municipalities to determine actions to mitigate significant risks by location. In terms of distribution by municipal category, the Metro is unsure whilst 61.3 per cent of the local municipality and 37.5 per cent of the district respondents are negative on the issue. The reality is risk issues can not be dealt with haphazardly. The generic risk management methodology suggests that in order to be able to deal with risk five steps need to be taken. These are risk identification, analysis of the root causes, measurement of likelihood and impact, mitigation and monitoring (Andersen et al 2003).

Table 9 Risk identification and assessment by municipal structure

Risk identification and assessment for significant function	The structure appropriately reflect nature of the municipality's operations			Total
	Positive	Negative	Neutral	
positive	13	7	1	21
	48.1%	77.8%	25.0%	52.5%
negative	8	1	0	9
	29.6%	11.1%	.0%	22.5%
neutral	6	1	3	10
	22.2%	11.1%	75.0%	25.0%
Total	27	9	4	40
	100.0%	100.0%	100.0%	100.0%

Table 9 illustrates the identification and assessment of risk for significant functions in relation to the appropriateness of the municipal structure for its operations. The table shows that 48.1 per cent of the respondents are positive to both statements. As indicated earlier municipalities were negative on the issue of risk identification yet are positive on this one. This illustration possibly confirms the use and influence of consultants in the development of municipal structures and hence explains the variation in the two statements.

Table 10 Role understanding by municipal type

Every individual and group understands their role	Category			Total
	Metro	District	Local	
strongly disagree	0	1	8	9
	.0%	12.5%	25.8%	22.5%
disagree	0	2	9	11
	.0%	25.0%	29.0%	27.5%
Unsure	1	3	7	11
	100.0%	37.5%	22.6%	27.5%
Agree	0	1	7	8
	.0%	12.5%	22.6%	20.0%
strongly agree	0	1	0	1
	.0%	12.5%	.0%	2.5%
Total	1	8	31	40
	100.0%	100.0%	100.0%	100.0%

Table 10 shows the perceptions with regards to the understanding of roles in achieving set objectives by municipal category. The respondents from Metro are neutral whilst 54.8 per cent of the rural respondents are negative on the same. The analysis suggests a situation where job descriptions are developed and yet are not understood especially in Metro. The local municipalities on the other hand are still battling in developing job descriptions which define the roles of individuals and group with respect to achieving organizational objectives.

4.3.3. Discussion: Integrated development plan (IDP) and risks

Planning for the activities of different departments, functional areas or business units is tightly linked to the IDP. The performance of these departments, functional areas or

business units can be managed in term of their business plan, provided that the methodology of the business plan is coherent with, if not the same as, the model being adopted for performance management of departments, functional areas and businesses units (Palmer Development Group 2001). So it is necessary for the individual and group to understand their role in implementing the IDP and business plans. The only way individuals and group could understand their role on these strategic documents will be through development of job descriptions.

With the introduction of budgeting by objectives, it will, in fact, be expected of every government department and its subsections to set clear aims. The aims and objectives must be formulated and announced in such a manner that they are understood by the staff members who must achieve by means of the actions of individual staff members, such as the head of a division, section or office who must in turn depend on the contribution of individual subordinates. The behaviour of individuals is therefore the decisive factor to be influenced by control. For this reason, the aims and objectives must be linked to individuals (or posts). The enthusiastic cooperation of the individual must be obtained (Roux 1997:157).

From the survey, respondents are negative to the fact that objectives are understood by individual and groups in the Municipalities. This could lead to a problem in the municipalities because they could develop a performance management system that is informed by objective of which those objectives are not understood by individual and groups in the municipalities. From the survey it is also clear that the very same objectives setting do not balance the needs of the stakeholders, and balancing the risks and opportunities. The White Paper on Local Government (1996) proposed performance management together with IDP and public participation, as important tool central to the notion of developmental local government. This suggests that even those municipalities that do have organization performance management system the very system could not work because it is not informed by public involvement.

From the survey, objectives and plans are not reviewed in light of operating performance and change. This seems to be a problem in most municipalities even those in urban areas. Although the IDP is reviewed periodically by the municipalities as required by the Systems Act but what is not clear is that assumptions are not validated.

Organisations need to identify risk implications, the associated controls (if any), a rating of the risk as low, medium or high based on their perceived impact to the organisation and probability of occurrence, identification of areas requiring further investigation or analysis and possible solutions to any control gap (Andersen *at all* 2003).

From the survey, significant risks faced by municipalities in the achievement of its objectives are not properly identified and addressed. The key problem is around the actions to mitigate significant risks as well as the understanding of what risks is acceptable to municipalities. This on itself raised a question on structure which municipalities perceived as good but if it does not deal with risk area how can it be regarded as good. From the survey the respondent were negative on the issue of time indicating that they do not have time. The possibility is that they do not have time because they have not identified risk and have not developed strategies to deal with them. The researcher picked up from the survey that this is not a question of either rural/urban municipality most have not identified risks estimating the significance of the impact and the likelihood of occurrence. The conclusion from this is that municipalities must pay attention to this area, especially because the staff turnover at the senior level is high.

4.4. Control activities

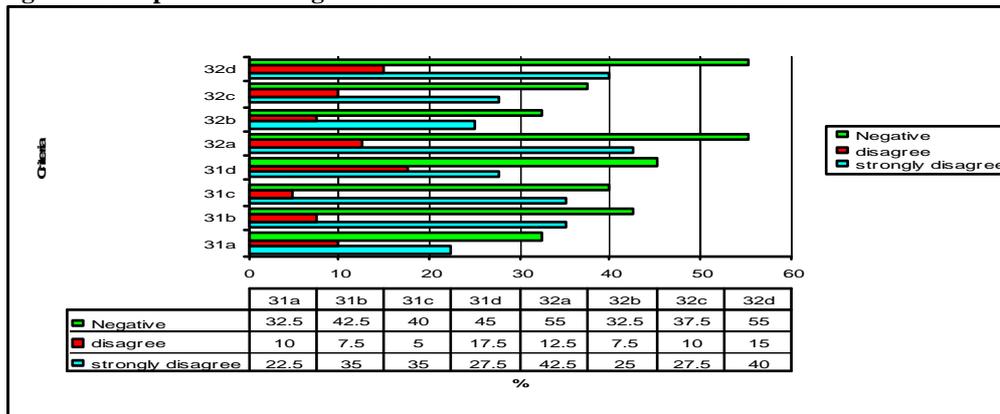
The control activities deal with policies, procedures and practices that ensure management objectives are achieved and risk mitigation strategies are carried out. The discussion of control activities relies on two broad statements, namely:

- Policies and procedures have been established to support the business organization’s objectives and mitigate identified risks.
- Adequate management and supervision activities.

This broad statement will be discussed on the basis of the most hindering criteria.

Figure 15 shows the proportion finding that control activities are not carried out.

Figure 15 Proportion finding that control activities are not carried out



31a = Control activities properly doc, updated, com & approved
 31b = Control activities design consider obje, risk, size & complx
 31c = Applic controls in place: observing, comparing & checking
 31d = Control activities form at adequate

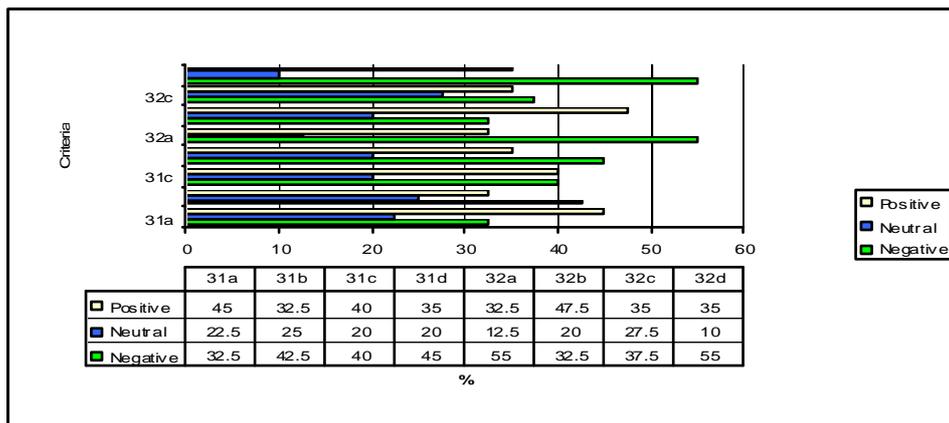
32a = Quality assurance framework in place
 32b = Mngt encourage staff to comply with CA
 32c = Regular reviews reflects cument changes
 32d = Reward & punishment system in place

The study shows that 45 per cent of the respondents see an inadequacy in terms of the format of policies, control procedures, responsibility, and scope of the same. Equally, 42.5 per cent of the respondents are negative with respect to the criteria that control

activities are being designed in cognizance of objectives, risks, nature, size and complexity of the operations. In terms of the existence of applicable control activities, 40 per cent of the respondents are negative on this aspect.

On the broad statement regarding adequate management and supervision activities, 55 per cent of the respondents have negative perceptions. However, the quality assurance framework (including policies, procedures and practices) and reward and punishment system is not in place. This is not surprising because the respondents were negative on the adequacy and format of policies. If this is the case, it means that most municipalities are yet to develop controls for managing strategy implementation.

Figure 16 Proportion of total responses on control activities.



31a = Control activities properly doc, updated, com & approved
 31b = Control activities design consider obje, risk, size & complx
 31c = Applic controls in place: observing, comparing & checking
 31d = Control activities fom at adequate

32a = Quality assurance framewørk in place
 32b = Mngt encourage staff to comply with CA
 32c = Regular reviews reflects cument changes
 32d = Reward & punishment system in place

The study shows that 45 per cent of the respondents are positive on issues related to documenting, updating communicating and approving related control activities. Close to half (47.5 per cent) of the respondents think that management generally encourages staff to comply with established policies, procedures and practices.

Figure 17 Dominance of most hindering criteria for control activities

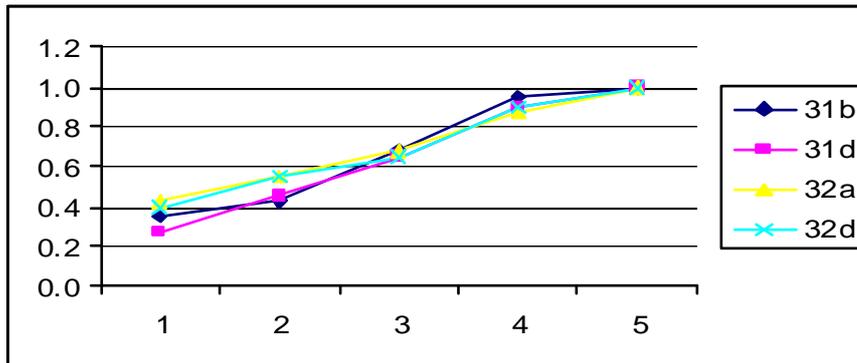


Figure 17 illustrates the most dominant hindering criteria on control activities. The analysis is based on four criteria, namely that:

- controls activities are designed in cognizance of the objectives, risks, nature, size and complexity of the operations (cost and benefits)
- there exists an adequate format of objectives of policies, control procedures, responsibilities, definitions, scope, effective dates, distribution, etc.
- there exists a quality assurance framework and
- reward and punishment system

Seemingly, there is no dominant hindrance for these control activities.

4.4.1. Quality assurance

Table 11 shows perceptions on the existence of a quality assurance framework as felt by rural and urban municipalities.

Table 11 Existence of quality assurance framework by location

Quality assurance framework is in place	Rural/Urban		Total
	Urban	Rural	
strongly disagree	4	13	17
	21.1%	61.9%	42.5%
disagree	4	1	5
	21.1%	4.8%	12.5%
Unsure	2	3	5
	10.5%	14.3%	12.5%
Agree	5	3	8
	26.3%	14.3%	20.0%
strongly agree	4	1	5
	21.1%	4.8%	12.5%
Total	19	21	40
	100.0%	100.0%	100.0%

Table 11 shows that 66.7 per cent of rural respondents and 42.2 per cent of the urban respondents think that no quality assurance framework exists.

The following table illustrates the same issue of quality assurance by municipal category.

Table 12 Existence of a quality assurance framework by municipal category

Quality assurance framework is in place	Category			Total
	Metro	District	Local	
strongly disagree	0	4	13	17
	.0%	50.0%	41.9%	42.5%
disagree	0	1	4	5
	.0%	12.5%	12.9%	12.5%
Unsure	0	1	4	5
	.0%	12.5%	12.9%	12.5%
Agree	1	1	6	8
	100.0%	12.5%	19.4%	20.0%
strongly agree	0	1	4	5
	.0%	12.5%	12.9%	12.5%
Total	1	8	31	40
	100.0%	100.0%	100.0%	100.0%

From Table 12, 62.5 per cent of respondents from the district municipalities have negative perceptions on quality assurance compared to 54.8 per cent of those from local municipalities.

Table 13 further tests the existence of a quality assurance framework in relation to control activities. This analysis helps one understand how municipalities manage quality. One likely scenario is that organizations may in reality not have a quality assurance framework but rather rely on control activities to manage quality

According to Table 13, 93.8 per cent of the respondents have negative perceptions on both aspects. The implication is that control activities do not address quality in municipalities of KwaZulu-Natal.

Table 13 Quality assurance framework is in place by applicable control activities are in place

Quality assurance framework is in place	The applicable control activities are in place			Total
	Negative	Positive	Neutral	
Negative	15	3	4	22
	93.8%	18.8%	50.0%	55.0%
Positive	1	10	2	13
	6.3%	62.5%	25.0%	32.5%
Neutral	0	3	2	5
	.0%	18.8%	25.0%	12.5%
Total	16	16	8	40
	100.0%	100.0%	100.0%	1000%

4.4.2. Discussion: control activities

It can be accepted as a general guideline that it is the duty of the supervisor to pick up warning signals from the control measures and to react by taking appropriate corrective steps. On occasion, corrective steps may have to be taken by a number of officials in different divisions, sections or offices, for example, corrective steps to prevent the progress *en route* to an aim being retarded by a lack of stock or personnel. Furthermore, it must be clear what steps must be taken in respect of corrective action under particular circumstances and by whom. In this regard, consideration can be given to programme corrective actions that come into operation when deviations are reported.

The first characteristic of the public sector that may inhibit quality assurance application is the limited commitment and the lack of continuity of top managers in the public sector services. Because politics works against long-term leadership and mission stability, the turnover of top-level managers is rapid in many public sector organisations. As a result, top managers of public sector services cannot be continuously involved in improving quality management with single-minded commitment (Swiss, 1992).

Standard plans are operational plans that tend to be fixed for large periods of time and are designed to provide organisation stability. They include:

- (1) *Policies*, or general statements that are guides to or channels of thinking and decision making by managers and subordinates;
- (2) *Procedures* that establish a standing or routine method or technique for handling recurring activities; and
- (3) *Rules and regulations* that state mandatory courses of action chosen from available alternatives

These plans, once established, continue to apply until they are modified or abandoned. They are thus fixed in nature and content (Mosley at al 1996: 234). Based on the above definition the researcher concludes from the survey that, although municipalities do have

policies and procedures as control activities, they are not documented, updated, communicated and approved as expected. This is happening across municipalities surveyed.

From the criteria the controls activities designed consider the objectives, risks, nature, size, and complexity of the operations (cost and benefit). The researcher concludes that rural and urban municipalities need more help in this regard.

With regard to the criteria the format is adequate (objective of the policy, the policy, control procedures, responsibility, definitions, scope, effective date, distribution, etc). It seems as if municipalities are unsure about the format of the above policies.

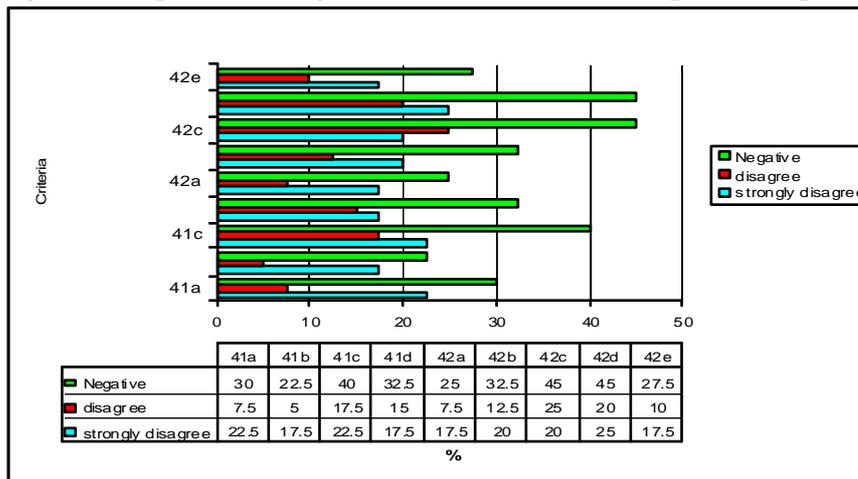
Quality is the degree of excellence of a good or services. Quality control is the means by which a firm makes sure that its goods or services will serve the purposes for which they are intended. Quality standards are determined by the organisation's objectives (Mondy *at al*, 1996:532). From the survey the researcher found that respondents are negative that there is no quality assurance framework in place (including policies, procedures and practices) in most municipalities irrespective of size. It is also not surprising to find that there is no regular review of the policies and procedures to reflect current changes because the review are not done in light of performance and change.

4.5. Management information systems

The management information systems enable management to assess whether the municipality is operating as desired, identifying opportunities and problems.

Figure 18 shows the proportion of finding that the MIS does not enable municipalities to operate as desired. From this illustration, 45 per cent of the respondents are negative on the issue that management reviews and make follow ups on operational reports. With respect to exception reports, namely periodically production, review and follow up, close to half of the respondents (45 per cent) expressed negative views.

Figure 18 Proportion finding that MIS do not enable municipalities to operate as desired

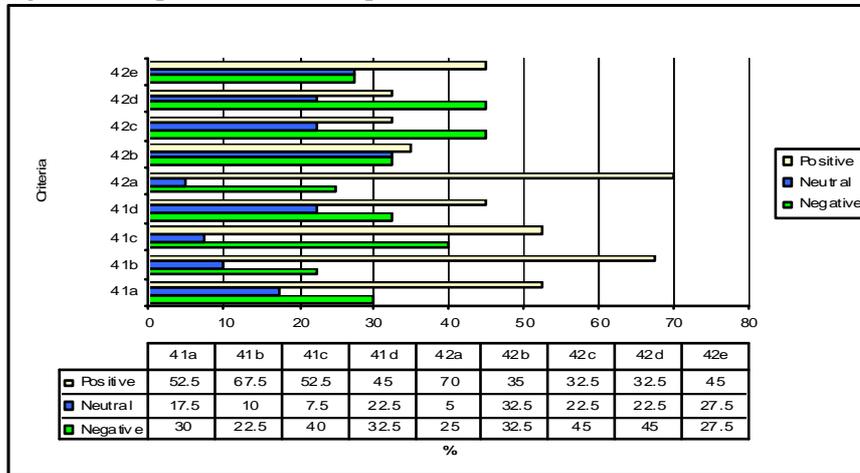


41a = Management encouraged to determine info needs
 41b = Due dates est for management info report
 41c = Priorities est for management info report
 41d = Hardware & application controls installed

42a = Management reviews financial statement or reports
 42b = Management reviews & follows up ops reports
 42c = Exception reports periodically produced, reviewed & follow up
 42d = Suitable KPIs & stats defined and reviewed regularly
 42e = Necessary and related info for decisionmaking

The total proportion of responses on MIS is shown in.

Figure 19 Proportion of total responses on MIS



41a = Management encouraged to determine info needs
 41b = Due dates est for management info report
 41c = Priorities est for management info report
 up
 41d = Hardware & application controls installed

42a = Management reviews financial statement or reports
 42b = Management reviews & follows up ops reports
 43c = Exception reports periodically produced, reviewed & follow
 up
 43d = Suitable KPIs & stats defined and reviewed regularly
 42e = Necessary and related info for decisionmaking

Figure 19 shows that 70 per cent of the respondents are positive on the issues that management reviews periodic financial statements and reports, in comparison to budgeted amounts or other financial data. Taking into consideration the fact that the respondents were negative on the adequacy of financial resources, this could possibly explain the financial periodic reviews.

Table 14 shows proportion of perceptions by location on the issue that management reviews and follows up the on operational reports (fluctuations, analyses, aging, significant transaction/balance).

Table 14 Review and follow up of operational reports by location

Mgt reviews and follow ups the operational reports	Rural/Urban		Total
	Urban	Rural	
strongly disagree	0	8	8
	.0%	38.1%	20.0%
disagree	3	2	5
	15.8%	9.5%	12.5%
Unsure	5	8	13
	26.3%	38.1%	32.5%
Agree	8	3	11
	42.1%	14.3%	27.5%
strongly agree	3	0	3
	15.8%	.0%	7.5%
Total	19	21	40
	100.0%	100.0%	100.0%

From the above table 47.6 per cent of the rural respondents are negative while 56.9 per cent of the urban respondents are positive.

Table 15 reports the perceptions on management reviews and followups on operations reports on the basis municipal category.

Table 15 Review and follow up of operational reports by municipal category

Mgt reviews and follow ups the operational reports	Category			Total
	Metro	District	Local	
strongly disagree	0	1	7	8
	.0%	12.5%	22.6%	20.0%
disagree	0	1	4	5
	.0%	12.5%	12.9%	12.5%
Unsure	0	5	8	13
	.0%	62.5%	25.8%	32.5%
Agree	1	1	9	11
	100.0%	12.5%	29.0%	27.5%
strongly agree	0	0	3	3
	.0%	.0%	9.7%	7.5%
Total	1	8	31	40
	100.0%	100.0%	100.0%	100.0%

From the *Table 15*, 62.5 per cent of the districts respondents are unsure as to whether management reviews and actually makes any follow ups on operational reports.

This picture is questionable given the management level of the respondents who under normal conditions should not be neutral.

Table 16 examines the assumption that reviews and follow ups on operational plans are informed by the assumptions in the plans.

Table 16 Reviews and follow ups of operational reports by assumptions used in the plan

Reviews and follow up the operational reports	Assumption periodically validated			Total
	Negative	Positive	Neutral	
Negative	9	1	3	13
	50.0%	11.1%	23.1%	32.5%
Positive	6	5	3	14
	33.3%	55.6%	23.1%	35.0%
Neutral	3	3	7	13
	16.7%	33.3%	53.8%	32.5%
Total	18	9	13	40
	100.0%	100.0%	100.0%	100.0%

Table 16 shows that 50 per cent of the respondents are negative on both issues. This shows that whilst municipalities review their plans, these plans are not necessarily informed by the assumptions made when they were crafted.

4.5.1. Discussion: management information systems

The management information systems enable management to assess whether the municipality is operating as desired, identifying opportunities or problems as assessing changes. Actions in the public domain rest upon public consent, for without consent collective choice is deprived of legitimate authority. The learning society requires a continuous and continuing relationship of accountability within the polity. The management task within the public domain is to enable an account to be made to the public about performance, but also to enable the variety of interests within the public to engage in discourse about what counts as performance in the pursuit of public policy (Ransib and Stewart 1994:221).

With regard to the issue of adequate management information produced and employed in the management of the municipality. From the survey the respondents are negative to the fact that managers are encouraged to determine exact information needs hence they are unable to priorities on management information reports.

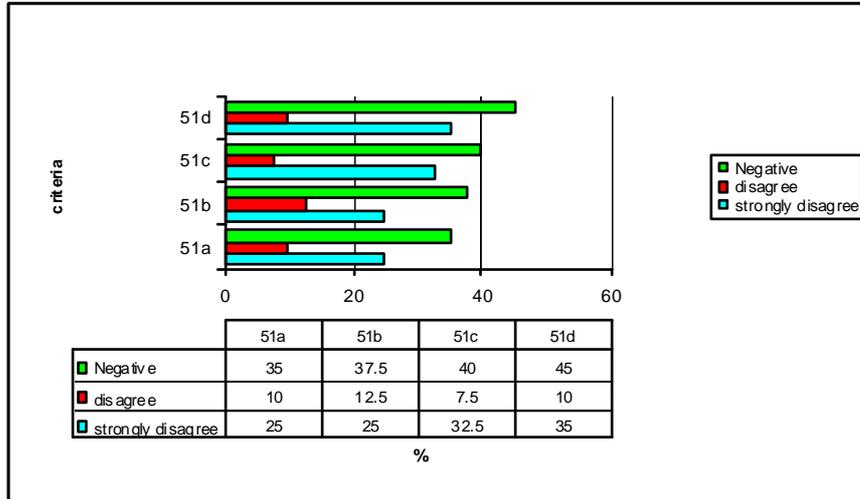
The conclusion from the survey result is that the suitable performance measures and statistics to analyse municipality's activities have not been defined and are not regularly reviewed. This suggest that performance is not monitored against the targets and indicators identified in the Municipality's objectives and plans.

4.6. Monitoring

Performance monitoring and evaluation are processes aimed at assessing the performance of municipalities and people who work for them (municipal staff and external contractors). A key element of the monitoring and evaluation process is performance auditing. This involves verifying that the measurement mechanisms are accurate and that proper procedures are followed to evaluate and improve performance. Municipalities are required to submit their performance results to be annually audited by the external auditor. The researcher was not able to find this report from the municipalities while doing the survey. The analysis and interpretation of the responses would not help much because on this section the possibility of being subjective is high.

Figure 20 shows the proportion finding that the assessment of control systems is inadequate to report deficiencies.

Figure 20 Proportion finding that the assessment of control systems is inadequate to report deficiencies.



51a = General, the audit objectives for municipality met functioning

51b = Audit tests concluded that the control activities are functioning risks

51c = Analytical reviews concluded control activities

51d = Existing control activities sufficient for ops and risks

The study indicates that 45 per cent of respondents have a negative perception with respect to the existence of sufficient control activities for current operations and risks. In terms Forty per cent of the respondents dispute the idea that analytical reviews confirm smooth functioning of control activities in terms of operations and risks.

Table 17 reports on the capacity of rural and urban municipalities to meet their audit objectives.

Table 17 Capacity to meet audit objectives by location

The audit objectives for municipality were met	Rural/Urban		Total
	Urban	Rural	
strongly disagree	2	8	10
	10.5%	38.1%	25.0%
disagree	1	3	4
	5.3%	14.3%	10.0%
Unsure	5	3	8
	26.3%	14.3%	20.0%
Agree	8	4	12
	42.1%	19.0%	30.0%
strongly agree	3	3	6
	15.8%	14.3%	15.0%
Total	19	21	40
	100.0%	100.0%	100.0%

According to Table 17, 57.9 per cent of the urban respondents are positive that their municipalities have generally been able to meet their audit objectives. Rural municipalities have a higher proportion of negative responses at 52.4 per cent. This shows that there is a problem in rural municipalities which is possibly related to the lack of resources.

Table 18 further analyzes the capacity to meet audit objectives in relation to the category of the municipality. In district municipalities, 37.5 per cent of the respondents disagree that municipalities are in a position to meet their audit objectives compared to 35.5 per cent for local municipalities. These responses should however be treated with caution due to the lack of substantial evidence on monitoring related issues.

Table 18 Capacity to meet audit objectives by municipal category

The audit objectives for municipality were met	Category			Total
	Metro	District	Local	
strongly disagree	0	2	8	10
	.0%	25.0%	25.8%	25.0%
disagree	0	1	3	4
	.0%	12.5%	9.7%	10.0%
Unsure	0	1	7	8
	.0%	12.5%	22.6%	20.0%
Agree	1	1	10	12
	100.0%	12.5%	32.3%	30.0%
strongly agree	0	3	3	6
	.0%	37.5%	9.7%	15.0%
Total	1	8	31	40
	100.0%	100.0%	100.0%	100.0%

4.6.1. Discussion: performance monitoring

The assessment of control systems and mechanisms to report deficiencies are drawn from these statements of the survey:

- (1) Key control activities are functioning as intended; and
- (2) Corrective actions on reported audit findings have been properly addressed.

From the above key statements, it seems municipalities are unsure about the result of the audit tests with respect to control activities and whether they are indeed functioning. This shows that municipalities are not confident about their performance. Related to this is the revelation that issues of risks are not considered a priority area in most municipalities.

In some municipalities the process of establishing an internal audit unit is in progress. The role of these units is however still not clear.

4.7. Performance Models and research findings

A performance management model can be defined as the grouping together of performance indicators, sometimes based on the type of indicator, into logical categories or groups (often called perspectives), as a means to enhance the ability of an organisation to manage and analyse its performance. As such a model provides a common framework for what aspects of performance are to be measured and managed. It further ensures that a balanced set of measures that do not solely rely on one facet of performance are employed and therefore not preventative of a holistic assessment of the performance of an organisation.

To achieve both the municipality's internal requirements and the requirements laid out in the Systems Act this section interrogates the broad models described in chapter 2 and hence attempts to determine any potential model/s that could possibly address the majority of the most limiting hindrances identified. In summary, the models discussed are as follows:

- **Balanced Scorecard** – A widely adopted performance measurement framework, used by commercial and non-profit organisations around the world (Kaplan & Norton, 1992, 1993, 1996; Cobbold & Lawrie 2002)
- **The South African Excellence Model** – A popular derivation of Total Quality Management methods, used for assessing the relative quality of process performance in for profit and non-profit organisations
- **3Es** – A model for performance management put forward by the UK audit commission was the three Es: Economy, Efficiency and Effectiveness (Palmer Development Group, 2001).

Table 19 uses a set of criteria to compare the aforementioned models in terms of their ability to address the identified hindrances. The objective is to identify a potential model(s) for use by municipalities in KZN. From this table it is evident that the most appropriate performance model is the Balanced Scorecard followed by the Excellence

model, at least as guided by the given criteria. Any model may however need modification to address the unique conditions in a particular municipality.

Table 19A comparison of the 3 models based on selected criteria

CRITERIA	3Es	SAEF	BS
I. Control environment , which establishes the foundation for the internal control system by providing fundamental discipline and structure.			
The Municipality organisation structure is conducive to the effective management and control of the business	✓		
The assignment of responsibilities and delegation of authority supports effective management and control		✓	
Resources committed to the Municipal activities are commensurate with activity levels		✓	✓
II. Integrated development plan (IDP) and risks addresses objective-setting, risk identification and assessment, and planning.			
IDP's objectives properly established and communicated to support organization's objective.			✓
Objectives and related plans include measurable performance targets and indicators			✓
Significant risks faced by the Municipality in the achievement of its objectives properly identified and addressed			✓
III. Control activities , or the policies, procedures, and practices that ensure management objectives are achieved and risk mitigation strategies are carried out.			
Policies and procedures have been established to support business organization's objectives and mitigate identified risks.		✓	✓
Adequate management and supervision activities	✓	✓	✓
IV. Management information systems , which enables management to assess whether the Municipality is operating as desired, identifying opportunities or problems and assessing changes			
Adequate management information is produced and is employed in the management of the Municipality		✓	✓
Performance is monitored against the targets and indicators identified in the Municipality's objectives and plans	✓	✓	✓
V. Monitoring , assessment of control systems and mechanism to report deficiencies			
Key control activities are functioning as intended	✓	✓	✓

4.7.1. Discussion: findings and models

The 3Es can be used to deal with issues relating to efficiency, effectiveness and economy. Using the 3Es to deal with the control environment, a measure could be developed around efficiency of management, effectiveness and the economics of resource use. SAEF could deal with enabling areas – resource allocation and people management. The Balanced Scorecard could address learning and growth issues as well as people management issues like, job descriptions. The Balanced Scorecard model emphasizes issues related to linking

measures and performance areas using objectives. In that regard it is the best model to deal with hindrances related to objectives setting.

Issues of policy, procedures and practices can best be addressed using the SAEF because this particular model uses these measures as enablers to performance. The Balanced Scorecard could also be used since it covers policy issues related to learning and growth.

Management Information System (MIS) enables management to assess whether the municipality is operating as desired, identifying opportunities or problems and assessing change. This is more of a process issue which could be best address by the SAEF as one of the enablers. The Balanced Scorecard could also measure process in its internal process perspective.

When it comes to the assessment of control systems and mechanisms to report deficiencies all three models could be used to measure hindrances at this level.

4.8. Conclusion

In conclusion the municipalities in general have a major problem when it comes to the control environment, which establishes the foundation for the internal control system. It is even difficult to conclude with confidence that their structure appropriately reflects the nature of business operations. The fact that the Metro is unsure about the issue of time when districts and locals are negative about the issue makes it clear that municipal leadership have very little time to deal with administrative issues. The resources are a hindrance as well and understandable so, because a substantial proportion of municipalities are new with no baseline information on socio economic issues.

On the issue of objectives and risks it is clear that the initiative by the national government to develop national key performance indicators and key performance areas does help municipalities in meeting the legislative requirements. Municipalities however fail to review their IDPs as operations change. The study reveals that municipalities have not done anything with respect to risk identification and mitigation.

The control activities, or the policies, procedures and practices that ensure management objectives are achieved and risk mitigation strategies are carried out is also a problem. The indication is that municipalities need to be assisted in developing and managing the controls. This problem of controls could be linked to the problem of resources and time to develop them. Given that time and resources are a problem, one cannot expect the municipalities to develop policies and procedure manuals that ensure the realisation of set objectives.

Seemingly, the management information system and monitoring are not a serious challenge. However a key element of the monitoring and evaluation process is performance auditing. This involves verifying that the measurement mechanisms are accurate and that proper procedures are followed to evaluate and improve performance. Municipalities are required to submit performance results to be annually audited by the municipality's external auditor.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter discusses the conclusions and recommendations based on the findings of the study. Conclusions are drawn from all five broad criteria and the recommendations are made to assist municipalities' implement the suitable performance management system for them selves. The recommended structure and the interventions are informed by the research findings.

Measuring the performance of public sector organisations has always been a difficult and contentious area. However, with continuing pressures for accountability and value for money, it is now increasingly gaining management attention. The government through the Ministry for Provincial and Local Government have re-emphasized the importance of appropriate performance measurement and monitoring systems through publishing the Municipal Performance Regulations for municipal managers and managers (Section 57 Employees) in the Government Gazette number 29089, on 1st August 2006. In terms of Chapter 5 of the Municipal Systems Act (Act No. 32 of 2000), all local municipalities (Category A, B and C municipalities) are required to, in consultation with the communities that they serve, compile Integrated Development Plans (IDP's). The IDP's of Local municipalities' plans (Category B municipalities) should be aligned with the IDP's of the relevant district municipalities in which they fall. District municipalities (Category C municipalities) IDP's and that of the Metropolitan municipalities (Category A municipalities) should in tum be aligned with the Provincial Growth and Development Strategies.

A further statutory requirement, in terms of Chapter 6 of the Municipal Systems Act, requires municipalities to develop and implement performance management systems (PMS's). Such systems provide the ideal mechanisms for monitoring and reporting on the implementation of IDP development objectives. It is therefore clear that local municipalities need a performance management system that is aligned to that of the district municipality in which they belong. Performance management is, however, a

relatively new concept at local government level and consequently the provincial departments of local government have a responsibility to empower municipalities to fulfil their statutory obligations with regard to performance management. This includes the submission of an annual municipal performance report.

This study identified critical hindrances that affect the implementation of ideal performance management systems in KwaZulu-Natal municipalities. It raises a range of important conclusions and recommendations. These vary from very explicit aspects to a range of more general issues. From the questionnaire interviews and discussions a number of points are worth emphasizing. These are presented in the sections that follow and under the following headings: control environment, IDP and risks, control activities; management information system; performance monitoring and performance models.

5.2. Conclusions

5.2.1. Control Environment

It is clear that most hindrances in municipalities emanate from the fact that resources committed to municipal activities are not commensurate with activity levels of the municipality. The knowledge and skills required to perform jobs adequately have not been analysed and job descriptions have not been produced and communicated in most KZN municipalities. The study concludes that the control environment is not conducive for municipalities to perform as expected. This hindrance is common in all municipalities irrespective of geographical location and category. One of the distinctive features of job descriptions is to specify distinctive performance indicators (Cohen and Brand, 1993). By strictly following standard operating procedures, employees can achieve goals set by the organisation without undue difficulty. This provides employees with incentives to do jobs more efficiently and effectively.

5.2.2. Integrated Development Plan (IDP) and Risks

The study suggests that the objectives in the IDPs are generally compatible with national objectives. This is largely explained by the definition of municipal objectives by national government. What is not clear is whether those objectives are understood by individuals and groups within the municipalities. This is a problem since municipalities may adopt a performance management system that is informed by objectives that are not understood by any individual and groups within its structures. The survey also shows that objectives setting do not balance the needs of the stakeholders, risks and opportunities. The White Paper on Local Government (1996) proposed performance management together with IDP and public participation, as an important tool central to the notion of developmental local government. The conclusion is that even in those municipalities with organizational performance management systems, there exists a need to re-develop them with the involvement of the public, a legislative requirement.

The notion that “*what gets measured gets done*” does not apply to some municipalities. The fact that objectives and plans are not reviewed in the light of operating performance and change confirms the fact that the identification of risk estimating the significance of impact and the likelihood of occurrence is not done properly by municipalities as per MFMA. Municipalities therefore need to develop structures and policies that deal with risk issues and associated action to mitigate significant risks that have been determined. This is a problem in most municipalities even those in urban areas. Although IDP’s are periodically reviewed, the assumptions are usually not validated e.g. resource allocation.

Another observation is that significant risks faced by the municipalities in the achievement of objectives are neither properly identified nor addressed. This was evident in both rural and urban municipalities irrespective of category.

5.2.3. Control Activities

Designed control activities do not consider the objectives, risks, nature, size and complexity of the operations (cost and benefits). There is no quality assurance framework in place for the municipalities. As a result, there are no reward and punishment mechanisms. The implication is that KZN municipalities have not established policies and procedures to support organisational objectives and mitigate the identified risks. Management and supervision is not adequate to deal with municipal problems. It is safe to therefore conclude that there are no policies, procedures, and practices that ensure that management objectives are achieved and risk mitigation strategies are carried out. Risk, and the need to manage it, is nothing new. Hoffoman observes that Maslow implicitly recognized risk in his famous hierarchy of needs by placing food and shelter, both essential to survival, on the first rung of the ladder (Hoffman, 2002). A failure to manage the risk of these needs not being met can have catastrophic results, as much for organizations today as it was for the earliest life forms.

5.2.4. Management Information System

Municipal performance is not monitored against the targets and indicators identified in the municipalities objectives and plans, where they exist. There is limited production of management information in most surveyed municipalities. Municipalities therefore do not have adequate management information systems that enable managers to assess whether they are operating as desired.

The MFMA requires that the Municipality must establish an internal audit section which service could be outsourced depending on its resources and specific requirements. Section 45 of the Municipal Systems Act stipulates that the results of the Municipality's performance measures must be audited by the said internal audit section as part of the internal auditing process and annually by the Auditor-General.

The Municipal Planning and Performance management Regulations stipulates that internal audit section must on a continuous basis audit all performance and the auditing must include an assessment of the following:

- The *functionality* of the municipality's performance management system.
- Whether the municipality's performance management system *complies* with the Act.
- The extent to which the municipality's performance measurements are *reliable* in measuring the performance of municipalities by making use of indicators.

5.2.5. Performance Monitoring

Municipalities are expected to assess control systems and mechanisms to report deficiencies. In rural municipalities, the audit objectives are generally not met. On this basis it is apparent that most municipalities do not have the capacity to deal with the assessment of control systems.

The Municipal Systems Act requires the Municipality annually to evaluate its PMS. The review undertaken by the audit committee and its recommendations could serve as input into this wider municipal review of the PMS and it is proposed that after the full cycle of the annual review is complete; the Municipal Manager will initiate an evaluation report, taking into account the input provided by departments. The report will then be discussed by the Management Team and finally submitted to the Council for discussion and approval.

5.2.6. Performance Models

Given the performance models discussed in chapter four and their subsequent testing against the questionnaire, it is clear that municipalities can not solely use one model but a combination of models are needed. The suggested models are the Business Excellence Model and the Balanced Scorecard.

5.3. Recommendations

The following need attention if municipalities are to deal with hindrances and manage performance in the most effective and economic way.

5.3.1 Getting started

Municipalities can effectively and efficiently deal with the issue of organisational performance if they can work together as one entity. They must come together to deal with issues of organisational performance by entering into Service Level Agreements (SLA). For an example, local municipality x enters into a service level agreement with the district municipality to which it belongs. This will help them in terms of economies of scale and scope. There need be acknowledgment that there are advantages and disadvantages to this approach. The main disadvantage is that of political rivalry. The main advantage is that municipalities could develop and implement their district municipal IDP with minimum problems.

The other challenge is that of designing an effective structure. This can be addressed through the shared service centre that is established by a family of municipalities. The service centre could be located anywhere within the borders of the district municipality. The service centre could perform the following functions: **internal Audit (Risk issues), strategic controls and strategy implementation (IDP and PMS), information Technology (IT) solutions and research and development (socio-economic issues)**

The reasons for suggesting a shared service centre is based on the survey findings where it became clear that municipalities are confronted with the following issues: lack of capacity, lack of resources, strategic issues facing the municipalities are not understood by the both political and administrative leadership, significant risk faced by municipalities have not be identified and assessed, policies are not formatted adequately and performance is not monitored

The proposed shared services structure could deal with the issue of performance in different ways, to the advantage of service delivery to the communities. Firstly they need to deal with the issues of internal hindrances as identified in the findings and the socio-economic issue facing the municipalities which will help them to develop an informed IDP. In order to deal with the internal hindrances, municipalities should firstly collect base line information for purposes of developing the terms of reference for any intervention that address these hindrances. The municipalities need to conduct “Health Checks” of all business processes and identify strengths and weaknesses in each municipality. The Business Excellence Model is an ideal tool for conducting “health checks” and benchmarking the municipalities. The fact that municipalities are categorised in term of districts and local municipalities should be an advantage when doing the socio economic surveys for IDP purposes.

The shared service unit should be able to attract skilled specialist who could be employed on a contract basis to enhance service delivery. This could save municipalities a lot of money and time.

5.3.2 Design of an Organisational Performance Management System

Two management issues to be addressed:

1. The efficient and effective communication of purpose and task from the heads of the municipality to the departments;
2. The reconciliation of performance of the whole organisation against targets

Municipal managers and mayors should be encouraged to form a family of municipalities with one strategic direction for the shared service centre. The family of municipalities should identify and adopt a set of performance indicators that are important to the district as a whole and are also in alignment with the provincial initiatives. Both political and administrative leadership should give strategic direction through a framework of agreed outcome objectives and output objectives that relate to the whole district's vision.

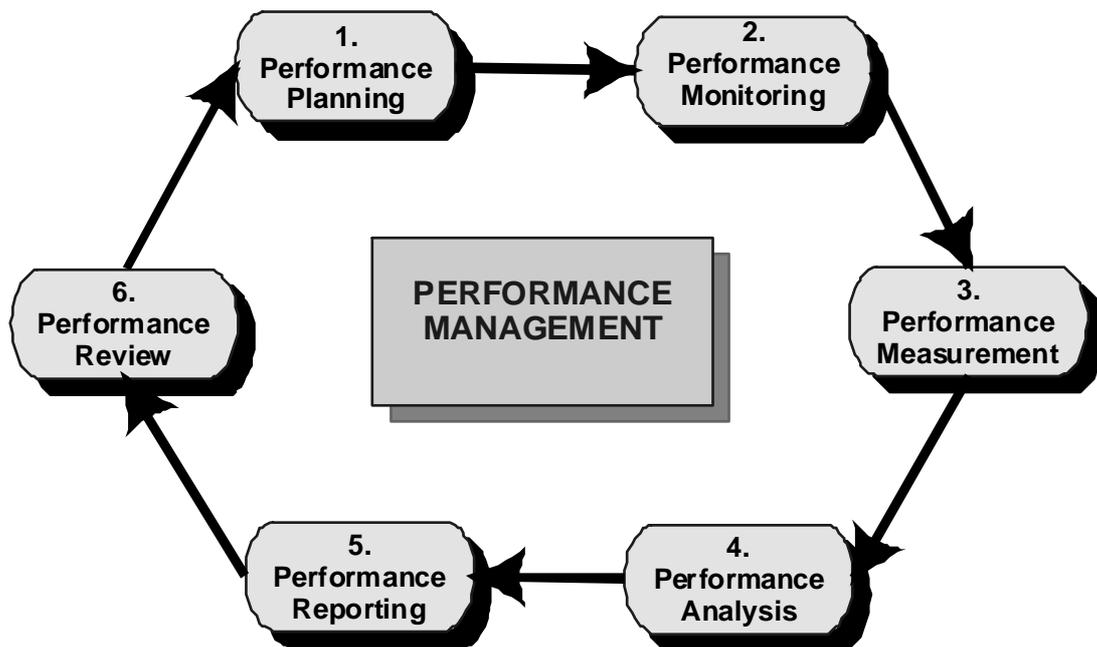
A shared services centre should be provided with resources and be empowered to deliver the agreed outcomes and outputs within an agreed accountability framework in which the district municipal IDP is central.

To deliver these outputs, a standard Organisational Performance Management System design and design process must be agreed upon by the family of municipalities. The framework should be based on the South African Excellence Model and Balanced Scorecard design principles that are described in chapter two. The agreed approach should use a standardised, facilitated design process that will actively involve the local municipalities' management team and build on the work previously carried out by the DTLGA Best Practice Guide.

5.3.3 The process of managing performance

The recommended annual process of managing performance at strategic level in the district and local municipality should involve the following steps as shown below:

Figure 21 Managing performance management



(Source: Vantage Holdings, 2003)

Table 20 spells out in more detail the role of all relevant role-players in each of the above steps:

Table 20 Roles and stakeholders

Stakeholder	Performance planning	Measurement and analysis	Performance reporting and reviews
<i>Citizens and Communities</i>	<ul style="list-style-type: none"> • Be consulted on needs • Develop the long term vision for the area • Influence the identification of priorities • Influence the choice of indicators and setting of targets 		<ul style="list-style-type: none"> • Be given the opportunity to review municipal performance and suggest new indicators and targets
<i>Council</i>	<ul style="list-style-type: none"> • Facilitate the development of a long-term vision. • Develop strategies to achieve vision • Identify priorities • Adopt indicators and set targets 		<ul style="list-style-type: none"> • Review municipal performance bi-annually
<i>Mayoral Committee and the IDP Steering Committee</i>	<ul style="list-style-type: none"> • Play the leading role in giving strategic direction and developing strategies and policies for the organisation • Manage the development of an IDP • Approve and adopt indicators and set targets • Communicate the plan to other stakeholders 		<ul style="list-style-type: none"> • Conduct the major reviews of municipal performance, determining where goals had or had not been met what the causal reasons were and to adopt response strategies
<i>Municipal Manager+ HODs</i>	Assist the Mayoral Committee in <ul style="list-style-type: none"> • providing strategic direction and developing strategies and policies for the organisation • Manage the development of the IDP • Ensure that the plan is integrated • Identify and propose indicators and targets • Communicate the plan to other stakeholders 	<ul style="list-style-type: none"> • Regularly monitor the implementation of the IDP, identifying risks early • Ensure that regular monitoring (measurement, analysis and reporting) is happening in the organisation • Intervene in performance problems on a daily operational basis 	<ul style="list-style-type: none"> • Conduct regular reviews of performance • Ensure that performance reviews at the political level are organised • Ensure the availability of information • Propose response strategies to the Mayoral Committee
<i>Directorate/ Departmental Managers</i>	<ul style="list-style-type: none"> • Develop service plans for integration with other sectors within the strategy of the organisation 	<ul style="list-style-type: none"> • Measure performance according to agreed indicators, analyse and report regularly • Manage implementation and intervene where necessary • Inform decision-makers of risks to service delivery timorously 	<ul style="list-style-type: none"> • Conduct reviews of service performance against plan before other reviews

The balance of this chapter looks at each of the steps in more detail and how they unfold in the process of managing municipality performance. Although the steps and what follows relate mainly to performance management at strategic level, the principles and approaches as espoused could also be applied to performance management at operational level.

5.3.4 Performance Planning

The performance of the Municipality should be managed in terms of its IDP. The process of compiling an IDP and its subsequent annual review should therefore constitute the process of planning for performance. It should be noted that the last component of the cycle is that of performance review and the outcome of such a review process must inform the next cycle of IDP compilation/review by focusing the planning processes on those areas in which the Municipality has under-performed.

5.3.5 Performance monitoring

Performance monitoring is an ongoing process whereby a manager that is accountable for a specific indicator as set out in the strategic scorecard (or a service delivery target contained in an annual Service Delivery Budget Implementation Plan (SDBIP) continuously monitors current performance against set targets. The aim of the monitoring process is to take appropriate and immediate interim (or preliminary) action in instances where the targets are unlikely to be met by the time of performance measurement, analysis, reporting and review.

In the case of district municipalities it is recommended that the strategic (organizational/corporate) scorecard of the Municipality should be reported on a quarterly basis to the District Exco. Performance monitoring requires that in between the said formal cycles of performance measurement, appropriate action should be taken when it becomes evident that specific performance targets will not be met. It is therefore

proposed that managers track performance trends against targets for those indicators that lie within their areas of accountability in respective Departments, at least on a monthly basis. This will enable them to identify performance related problems and take appropriate remedial action.

It is further recommended that each Manager should delegate to the direct line manager the responsibility of monitoring the performance for his/her section. In essence, the line managers should monitor on a regular basis, firstly, whether targets are currently being met and secondly, the likelihood of realizing the same targets in the future. There also exists a need to understand those factors that explain or fail to explain the level of performance and what interim remedial action needs to be taken thereof.

5.3.6 Performance measurement

Performance measurement refers to the formal process of collecting and capturing performance data to enable reporting to take place for each key performance indicator and against the target set for such an indicator. Given the fact that initially at least the Municipality will have to rely on a manual process to manage its performance, provision has been made in the strategic scorecard for the name of an official responsible for reporting on each indicator (please note that this might not necessarily be the same official accountable for performance on an indicator).

The said official will, when performance measurement is due, have to collect and collate the necessary performance data or information and capture the result against the target for the period concerned on the strategic scorecard and report the result to his/her Manager making use of the said scorecard after completing the next step (see performance analysis below). It should be noted at this stage that for each of the scorecards of the Municipality two formats exist, namely, a planning and reporting format. The planning format is used to plan and capture the performance targets for each indicator whilst the reporting format is used to capture actual performance against targets and to report to the Management Committee of that municipality.

5.3.7 Performance analysis

Performance analysis involves the process of making sense of measurements. It requires interpretation of the measurements as conducted in terms of the previous step to determine whether targets have been met and/or exceeded and to project whether future targets will be met or not. Where targets have not been met performance analysis requires that the reasons thereof should be examined and corrective action recommended. Where targets have been met or exceeded, the key factors that resulted in such success should be documented and shared so as to ensure organizational learning.

In practice the aforementioned entails that the Manager responsible for each indicator will have to, after capturing the performance data against targets on the strategic scorecard, analyze the underlying reasons why a target has/has not been met and capture a summary of his/her findings on the strategic scorecard. The Manager will thereafter have to compile a draft recommendation in terms of the corrective action proposed in instances where a target has not been achieved and also capture this on the strategic scorecard. Provision has been made on the reporting format of the strategic scorecard to capture both the 'reason for the performance status' (in other words the results of the analysis undertaken) and the 'corrective action' proposed.

The strategic scorecard as completed must then be submitted to a formal meeting of the senior management team for further analysis and consideration of the draft recommendations as captured by the relevant Managers. This level of analysis should examine performance across the organization in terms of all its priorities with the aim to reveal and capture whether any broader organizational factors are limiting the ability to meet any performance targets in addition to those aspects already captured by the relevant Manager.

The analysis of the strategic scorecard by senior management should also ensure that quality performance reports are submitted to councilors and that adequate response

strategies are proposed in cases of poor performance. Only once senior management has considered the strategic scorecard, agreed to the analyses undertaken and captured therein and have reached consensus on the corrective action as proposed, the strategic (municipal/organizational/corporate) scorecard can be submitted to the District IDP for consideration and review.

5.3.8 Performance reporting and review

(i) In-year performance reporting and review

The submission of the strategic (organizational/corporate/municipal) scorecard to the District Executive Committee (Exco) for consideration and review of the performance of the Municipalities is the first step in the process of performance reporting. The first such report is a major milestone in the implementation of any PMS and marks the beginning of what should become a regular event namely using the performance report as a tool to review the Municipality's performance and to make important political and management decisions on how to improve.

As indicated earlier it is recommended that the strategic (organizational/corporate/municipal) scorecard should be submitted to the District Exco for consideration and review on a quarterly basis. The reporting should therefore take place in October (for the period July to end of September - quarter 1 of the financial year), January (for the period October to the end of December - quarter 2), April (for the period January to the end of March - quarter 3) and July (for the period April to the end of June - quarter 4).

The review in January will coincide with the mid-year performance assessment as per section 72 of the MFMA. The accounting officer must by 25 January of each year assess the performance of the municipality and report to the Council on inter alia its service delivery performance during the first half of the financial year and the service delivery targets and performance indicators as set out in its SDBIP.

Performance review is the process where the leadership of an organization, after the performance of the organization has been measured and reported to it, reviews the results and decides on appropriate action. In its quarterly reviews of the strategic (municipal/organizational/corporate) scorecard, the District Exco should ensure that targets committed to in the scorecard have been met. Where they have not, been met, satisfactory and sufficient reasons must be provided by senior management. The corrective action being proposed should also be sufficient to address the reasons for poor performance. If satisfied with the corrective action as proposed these must be adopted as formal resolutions of Council, minuted and actioned accordingly.

(ii) Annual performance reporting and review

On an annual basis a comprehensive report on the performance of the Municipality also needs to be compiled. The requirements for the compilation, consideration and review of such an annual report are set out in chapter 12 of the MFMA. In summary it requires that:

- All municipalities for each financial year compile an annual report.
- The annual report should be tabled within seven months after the end of the financial year.
- Immediately after being tabled, the annual report should be made public and the local community invited to submit representations thereon.
- The municipal Council should consider the annual report within nine months after the end of the financial year and adopt an oversight report containing the Council's comments on the annual report
- The adopted oversight report should be made public
- The annual report as tabled and the Council's oversight reports should be forwarded to the Auditor-General, the Provincial Treasury and the department responsible for local government in the Province
- The annual report as tabled and the Council's oversight report should be submitted to the Provincial legislature.

The oversight report provides the opportunity for full Council to review the performance of the Municipality. The requirement that the annual report once tabled and the oversight report be made public similarly provides the mechanism for the general public to review the performance of the Municipality. It is however proposed that in an effort to assist the public in the process and subject to the availability of funding, a user-friendly citizens' report be produced in addition to the annual report for public consumption. The citizens' report should be a simple, easily readable and attractive document that translates the annual report for public consumption.

It is also recommended that there should be an annual public campaign to involve the citizens of the Municipality in the review of municipal performance over and above the legal requirements of the Municipal Systems Act and the MFMA. Such a campaign should involve all or any combination of the following methodologies:

- Various forms of media including radio, newspapers and billboards should be used to convey the annual report.
- The public should be invited to submit comments on the annual report via telephone, fax and email.
- Public hearings could be held in a variety of locations to obtain input of the annual report.
- Making use of existing structures such as ward and/or development committees to disseminate the annual report and invite comments.
- Hosting a number of public meetings and road shows at which the annual report could be discussed and input invited.

- Producing a special issue of the municipal newsletter in which the annual report is highlighted and the public invited to comment.
- Posting the annual report on the council website and inviting input

The public review process should be concluded by a formal review of the annual report by the IDP Representative Forum of the Municipality.

Lastly it should be mentioned that the performance report of a municipality is only one element of the annual report and to ensure that the outcome thereof timely inform the next cycle of performance planning in terms of an IDP compilation/review process, it is recommended that the annual performance report be compiled and completed as soon after the end of a financial year as possible but ideally not later than two months after financial-year end.

(iii) Summary of various performance reporting requirements

Table 21, derived from both the legislative framework for performance management and this PMS framework, summarizes for ease of reference and understanding the various reporting deadlines as it applies to the Municipality:

Table 21 Reporting Deadlines

Report	Frequency	Submitted	Remarks
1. Departmental SDBIPs	Continuous	Manager of Department	See MFMA Circular 13 of National Treasury for further information
2. Monthly budget statements	Monthly	Executive Mayor/Mayor (in consultation with Exco)	See sections 71 and 54 of the MFMA
3. Departmental scorecards	Monthly	Management Committee	Only if developed separately from Departmental SDBIPs
4. Strategic (municipal/organisational/corporate) Scorecard	Quarterly	Local/District Exco	1 st August Amendments by Minister of DPLG
5. SDBIP mid-year budget and performance assessment	Annually during January of each year	Executive Mayor/ Mayor (in consultation with Exco)	See sections 72 and 54 of the MFMA
6. Performance report	Annually	Local/District Council	See section 46 of the Municipal Systems Act as amended. Said report to form part of the annual report (see 7 below)
7. Annual report	Annually	Local/District Council	See chapter 12 of the MFMA

The supporting mechanisms and ongoing needs

The shared service centre needs to introduce support mechanisms to facilitate the effective ongoing use of the new OPMS. This is an extensive exercise in its own right. The shared service centre also need to be pro active by making sure that it identifies key areas in which local municipalities would need assistance or direction, such as the following:

- Designing management review meetings;
- Rationalising pre-existing reporting systems;
- Ensuring reset capability; and
- Evaluating and implementing software support systems (high capacity municipalities).

Because of the large volumes of management information to be documented, managed and reported some of municipalities may need an electronic method of data capturing,

storage and reporting. The electronic methods need to be tailored to suit the capacity of the municipality it is designed for. In order to deal with time constraints, management meetings and workshops need to be mission directed. As the local municipalities and district municipality begin to deliver various aspects of their Local Contribution, their vision and objectives will change and the following need to occur:

- Objectives will either be achieved or will become lower priority for active management;
- New objectives requiring active management will arise, replacing or adding to pre-existing objectives;

There will eventually be a need to revisit the entire framework, including the Destination Statement (vision), to ensure that the long term plans remain relevant. There will be a need for the shared service centre to remain intact to deal with all other issues

5.4 Areas of further research

The critical areas that need further research when using the recommendations from this study are as follows:

- To identify or develop a common design approach to the Balanced Scorecard and Business Excellence Model that will suit municipalities.
- To identify or develop an electronic system of reporting and monitoring performance
- To develop a training intervention that will prepare the incoming leadership to deal with challenges of local government.
- To establish an independent conflict management mechanism to ensure that objectives of a shared service centre are maintained.

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