

ROMANIAN PUBLIC SECTOR ENTITIES BETWEEN PERFORMANCE AND AUDIT OF PERFORMANCE

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Abstract: Performance creation and measurement in the public sector entities has become a priority in the Romanian public sector. Limited resources, many and different requests for quality services compel the government to have a greater control upon the way of spending public money and providing economy, efficiency and effectiveness services. By this constructive research we define the performance concept, identify the ways of measuring and assessing the degree of performance achievement in the public sector from Romania.

Key words: performance, economy, efficiency, effectiveness, audit of performance

1. Performance approaches in the public sector entities

Taking into account the recessions, limited resources and the public's claims for diverse and qualitative services, performance in the public sector entities has become a priority.

Generally, performance is the synonym for the best result of an activity. Literature offers different approaches of performance concept.

Performance bears the terms of progress, effort, doing always the best [...] (Bourguignon,1995).

Rudman (1995) states that performance is a process by which an entity tries to achieve its objectives. Peters & Waterman (1982) approach entity's performance by means of social performance. Thus, performance is assimilated to excellence, which is based on four determiners: efficiency, social identity, achieving objectives, reputation/fame.

Alzarad & Sépari (1998) consider that performance implies a global view of interactions between internal and external indicators, quantitative, technical and human indicators, physical and financial indicators of management.

The above approaches emphasise that performance in the public sector is important, complex and difficult to define. Though different, they have a common denominator: performance is defined according to the way the human, material, informational and financial resources are used in order to achieve the proposed objectives at the beneficiaries' expectations.

The definition of performance has not been a major concern for the national standards. The development of the public sector entities' accounting by the assimilation of the International Accounting Standards for Public Sector (IPSAS) underlines the concept of performance (2002). This is defined by means of financial performance, reflected by patrimony result (excess/deficit).

2. Performance measurement in the public sector entities – a paradox?

It is difficult to undertake performance measurements in the public sector entities due to the public system dynamics and complexity. Jones&Pendlebury (2000) argue that the difficulty and complexity of performance measurement in the public sector result from the fact that the entities try to accomplish both

commercial and non-commercial objectives. Bouckaert & Balk (1991) have tried to establish if it is really possible, appropriate or even necessary to measure the public sector performance.

Meyer & Gupta (1994) state that performance measurement in public sector is a paradox. They refer to a weak correlation between performance indicators and performance itself. The performance paradox is explained by the tendency of performance indicators to run down over time: as performance gets better, indicators lose their value of detecting bad performance; on the other hand, when entities have learned which aspects of performance are measured (and which are not), they can use that information to manipulate their assessments. The same opinion is sustained by Wilson (1989) who brings into discussion the elusive character of the policy objectives, because public policies often have multiple and contradictory goals.

In opposition, the advocates of performance measurement in the public sector propose the measuring of performance in terms of indicators, results, in terms of the trinom economy – efficiency – effectiveness, from point of view of management and policy.

Smith (1990), Likierman (1993), Stewart & Walsh (1994), suggest performance measurement in the public sector entities by a set of indicators. Thus, Likierman (1993) considers that performance indicators in the public sector are valuable managerial tools if properly used. Indicators could ensure that resources are not wasted and managerial actions are not distorted. Based on a research carried out during a three year period involving 500 middle and senior grade public service managers using performance indicators, he categorizes his research findings into four groups: concepts, preparation, implementation and use. Likierman outlines the desired components and activities that need to be considered under each of the four mentioned groups when implementing performance indicators as managerial tools. His arguments are that these activities would help the entity to use performance indicators to better effects. Moreover, the system of indicators can help to evaluate the managerial actions.

Kaplan & Norton (1996) propose that performance of an entity could be based on a performance monitoring system, called "balanced scorecard". This method helps the entity to unify the long-term strategies with the short-term actions. According to "balanced scorecard" method, performance can be measured from four interacting perspectives: 1) translating the vision into objectives; 2) communicating and linking strategies at all levels of the organization; 3) activity planning; 4) feedback and learning.

Performance measurement through economy – efficiency – effectiveness trinom, a new paradigm into the public sector, appeared in 1982, under the name of « value for money». This shows the economic way of resources procurement and their efficient use in the process of achieving the public management objectives while respecting simultaneously the conditions of « the three Es », respectively : economy – efficiency – effectiveness. Thus, it can be said that « the three Es » significantly influence the process towards performance.

Leory (1991), respectively Jones & Pendlebury (1993) are the advocates of measuring performance by economy, efficiency, effectiveness. By their researches, Jones & Pendlebury conclude that economy measures are relative and usually concern the inputs. In opposition, Rudman (1995) states that the focus is on inputs related to outputs and proposes the completion of economy measures with efficiency and effectiveness measures, arguing that economy measures are not sufficient to measure economic performance. In order to use efficiency measures, Rudman categorizes them into two classes: accounting efficiency, which concentrates on performance of the entity and economic efficiency, which is based on achieving a pareto-optimal allocation of resources.

Another view states that performance in the public sector can be measured through result. But Jones & Pendlebury (2000) say that the result is difficult to assess in many public sector entities because of its nature.

Stewart & Walsh (1994) approach the issue of performance assessment in the public sector entities depending on the politics perspective, outlining that these entities are owned and controlled by government. They consider that the assessment of performance will shift as the political debate shifts and, therefore, the performance measures used by these entities will have limitations.

The opinions sometimes divergent, from the literature on public sector have a common denominator: performance measurement is a very important process and, at the same time, a very difficult process. But without reference to performance, managers and not only, cannot evaluate objectively and consciously the quality of made decisions.

According to the national regulations, performance in the public sector is explicitly financial and it is measured through the patrimony result. This is reflected by the patrimony result account and is determined on the basis of agreements accounting, as a subtraction between the achieved revenues and the expenses from the current financial exercise. Searching the components of the financial situations, we have also discovered other methods of performance measurement, such as: operation result, treasury result, global result. Will co-existence of four methods of performance measurement, though three are not explained, allow managers to focus on results and on the best strategies in order to achieve those results, or will it generate an information surplus which will create difficulties to management?

Performance measurement through economy, efficiency and effectiveness in the public sector from Romania is still a challenge. This method of performance measurement implies elaboration and implementation of a new system of performance monitoring which is continuously growing as *learning organizations* in the process of achieving the best performance level.

3. Audit of performance – instrument of independent assessment of performance in the public sector entities

Related to the concept value for money, performance audit is an audit of money value. According to the International Standards INTOSAI, the audit of performance is an evaluation or an independent examination of the degree an activity, programme or entity operates efficiently and effectively, respecting the economy measure. A performance audit can be an audit of economy, efficiency and effectiveness or a combination of two of them. In national regulations view, the audit of performance examines if the established criteria for the implementation of the public entity's objectives and tasks are correct for the assessment of results and it appraises if the results are in line with the objectives.

The above mentioned approaches, though different, outlines the fact that the audit of performance is focused on the trinomial of «the three E», respectively, on the assessment of the measures undergone regarding the accomplishment of the principles of economy, efficiency and effectiveness:

- Economy means minimizing the cost of the allotted resources for achieving the forecast results of an activity, maintaining the appropriate quality of these results. It is concerned with lowest costs possible for highest quality achievement.
- Efficiency is represented by the ratio between outputs and inputs. The entity is considered to be efficient if it produces maximum results using a given quantity of resources, or it uses a minimum quantity of resources in order to achieve a result of a certain quality and quantity. The ratio result is bigger than the one planned. It is based on the relation between results and the resources used for their production.
- Effectiveness is the ratio between the achieved results and the planned ones and it reflects the degree of accomplishing the programmed objectives for each of the activities. It is concerned with the achievement of certain forecast objectives whose result can be compared to the objectives.

A thorough search of these three principles outlines the fact that the audit of performance answers the following questions: Was the work done correctly? Was it done what it had been necessary? By the given answers, performance audit limits the waste of resources, fraud and corruption possibilities and it detects on time the anomalies and deficiencies. The consequences of the public entities' lack of economy, efficiency and effectiveness, the consequences of legal provisions infringement and, implicitly, of a vicious management are felt at level of the entire society and are materialized in the faulty use of available resources, with negative effects regarding the objectives achievement, as well as the internal process operation without remarkable performances.

Conclusions

In the public sector, entities create their image upon the quality of provided services and their capacities of satisfying the public. This image becomes difficult to create in terms of lack of resources and the constantly growing needs of various and qualitative services.

Will the Romanian public service entities succeed in overpassing these impediments and in creating a favourable image? The undertaken research offers the answer and identifies the strategy. The answer is affirmative and it is based on the couple of performance and audit of performance. Performance, as a

simple result, proves to be an old fashioned concept if it is not analysed the way performance has been achieved. The triad economy – efficiency – effectiveness explains the process through which the entities achieve performance. The audit of performance evaluates the way in which the entities comply with the principles of economy, efficiency and effectiveness in spending the public money, offering recommendations to the managing board to improve the triad.

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