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The Aspects of Performance Measurement in Public Sector Organization

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Abstract

At present the organizations of public sector are operating in the dynamical environment that forces the organizations to adjust to the constantly changing environmental conditions. The measurement of organization's performance has been understood as one of management functions; however at present it is analyzed as the independently developing branch of science.

In order to measure performance of public sector's organizations, it is very important to apply suitable performance measurement methods. This article analyzes the possibility to apply the complex combination of performance measurement methods known in business sector and applied in public sector sometimes, as this combination would help to focus on the core decisions of the organization in public sector, induce development of internal processes, increase the employees' motivation for improvement and would serve as a tool to define the entity's improvement as any organization cannot work effectively and objectively without measuring its performance.

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Introduction

The measurement of organizations in public sector is quite a problematic and very relevant issue. The performance measurement may be regarded as one of key tools, which help to assess the present situation and to make decisions, which help to improve the quality of provided services with regard to this.

The main goal of business organizations is to gain profit, while the organizations in public sector are non-profit making organizations. Therefore the problems arise when the performance measurement methods used for public organizations are applied for the public ones. Contrary to profit-making organizations, the objective of public sector's organizations is to provide accessible and qualitative services, to satisfy public needs and to use the available resources effectively and efficiently. According to Zeithalm, Bitner, 2003, the competitive environment affects the most painfully such economic areas, which performance result is not tangible, and which impact is felt after the long time. Therefore it is very important for the public sector's organizations to measure their performance

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systematically and consistently in order to improve the organization's management and to increase the satisfaction of society with provided services and their accessibility.

The problems of performance measurement in the organizations of public sector were analyzed by Išoraitė (2008), Moxham (2008), Gimžauskienė (2006), Puškorius, Raipa (2002), and Pociūtė (2002), who stressed that performance measurement models are not easy to adjust for the organizations of public sector because these organizations are oriented to the processes and not to the results.

Objective of the article – to distinguish the performance measurement systems and their application possibilities in the organizations of public sector.

Research methods. Systemic analysis of scientific literature, synthesis, methods of comparison and generalization.

1. Concept of Public Sector

The concept of public sector is wide and may be defined in many different ways. The Lithuanian scientific sources lack the particular definition of the performance of public sector and its evaluation provisions, and the authors of scientific works provide many different definitions of this concept.

According to J. E. Lane (2005), the public sector means institutions supported from the State and municipal budgets, which activity is public (the information about it is available to public). The public sector has public goods, which are not under any competition, and which accessible to any individual. The effectiveness is the main criterion for evaluation of performance of public institutions.

According to Smalskys (2010), the public sector should be understood as the “system of organizations managing and using State resources”, while M. Arimavičiūtė (2005) states that “public sector is the combination of public and private elements”. The public sector is a totality of institutions, which are supported from the State and municipal budgets, and it provides public goods, which are not under any competition, and which accessible to any individual.

To generalize, it is possible to state that “public sector is the State finances (funds, shares, etc.), tangible (land, buildings, etc.) and human resources (managers and employees employed using the State and municipal budgetary funds), the processes changing these resources, and the products of such processes (public and administrative services, individual and normative legal acts, pays, investments)” (V. Smalskys, 2010).

With regard to the public sector, it is extremely important to distinguish the organizations attributed to this sector. It is indicated in the amendment of the Law on Accountability of Public Sector of the Republic of Lithuania (2013, No. XII-637) that “the State, municipal, tax funds, funds of resources, budgetary institutions and public institutions controlled by these subjects are considered to be the subjects of public sector”.

The institutions of the legislative, executive and judiciary authorities, organizations providing public services and financed from the allocations of the national budget (universities, schools, hospitals, centers of social services, museums, etc.), State and municipal enterprises, public and private limited liability companies, more than 50 percent of shares of which are owned by the State, belong to the public sector“. (Smalskys, 2010). Figure 1 shows the organizations attributed to public sector.

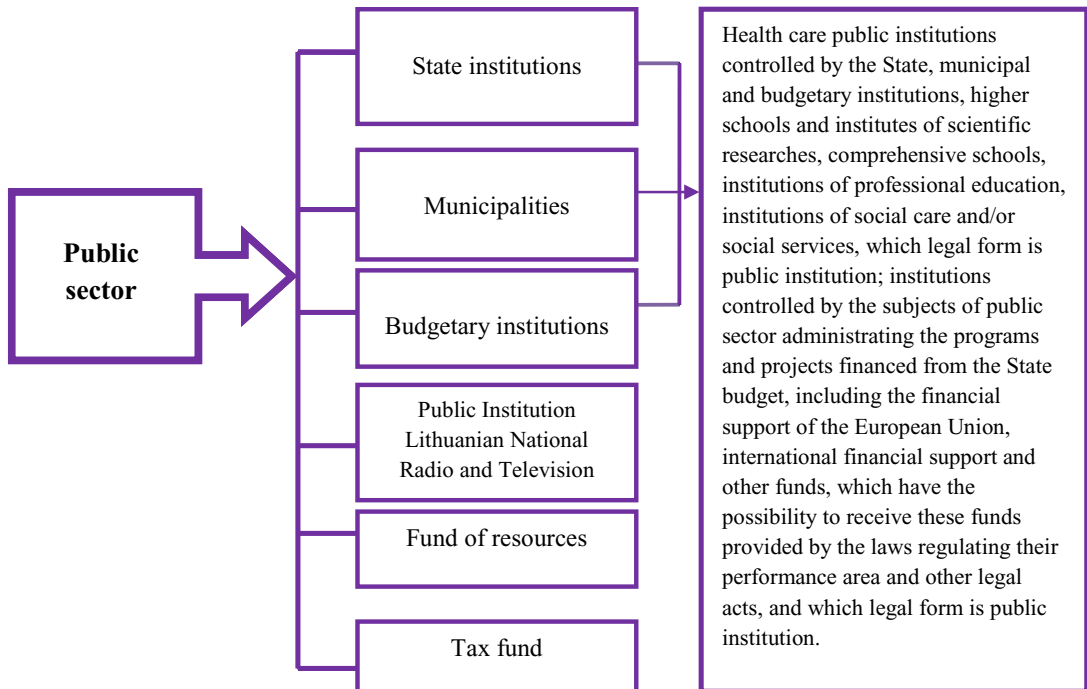


Fig. 1. Structure of organizations in public sector

The “main objective of all the public sector organizations is to satisfy public interests through activity beneficial to society” (amendment of the Law on Public Institutions of the Republic of Lithuania, 02/14/2004 No. 25 – 752). The concept of public sector covers not only the types of public sector organizations, but also the decision-making and implementation in such organizations. The public sector covers various organizations, which are used to make and implement the decisions regarding satisfaction of public interests. The performance of public sector is mainly related to the implementation of political decisions in the administrative mode, i.e. through creation of certain rules binding to the society.

V. Smalskys (2010) has distinguished five functions characteristic to the organizations in public sector: distribution, regulation, redistribution, creation of institutions, and provision of public services.

1. Function of distribution – this is distribution of the budget collected from the contributions of tax payers for provision of public goods.

2. The function of regulation helps to solve the market’s problems – distribution of general goods, monopoly, and asymmetric information. The problem of natural monopoly is solved through determination of competitive conditions in the market by certain laws. The asymmetric problem of information is related to false advertising and information presented to the users. The service of user rights and other services help to solve this problem.

3. The function of redistribution covers the provision of the recommended goods listed above to the society – these are the social, educational, health care and cultural services financed by the public sector.

4. The creation of institutions covers the establishment of new institutions and reformation and reorganization of the present ones in order to improve the provision of public services.

5. The provision of public services covers the provision of the aforementioned net and recommended goods to the society.

To summarize, it is possible to state that the main activity of public sector organizations is to provide the social, educational, scientific, cultural, sport and other paid or free services specified in the legal acts to the residents according to the set terms and conditions.

As all the functions of public section organizations are interrelated and oriented to satisfaction of public interests, the satisfaction of public interests and needs depends on the capacity of public sector organizations to plan, to prepare and make decisions effectively, and to control the implementation of such decisions. The users demand for better performance indexes from the public sector organizations, while the satisfaction with provided services manifests the effective performance of public sector. Thus in order to determine whether the subjects of public sector perform their functions well, it is important to measure their performance when the relations between the providers and users of public services become of significance.

2. Comparative Analysis of Performance Measurement Methods in Public Sector

The performance measurement of private sector organizations is directed to the increase of profit, satisfaction of owners' needs, while the main objective of public sector organizations is to provide public services, so the performance management in public organizations has to be directed to the implementation of such objectives (Balabonienė, Večerskienė, 2014).

The performance measurement is the tool that describes the organization's improvement because it is not possible to any organization to act effectively without having its performance measured. The importance of performance measurement in the public sector organizations was enhanced even more by new public management that has a purpose to adjust the performance measurement methods applied in private organizations for the organizations in public sector so that the performance could be organized more effectively and so that the users' needs could be satisfied better. The theory and practice of performance measurement manifest that it is a complex process and that the application of performance measurement systems in public sector is specific because all the functions of public sector organizations are focused to the satisfaction of public interests, i.e. it is more difficult to apply the performance measurement methods for measurement of public sector organizations, because such organizations are more process- and not result-oriented. The analysis of performance measurement methods is presented in Table 1.

The Malcolm Baldrige National Quality Award (MBNQA) is the two-level quality management model. The maximal number of 1000 scores is provided in the Malcolm Baldrige National Quality Award. It may be achieved according to seven fundamental criteria: Leadership, Strategic planning, Customer and Market focus, Information and analysis, Human resource focus, Process management, and Results. This model mainly focuses on the customer's satisfaction and does not analyze the interaction of the organization's internal processes (Lee; Lo; Leung, 2002).

Any organizations may implant this model easily because it is so simple. The public sector organizations have to analyze the MBNQA criteria with regard to effectiveness' improvement so that they could be adapted to their particular circumstances and so that own needs could be met.

Table 1. Comparison of performance measurement methods

| Performance measurement methods | Criteria | | | | Adaptability |
|--|-----------------|---------------------------|-------------------------------------|--------------------------------------|---|
| | Focus | Objectives | Processes | Human resources | |
| Malcolm Baldrige National Quality Award (MBNQA) | Users | Leadership | Process management | Staff management | Business companies, public sector organizations |
| Model of European Foundation for Quality Management (EFQM) | Results, users | Leadership | Process management | Staff training and development | Industrial, business companies |
| Balanced scorecard (BSC) | Strategy, users | Strategic and operational | Internal and financial perspectives | Learning and improvement perspective | Industrial, business companies, public sector organizations |

(according to Kaplan, 1996; Gimžauskienė, 2007; Osseo-Asare, 2002; Lee, 2002; Černiauskienė, 2011)

The advantage of the model of European Foundation for Quality Management (EFQM) is that it was created on the basis of two fundamental measurement systems of quality management: Malcolm Baldrige National Award (USA) and Deming Award (Japan). It is a diagnostic tool meant to measure the organization's performance. The ground for the model of European Foundation for Quality Management is achievement of good results through the involvement of all working persons into continuous performance improvement process. The peculiarity of this model lies in its holistic approach to the organization. It is a diagnostic tool meant to measure the organization's performance and through self-measurement the organization may coordinate the priorities of its activity, to distribute the resources, and to prepare the business plans better (Osseo-Asare, 2002).

The model of European Foundation for Quality Management (EFQM) and Malcolm Baldrige National Quality Award (MBNQA) are linked by similar values, criteria and principles. EFQM and MBNQA are focused on the effectiveness and results of business management, and not on the quality of services and goods. Both methods favor the satisfaction of the customers the most. These methods serve as tools to improve the organization's performance, but they cannot help to eliminate daily problems as the organization's success depends on the performance results, organizational structure and not on the applied performance measurement methods (Sampaio, Saeaiwa, P., Monteiro, 2012).

The balanced scorecard (BSC) turns the organization's mission and strategy into the comprehensive set of performance tools and creates the strategic measurement system. Traditionally the majority of organizations regard their corporate activity through the analysis of financial aspects; however the financial tools cannot generate the balanced image about critical success factors of any organization mainly because the financial measurements tend to measure the past.

The balanced scorecard is based on four core perspectives:

1. *Financial objectives* – How will we look like to our employees?
2. *Perspective of users* – How do we look like to our customers?
3. *Internal processes* – Which internal processes do we have to improve?
4. *Learning and growth* – How can the organization learn and improve?

As the concept of balanced scorecard unites the financial, user, internal processes, learning and growth perspectives and different groups of data of performance results, the organization's performance may be analyzed and measured comprehensively. The data of single perspective are not sufficient for such a measurement – all four types of data are necessary. Thus the information encountered in the financial reports is not sufficient for performance measurement. The organization has to accumulate both quantitative and qualitative data – data about the company's intangible assets, human resources, level of internal processes, users, etc. BSC may be applied as the performance measurement tool, as the system of strategic management, and as the connecting link between the strategic and operational activities. BSC helps to relate the strategically important initiatives with the real financial results (Gimžauskienė, 2007). The balanced scorecard is based on the compliance with the objectives as the tool to improve productivity. It is a holistic performance management system carried out towards the determination of productivity's measurement tools and conveyance of objectives and visions to the organization.

When the performance measurement systems are adjusted to the organizations in public sector, it is important to distinguish the mission's focus, to include all the interested parties of the organization, and to stress the importance of human resources. Therefore more than one performance measurement methods may be selected for performance measurement in public sector. They should be integrated with each other so that the organization's performance could be measured in the complex way. The performance measurement in public sector is meaningful only when it complies with the strategy and responses to all the measurement areas. Thus in order to achieve versatility in the organizations, the balanced scorecard (BSC) could be applied taking the MBNQA criteria into account.

An important step would be to use the attributes of the balanced scorecard (BSC) identified as “what” and the MBNQA criteria identified as “how”. This integration of performance measurement methods is presented in the Figure 2.

Malcolm Baldrige National Quality Award

| | | | | | | | |
|----------------------|---------------------------------|-----------------------|--------------------|---------------------------|--------------------------|-----------------|--------------------|
| <i>BSC</i> “What” | | <i>MBNQA</i> “How” | | | | | |
| | | Leadership | Strategic planning | Customer and market focus | Information and analysis | Human resources | Process management |
| Balanced scorecard | Perspective of users | | | ○ | | | ○ |
| | Financial objectives | | ○ | | | | |
| | Internal processes | | ○ | | ○ | ○ | ○ |
| | Learning and growth perspective | ○ | | | | | |

Fig. 2. Integration matrix of performance measurement methods

The essential aspects of the BSC tool and Malcolm Baldrige National Quality Award’s criteria were reviewed as they serve as the ground for the strategy’s formation system. The Figure 2 reflects the integration of performance measurement methods using the balanced scorecard and MBNQA criteria.

The institutions in public sector have their particularity, i.e. securing of society’s satisfaction in the provided services, motivation of employees, inducement of development of internal processes, and satisfaction of public services of better quality using the same resources, so the criteria of Malcolm Baldrige National Quality Award may be used together with the perspectives of the Balanced scorecard in order to improve effectiveness. These criteria may grant valuable frames for improvement of effectiveness. They help to assess and measure many fundamental institutional criteria of effectiveness: user / intermediary, service / result, activity / finances.

The self-measurement practice allows determining own advantages and capabilities, improving processes and results, which affect the main interested persons – users, units, human resources and community. Moreover, these criteria help to level the resources, to improve the communication, productivity and high-scoring, and to achieve the objectives (Lee; Lo; Leung, 2002). Regardless to the fact that four perspectives (financial, users, internal processes, learning and growth) are distinguished as the main elements of the organization’s strategy to be measured, BSC remains more effective measurement tool of the strategy than the tool of decisive strategy.

Traditionally the organizations are working following the management results, which are regarded as the study of behavior. The typical management would create objectives, which would be then compared by measuring effectiveness and results, i.e. objective of management. The top management is interested in the end of quality improvement – results. The methods, systems or resources necessary to achieve the results are usually left for the management of middle level. The achievement tools become the primary mark, while the result measurement means, how well the politics management has been implemented.

Conclusions

The objective of the performance measurement system is to measure and assess quantitatively the achievement degree of set goals and tasks. It is possible to state that the performance measurement system has two main functions – to provide information that would allow improving the performance of organization in public sector, and to account for the used funds.

The performance measurement system in the organizations of public sector should be based on the objectives set by strategic plans and it should measure their achievement. In such a way the preconditions are created for systemic observation of performance processes of organizations in public sector by collecting the information necessary to describe the present situation and to foresee the changes in case some tasks have not been implemented.

The analysis of performance measurement methods shows that EFQM and MBNQA are focused on the effectiveness and results of business management and not on the quality of goods and services. Both methods are mainly used to measure the customers' satisfaction. They serve as tools to improve the organization's performance, but they cannot help to eliminate daily problems as the organization's success depends on the performance results, organizational structure and not on the applied performance measurement methods. The balanced scorecard (BSC) is meant to implant and control the strategy on all the levels of the organization. The performance measurement in public sector has to be coordinated as it will be meaningful only when it complies with the strategy and responds to all the measurement areas. Thus in order to achieve versatility in the organizations, the balanced scorecard (BSC) could be applied taking the MBNQA criteria into account. The performance measurement system in public sector has to match the selected strategy, while the measurement criteria have to be selected according to the measurement perspectives with regard to activities of public sector organizations.

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