

# Learning MFO

Developments in managing for outcomes: A Queensland case study



**Bill Ryan**

Institute of Public Administration Queensland

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Developments in Managing for Outcomes: A Queensland Case Study

Associate Professor Bill Ryan

*School of Government  
Victoria Link Ltd  
Victoria University of Wellington  
New Zealand*  
[Bill.Ryan@vuw.ac.nz](mailto:Bill.Ryan@vuw.ac.nz)

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The front cover graphic ('Emergence') was constructed using elements from the banner on Treasury's (2003) *MFO Performance Management Framework*. Other graphics used in case studies throughout this report have been taken from the publications cited.

# Summary of Learnings

## 1. Introduction

Many jurisdictions in the Australasian-Anglo-American world are introducing managing for outcomes or something similar. This trend is most welcome because learning MFO (as defined here) returns public management to its substantive roots. The task of public managers and analysts is refocused on developing and managing organisations, resources and the policy process in a manner that seems most likely to achieve government's desired goals and objectives.

As a prescribed approach to public management, MFO is still emerging. Learning is a fact, need and intention of its development – to which this study, hopefully, contributes. It pulls together a range of fragments that fall within the logic of managing for outcomes (even though some of these are not yet identified as such in the official reform agenda in Queensland or most other places), illustrates emerging practices with Queensland examples, proposes means and methods whereby MFO might be further developed and identifies trends in societies, economies and politics in the western world that will probably shape policy, management and governance in the years ahead.

MFO is not an add-on. It is a big and important idea that modifies many aspects of public management but will take some years to come to full maturity.

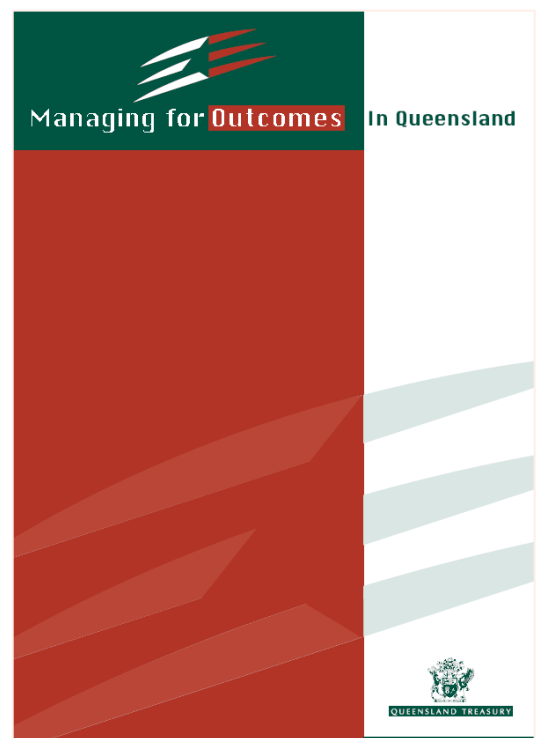
MFO is apparently emerging from the centre. In fact, committed, creative and knowledgeable managers, analysts, professionals, practitioners and communities of practice have been 'managing for outcomes' for many years. Particularly important in this respect are public entrepreneurs working in pockets throughout all public sectors. They are often heavily engaged in policy networks that include associate entrepreneurs in civil society, and produce work that is unconventional in form and content but which is often highly effective.

The practice of MFO is ahead of the theory. The leading edge is apparent more in the tacit practices of many outcome-oriented practitioners close to the ground than guidance materials produced from the centre (which, so far, have a corporate skew). Learning MFO is a practical matter as much as a conceptual one. It means learning from practice, a challenge to the rational intellectualism that characterises much public management and policy.

## 2. Planning for Outcomes

To speak of outcomes is to focus on the effects of government action. Managing for outcomes goes beyond a concern with acting or producing outputs, to the effects; the changing states of affairs that flow from doing those things.

Outcomes are complex. One way of untangling them is to separate them analytically into levels. Government goals and priorities can be distinguished from social visions. The latter are utopian dreams but the former are definite states of affairs potentially achievable with one, two, three or more terms of government. Lower level policy goals and objectives and, below them, departmental or program or service goals, if



achieved, contribute in specifiable ways to the higher-level goals. Classifying levels of objectives in this way also helps departments to align organisational and program objectives with government priorities.

MFO cannot work without government specifying its goals and objectives – Westminster politics have made virtues of policy ambiguity and symbolism but an authentic MFO cannot function that way. Queensland's *Charter of Fiscal and Social Responsibility* binds the government to specify and report annually on its priorities. This demands a constant strategic dialogue between ministers and senior officials as partners-in-policy. A hard distinction between ministers and managers in terms of their functions, authority and responsibilities (e.g. ministers responsible for outcomes and managers for outputs) can hinder development of productive and effective relationships. Signs are emerging in Queensland and elsewhere that both parties are starting to recognise the point.

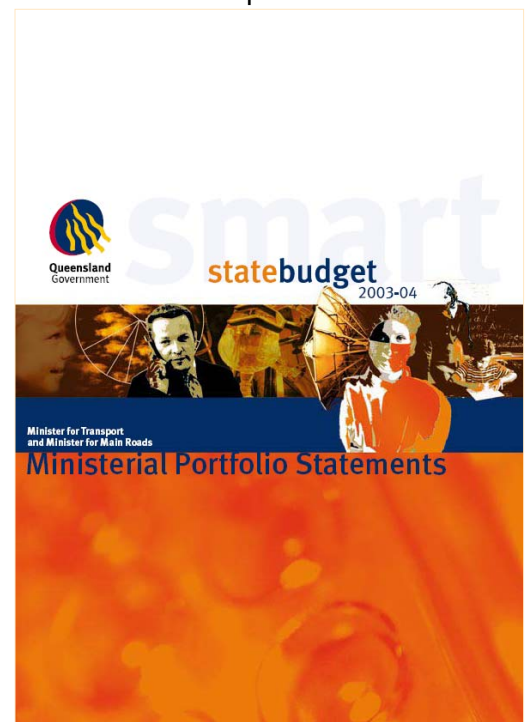
Policy goals and objectives tend to be specified most clearly in policy initiatives and strategies. In Queensland, program/service/departmental objectives are found in strategic plans that are mandated in the *Financial Management Standard*, and in *Ministerial Portfolio Statements* (MPSs) presented annually to parliament as part of the Budget Papers. These include departmental goals and strategies, their upward contribution to government goals and priorities and horizontal linkages to departmental outputs. MPSs also provide the financial estimates for these outputs.

Agencies are asked to link outputs and outcomes in budget documents. In fact, the causal connections are often too complex to elaborate fully (and outputs and outcomes probably represent two different public management paradigms, one based in production and the other in policy), so direct, empirical and detailed linkages are nigh impossible to draw. Since output production is a precondition of having any effect at all, inferential connections can be asserted between classes of outputs and classes of outcomes, but that is all. On the other hand, it is critical that any such inferences are rigorous, valid and grounded and not just vague assertions of a presumed connection.

Goals, objectives and strategies are now part of the lexicon of public service but some managers in Queensland and elsewhere have yet to appreciate the externally focused mindset and commitment required to take responsibility for outcomes. It goes beyond merely acting to acting-in-order, to acting in ways that have an impact out there, to doing everything possible to ensure the desired outcomes are achieved. MFO means ensuring effective and appropriate outcomes are made to happen (appropriate relative to government goals and client needs, whether 'the client' is an individual, group or community or the direct or indirect or intergenerational subject of a policy).

It also requires an understanding of causality. It matters not whether the understanding is practical or conceptual: practical reasoning is as effective as intellectual reasoning in realising the logic of MFO. New types of means and methods for managing are needed in this respect and possibilities are introduced throughout this document. The MFO reform agenda in Queensland and elsewhere should be expanded to accommodate them.

Logic modelling (a.k.a. causal modelling, program logic), understood as a process of



collective hypothesising rather than the production of an object such as a logic model, is an example. Effective managers tend to do this tacitly anyway but it needs to be codified and generalised. It is a way of (forwards or backwards) mapping the conditions required to bring the objectives into being and the progressive elaboration of the intermediate and immediate conditions required to generate them over time and space. In fact, immediate and intermediate rather than ultimate outcomes should be the real focus for practical management and policy purposes (this point is not yet fully recognised in most jurisdictions learning MFO: most have focused on ultimate outcomes, which is somewhat quixotic). When interim outcomes are made the focus, managers and analysts are more able to identify the types of evidence (i.e. outcome indicators) they need to weigh up progress, demonstrate their performance to others and to improve the design or management if required.

Under this approach, planning for outcomes (including policy research, analysis, option definition and development) is definitely not a once-a-year thing with production of a document (the plan or the policy) as its *raison d'être*. Planning for outcomes is an integral part of a constant cycle of learning and relearning built on thinking>hypothesising> doing>reviewing>rethinking and should be an ongoing process engaging all types of participants in the policy community, from ministers, analysts and managers to clients and attentive publics.

Seen from this perspective MFO is quite different from production management or the older 'managing by objectives'. Under MFO, setting goals and objectives becomes a process of envisioning; strategising becomes a process of hypothesising specific effects that will flow from particular courses of action; and reviewing and accounting for actual outcomes in a process of collective, recursive learning via monitoring, evaluation and reporting. Managing becomes 'learning the way forward'.

These are challenging expectations for the public managers of the future but the logic of MFO seems to warrant them. They also presume technically rational ways of thinking and acting that may not sit easily with the political imperatives and parliamentary routines driving ministers and parliamentarians in Westminster-based systems. But if outcomes are to be taken seriously as the subject of public management, practice needs to move in this direction, and elected representatives need to acknowledge the point. Anyway, it squares with other electoral pressures to act and think politically in more substantive ways, and some members of parliament are motivated by outcomes anyway; that is why they entered politics in the first place. This increases the possibility of change.

### **3. Implementing for Outcomes**

Implementation counts in MFO. Considerable work in Queensland (and most other jurisdictions) has been put into conceptualising MFO, getting agencies to adopt it in planning processes and producing planning documents for the budget. But the secret to effective public management lies as much in implementation as anything else.

Integrating and coordinating development and implementation, planning and delivery is critical under MFO, as is coordinating service delivery between otherwise separated but related departments and agencies.

MFO is assisted by current trends in organisation, particularly the decline of traditional bureaucracies and the rise of networks that connect and integrate public organisations with civil and private sector ones. The same applies to work organised around project teams wherein managers and staff can focus on the collective interest of achieving government and policy goals rather than preserving specific and organisational interests.

Devolution, localism (customisation of local solutions to meet local needs) and service coordination are keys to being more effective in meeting client needs and

achieving policy/program objectives. So are strategic service delivery frameworks that recommend presentation, pricing, communication and distribution relative to the program life cycle, and developing evidence-based client utilisation profiles. These proposals are applicable to both in-house and outsourced delivery; in the latter case the responsibilities of contract management broaden considerably even if the work is shared between funder and provider.

Means and methods such as these must depend heavily on practical reasoning and the tacit knowledge exercised by those co-producing implementation and delivery (including contact staff and clients), and the qualitative means they mainly use. Converting the usually qualitative knowing of professionals into objective means for managing is now possible given recent developments in method and the undermining of quantitative privilege and is essential for MFO to be relevant, effective and owned. Signs of this can be found in the Queensland Departments of Main Roads, Families, Emergency Services and others.

So far, these types of methods are not on the official MFO agenda in Queensland or anywhere. They need to be and, given the logic of MFO, probably will be in the future.

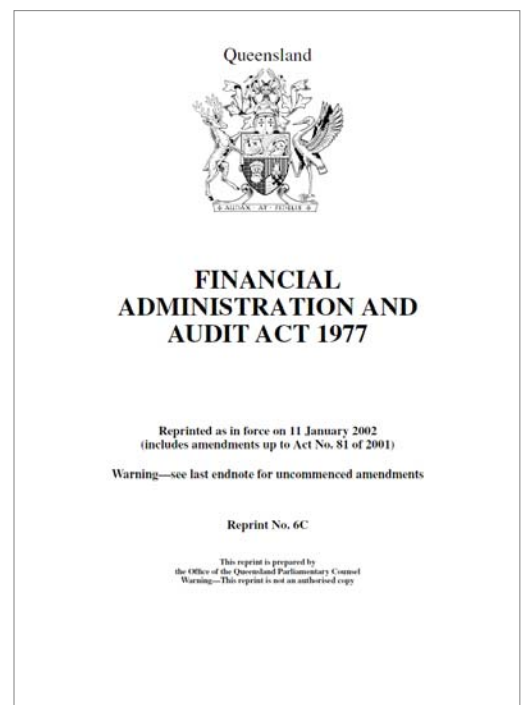
Since this approach to managing presumes that logic modelling and other planning methods are used continuously during implementation and that management of policy is a recursive cycle of reviewing>replanning>resourcing>reimplementing, we are talking about accepting a less certain, more hypothetic, more facilitative, risk managing approach to implementation based on strategic dialogue and recursive learning, and not the control, compliance and appearance of certainty associated with executive dominance under Westminster. This shift has political risks for government, particularly given pluralisation of interests, representation and increasing demands for participation in policy networks by communities of interest. But the sources of these changes lie in society and they are forcing themselves on the political system. It therefore seems inevitable that shifts in these directions will continue over the short to medium term, shifts that will aid the long-term maturation of MFO.

#### **4. Resourcing for outcomes**

'Outcome budgeting' has been a dream of some reformers but it seems unrealistic as an objective. Outputs can be costed (which is why output budgeting has been deemed a success) but, because complex causality is ultimately inexplicable, outcomes cannot. Accordingly, the future of MFO will probably be based on output foundations for budgetary and financial management and outcomes for policy and program/service management.

There can be no policy without budgets but budgets have no point without policy. Resource management approaches, including budget and financial management, should be organised so they enable analysts, managers, ministers and others in the policy community to achieve government's policy aspirations. This reverses the onus that has emerged over decades of budget-driven planning. Resources are there to assist policy: while policy ambitions must sit within budget tradeoffs, recognising their interdependence in MFO is essential.

MPSs in Queensland show serious attempts by departments and central agencies to



locate outputs and production under a strategic framework of outcomes. The estimates for next year's work enable parliament to debate the appropriations sought in a more strategic policy context than previously. In the future, benefits will be achieved by linking life cycle-related budgets to the immediate and intermediate objectives developed through logic modelling as identified in strategic plans and MPSs.

Confusingly, Queensland has drawn a tight link between the introduction of MFO and accrual output budgeting (the link is apparent in key Treasury documents but less in departmental practice). They are not the same thing (MFO ≠ accrual output budgeting) and MFO *per se* does not depend on knowing the costs and subsequent value of production. It is important for fiscal policy but that is all. This highlights how budgets and policy are one of several dualities flowing through public management. While the point sounds esoteric, it is of considerable practical significance and 21<sup>st</sup> century forms of governance need to reflect it – if not in theory then at least in practice.

Organisational forms must also support MFO. Given that budgets will remain in output form, organisations will mainly have functional or output based structures for the purposes of employment and direction – as is the case in most Queensland agencies at present. Policy work, however, is increasingly organised around project teams and networks; these are organisational forms that flow across and break up hierarchies and organisational boundaries and that are focused on outcomes. In the same way that, in the future, outputs = budgets/outcomes = policy, resource management = outputs and policy management = outcomes.

Strategic human resource management in public sectors must allow for the kinds of people and competencies required to take MFO into the future. A mature form of MFO will need a new kind of public servant; very much outcome-oriented, able to use heuristics imaginatively to achieve them; shrewd; good when it comes to practice as well as analytically capable; able to live with uncertainty and to work collaboratively and influentially within networks; entrepreneurial but able to innovate within given strategic parameters; able to hypothesise, act, review and learn; and with strong facilitative and interpersonal skills. Signs are emerging in the strategic plans of some Queensland agencies of the strategic human capital development required to move in these directions but there is yet some way to go.

MFO places enormous knowledge management demands on agencies and public services, even more so as the learning paradigm (collective, recursive, triple-loop learning that feeds into and draws from theory and practice) takes hold in public management. Queensland is making significant efforts to coordinate service delivery via the new information and communication technologies but it is very difficult – and perhaps unwise – to envisage ex-ante the kinds of systems that will best help analysts and managers work in the ways demanded by MFO. Moreover, another complex issue is waiting in the wings. A maturing MFO will increasingly call on non-positivist and post-positivist approaches to knowledge, its validation and its use, which will generate significant challenges for official and political practice as traditionally constituted. This is another esoteric-sounding issue with significant practical implications.

## **5. Monitoring and evaluating outcomes**

Some signs are still apparent in every jurisdiction learning MFO that indicators used by agencies are largely oriented towards activities, outputs, processes and production. The adoption of the balanced scorecard approach by several Queensland agencies is producing some improvements but there is much still to be learned. These types of indicators yield valuable information in managing the internal operations of the organisation, but say little about outcomes (unless, say, a process

organisation is modelling milestones as immediate outcomes, as preconditions for having any effect at all; or an organisation relates client satisfaction to inclinations to act as desired as part of the logic model). Outcome indicators must refer to relevant changes in the state of affairs being addressed by a policy or program. Reference by indicators to immediate and intermediate outcomes is an example.

However, some Queensland agencies with a strong sense of strategy and implicit or explicit processes of logic modelling are using direct and pointed outcome indicators in their plans and reports. They also seem to know where, how and why to use the immediate and intermediate outcome indicators. This occurs most frequently in policy fields where a strong outcome orientation has been in place for some years, such as education, health and social services.

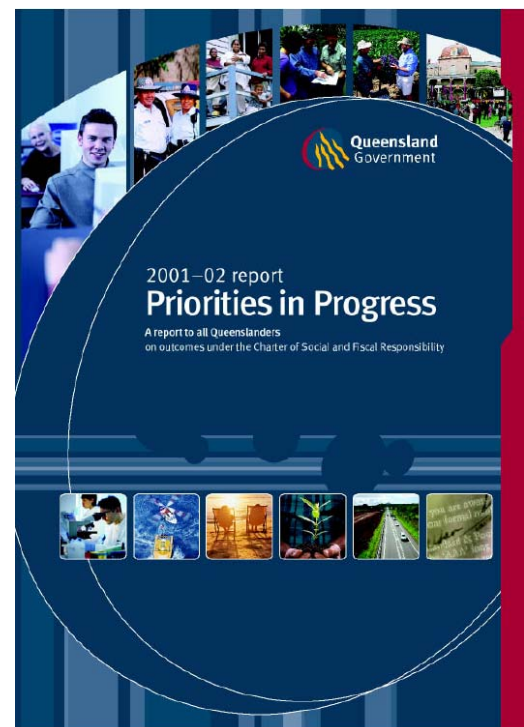
As required by its *Charter of Fiscal and Social Responsibility*, the Queensland government also produces an annual report called *Priorities in Progress* (PiP), an impressive collection of indicators showing changes in key aspects of life in the 'Smart State' (e.g. economic growth, employment, health status, educational achievement, quality of life and many others). PiP claims to show the impacts of government policy but most of the factors identified are effects of combined actions and events beyond government and its span of control. PiP provides a useful 'state of the State' report relative to government goals and objectives but it is not a whole-of-government performance report: issues of attribution at the societal level make it doubtful that it could be.

MFO will require more attention in future to outcome indicators, especially those at the immediate and intermediate levels, which enable most policy and management learning. It also requires developing more complex indices and matrices to monitor actual outcomes at the policy level to replace the current practice of multiple partial, simple indicators. And some of these should be qualitative indicators, especially in areas such as social policy.

Monitoring and evaluating outcomes provide the key link in the learning cycle; knowledge of actual outcomes, explanations of how and why they have emerged and how and why they vary from what government wanted. If learning is becoming the *sine qua non* of 21<sup>st</sup> century public management, the significance of monitoring and evaluation can hardly be over-estimated.

Impact evaluation has an obvious role to play in MFO. So does process evaluation since it usually looks as well at immediate and intermediate outcomes and the conditions under which they emerged. Ex-ante evaluation is equally important; it should be treated as part of logic modelling, conducted to test the assumptions underpinning the strategies, the putative effects identified and their possible impacts (anticipated and unanticipated) relative to goals.

For reasons found in the philosophy of science and in the conditions shaping governance in the 21<sup>st</sup> century, evaluating outcomes under MFO in the 21<sup>st</sup> century must be based on a post-positivist approach that promotes the context-dependence of evaluation design and methodological choice. If MFO is to mature, complex debates about the nature of knowledge and how and when to use it, cannot be avoided; their implications for future practice are too significant to risk not doing so.



Some Queensland departments are engaging in a sophisticated form of post-positivist evaluation that combines mixed and multi-method design in evaluating long-term trials of major revisions to strategic policy (case studies are drawn from the Departments of Education and of Families). In so far as these trials are deliberate attempts at 'learning to do and doing to learn', they almost represent a paradigm case of how MFO in the 21<sup>st</sup> century might and should work.

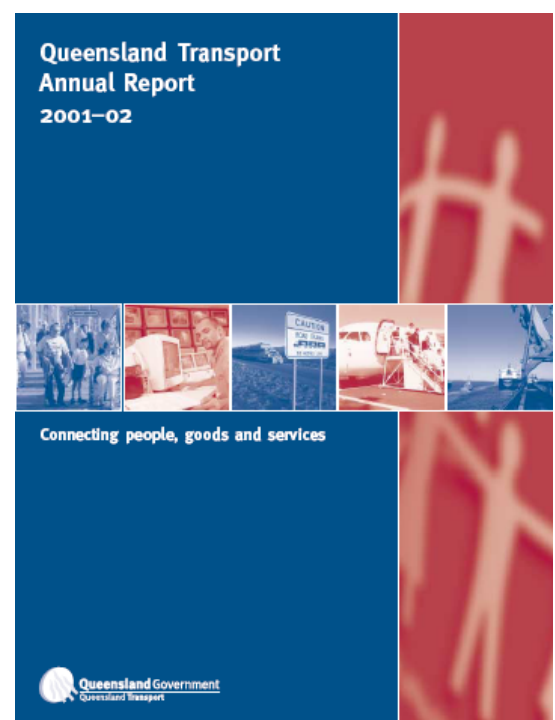
## 6. Accounting for Outcomes

Because MFO calls out commitment, creativity and determination in the search for effectiveness and appropriateness, accountability has to be redefined in broader terms than those applied during the control and compliance era of the 1990s. A positive sense of accountability has to be reinstated for the public sector particularly in relation to ministers and parliament: it is part of the strategic dialogue regarding policy and management and the collective recursive learning that must be made inherent to the practice of MFO. Answerability to the policy community, particularly clients, has to be accepted, partly because of demands for greater participation in policy and co-production by clients in implementation (it is also effective in forging consensus and generating ownership). A strong and active sense of for managing for outcomes is part and parcel of the mindset and values that are necessary for MFO to reach maturity.

Most of all, if MFO is to mature, accounting to parliament and the nature of parliamentary debate also needs to change. Accounting to parliament through policy and annual reports, committee hearings and ministerial replies to questions, should be treated as a process of strategic dialogue and collective learning within and between the executive and parliament between ministers, public servants and parliamentarians. Every parliament in jurisdictions learning MFO shows signs of moving down that path; evidence the good work done in many committees. Adversarial electioneering and the 'gotcha' approach to opposition politics are the biggest barriers to development in this regard. But if politicians want MFO, they too must reform their ways.

Accountability for outcomes does not mean that managers and analysts must be liable for outcomes at the government or even policy levels. It does mean that they should be accountable for 'managing for outcomes'; that they do everything expected of them in proactively trying to make government policy happen as intended and for the quality of their work in doing so. Accountability under MFO also means some level of direct accountability for the actual immediate and intermediate outcomes achieved as a result of design and delivery. It also means accepting indirect, joint and multiple accountabilities when participating in cross-agency, cross-sector policies and programs.

With the introduction of accrual accounting, departmental annual reports and the whole-of-government reports produced by Queensland Treasury for the budget now contain better quality information on expenditure, management and the value created, than ever before. Putting aside statements of accounts (which have little to do with MFO *per se*), expenditure is now related directly to outputs (which, in turn, has an inferential relationship to outcomes). In terms of accounting for fiscal



outcomes, annual reports have made significant improvements to the answerability and accountability of the executive to parliament.

Annual reports from Queensland's departments still tend to speak of achievements and highlights in terms of things done, things produced and meetings held. Activity is no substitute for outcomes. MFO demands that annual reports speak of the effects of those activities and outputs, an explanation of when, how and why they came about and what has been learned in managing the policy process. There is a possibility that annual reports as presently understood are not up to the task. Part of the solution might involve separating out the public relations and promotional aspects of annual reports from their factual and performance content – which might need a larger, plainer but more substantive document.

As in every other aspect of the policy management cycle, agencies can and should report extensively on immediate and intermediate outcomes. This is the level at which concrete, useful and valid discussion, dialogue and learning can occur between managers, ministers and the parliament (it also reinforces the point that complex indicators such as indices and matrices should be increasingly developed to deepen the discussion). For reasons of politics, ministers and officials often avoid too much specificity at this point but the logic of MFO calls for more and not less.

Applying logic modelling to public management, departments should also report and account for organisational, staff and system capability and performance in achieving immediate and intermediate outcomes. Reporting in this regard sometimes links strategic human resource development and system (ICT) development to strategic objectives, but further development is essential.

## **7. Futures for MFO**

The challenges of MFO today are significant – so much so, it is touch and go as to whether the program will reach full maturity. Tomorrow seems even more challenging. Developed societies embody a range of trends, all of which make policy and management increasingly complex. These include: increasing complexity, contextuality, inexplicability, intractability and paradox. Plurality and participation, networks, policy communities and constantly shifting alliances, all more prevalent now than previously, add to the complexity and ambiguities.

MFO will develop best if it is based on the know-how and enacted practices of public entrepreneurs and their network collaborators in creating effective and appropriate responses to their contexts. Innovation in practice, learning how, occurs at this level, in the middle of organisations and institutions, and flows outwards from there.

The 21<sup>st</sup> century demands new means and methods for MFO – and public management more generally – but they must be used as heuristics and not tools. Qualitative knowledges, practical, theoretical and evidential, are as important as their quantitative counterparts. Designing, planning and implementing are giving way to hypothesis, emergence and recursive collective learning. Command, control and compliance are being replaced by facilitation, brokerage and self-development. Authority and centre/periphery relationships are being superseded by peer relationships and partnerships. These are all societal trends that are independent of MFO *per se* but it is hard not to suspect they are implicated in its emergence. They will certainly impact on the theory and practice of MFO in the years ahead.

Many aspects of MFO now and in the future seem to challenge Westminster-derived politics. At present, various elements of parliamentary and electoral practice – and the ways they force public servants to be conservative and risk averse – are barriers to learning MFO. If the promise is to be realised, ministers and parliamentarians and not just public servants need to examine their theory and practice. But there is also an electoral mood that seeks more vision, principle and substance in day-to-day

politics – something of obvious interest to elected members. The motives and timing might be there to support the shift towards outcomes, despite their challenges. An MFO framework that retreats into reductionism will engender cynicism and disengagement. An MFO framework that is courageous will become a self-fulfilling prophecy.

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