CHAPTER 19

THE PUBLIC SECTOR GOVERNANCE, ASSUMPTIONS FOR EFFECTIVE GOVERNANCE AND METHODS OF PUBLIC SECTOR PERFORMANCE ASSESSMEN

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19.1 Assumptions for effective governance of the public sector

The public sector is an important element of public social and economic life, which is solving societal problems and ensuring the minimum needs of the society. Accordingly, the public interest in this sector authorities' operational effectiveness and efficiency that can be achieved for the ongoing assessment of institutions, identifying problems and planning for improvement.

The changes that are ongoing today focus on modernization of the public sector based on following implementation of democratic values and complexity of changes in public administration.

Increased demands to lower the costs of public goods and services and to increase effectiveness of providing them caused implementation of market-type mechanisms in the public sector. The essential characteristic of “marketization” of the public sector was aiming to bring the relationship between citizens and public entities closer to the relationship linking customers with the market in order to achieve more efficiency and flexibility, freedom of choice and justice [47]. That is why during the last decades of 20th century and in 21st century in majority countries of the world, and in Lithuania among them, there were various reforms of the public sector undertaken aimed at increasing efficiency of public authorities. This aim was the main incentive for transition to the New Public Management (NPM) based on experience of the business sector and the market conditions, modernising structures, methods of control and administration culture of the administration system in view of new challenges. It calls for a major change of the prevailing bureaucratic methods of management in the public sector [57, 58]. Recently, as an alternative to NPM, there has been a new policy highlighted in the public sector, called the New Public Governance by some authors and the New Public Service by the others, characterised by the following provisions:

• to serve citizens, not customers: the public interest is determined by common values rather than by a set of individual self-seeking interests; that is why not only civil servants have to answer “clients’” needs but also focus more on the relationship with and between citizens based on trust and mutual cooperation;

• to explore the public interest: civil servants have to contribute to creating collective notion of participating society interests, highlighting common but not individual interest, and common responsibility;

• to value citizenship but not entrepreneurship: the civil servants and citizens doing insignificant jobs for the sake of the society are valued by the society rather than entrepreneurial managers performing in the way as if official money were their possession;

• to think in a strategic way, to act in a democratic way: goals and programmes of the public policy answering the needs of the community can be implemented in the most efficient and responsible way through common collective efforts and processes of cooperation;

• to admit that accountability is not a simple matter: civil servants must be aware that accountability is not limited by market requirements; they must obey the Constitution and the law, values, political rules, professional standards of the community and citizens’ interests;

• serve rather than be at the helm: it is essential that civil servants served as general leaders based on values helping the citizens express and implement common interests rather than made efforts to control or lead the community in the other direction;

• to value people, not just productivity: public organisations ant their networks are generally more successful when their management is based on cooperation and respect to all people [34].

The new public governance differs from traditional hierarchical management and the new public management models primarily being a value-based model. Quantitative indicators are not predominant like in the new public management and the qualitative side and aspects of effectiveness, social justice, equality and ethics are particularly important. Meanwhile in the traditional hierarchical model, the process was of particular importance, and in the new public management, the results are of particular importance, in the new public governance, both the process and the results are of great importance. Openness, transparency, democracy, pluralism, social quality, social responsibility, absence of corruption and active participation of non-governmental organisations are important features of the new public governance.

However, the new public governance has drawbacks, too, in comparison with traditional hierarchical management and the new public management models. While those two could be characterised by both clear principles and specific methods of implementation, the new public governance is theoretically welcomed with a great deal of enthusiasm due to its clear ethical–value-based principles, but it greatly lacks specific methods of implementation [18].

Due to this reason, nowadays governance and performance measurement models related to the New public management for measuring activities of organisations in the public sector are widespread. According to D. Gudelis, the New public management characterises tendencies of reforms in the public sector in the 9-10^{th} decades of 20^{th} century and in 21^{st} century. Those reforms reflect that new management technologies of the private sector are applied to organisations of the public sector.

Issues of public sector management, performance measurement, activity governance are in the research field of the researchers and practitioners. Robert D. Behn placed special focus on public management; yet in 1995, he formulated a question that for public management of 21^{st} century measurement is of particular importance, i.e. what ways of measuring achievements of organisations should be used by the heads of public organisations in order that the measurements made positive influence on the achievements. According to A. Raipa, measuring performance of the public sector is important provided that at least 30 per cent of gross national product is generated in the public sector while providing goods and public services for the community. Country defence, energy, environment protection, foreign affairs, education, public healthcare, legislation, regional developments and urban development, issues of inflation and work force, and regulation of demographical development make up the wide range of activities which the public policy usually focuses on.

As the world economy is moving towards globalisation and the free movement of capital, value assessment is becoming increasingly topical. That is why value assessment in the context of global competitive market is becoming an important issue, since in order to assess the company’s performance effectiveness, one indicator is insufficient, and several indicators are required. However, nowadays it is impossible to assess the real value adding factors using just traditional indicators of company’s value measurement. Besides, these methods do not provide value to solving managerial issues arising in the context of dynamic operation. Thus, the traditional methods gradually evolve into the modern and more advanced means of performance assessment – value-based cash flow accountancy, balanced indicators and systems based on total quality principles [11, 10].

According to S. Zujus et al., nowadays, in the context of market economy, it is essential for every organisation to be able to measure its performance in order to compare the performance results with those from their counterparts, average rates and their competitors’ results. For achieving the mentioned goals, financial indicators, such as profitability, solvency and liquidity, are used most often. However, nowadays, when organisation’s performance is becoming more complex, competitiveness is growing and the demand for changes is increasing, financial indicators are insufficient in order to reveal the actual situation of the organisation, and this encourages the leaders to seek for more effective means of business governance. At present, the New governance models are most widespread.

There is a number of reasons causing the use of performance measurement in organisations, such as to ensure if the organisation is meeting its objectives (BOUNDLESS), monitor and control, to promote professional development and maximise the effectiveness of development, to combine legal acts with organisational goals and objectives, and to award and punish [23]. Besides, it helps organisations to identify the promising areas and the areas which are constantly behind, do not comply with deadlines, in which the employee turnover is high or which receive numerous complaints [35]. The received information gives an insight into future, helps them foresee the tendencies, demands and make decisions based on facts, not on intuition (AFFECTO.lt, 2012). Thus, organisations accomplishing their performance measurement are able to see their weak and strong sides. The mentioned above activity helps them identify major concerns, which might influence their legitimacy, reputation and public profile, clarify if the organisation meets their objectives and expectations of the stakeholders, which is particularly important for their performance. Last but not least, performance measurement is of particular significance in any organisation governance as it carries out two major functions: 1) it ensures the organisation's responsibility for its performance and results; 2) it facilitates their training and development.

Meanwhile, performance measurement carried out in the public sector facilitates assessment, controlling, "budgeting", motivating, publicising, celebrating and developing activities of the public sector [5]. Two major causes leading to operation of the public sector measurements have been identified: aiming to improve the performance results and to increase community's confidence in the local authorities [29]. The Lithuanian authors I. Segalovičienė , T. Sudnickas, A. Raipa, who seriously analysed performance measurement and its applicability, in their studies use the term "performance assessment" rather than "performance measurement". J. Dvorak and M. Kaselis claim that performance measurement is necessary for designing strategic plans and creating budgets provided that performance measurement is an integral part of strategic planning. Č. Christauskas et al., S. Stašys et al., T. Sudnickas, A. Raipa, A. Leskauskaitė et al. stated in their studies that application of methods of the New public management contributes to performance measurement and later to performance improvement in the public sector. It has to be stressed that foreign authors have largely focused on peculiarities of the public sector performance measurement. Development of the performance measurement was examined by A. Neely who, working in a team with other authors, in a common article, identified that for performance measurement four indicators of performance measurement should be used, while D. N. Ammons identified three of those, and R. Boyle identified nine indicators. B. Behn and N. Paff in their studies identified eight reasons why performance measurement is of great importance, such as to assess, to control, to create budget, to motivate, to promote, to celebrate, to learn, and to improve. Performance measurement was largely analysed by Paul G. Thomas who was interested both in history of performance measurement and its feasibility in the public sector.

Thus, the importance of performance measurement is identified differently by different authors, but eventually all of them point out that performance measurement is of great importance. Therein Kelvin submits: "When you can measure the issue you are talking about and express it in digits, only then do you know what you are talking about." Meanwhile, Ammons writes: "It is impossible to govern anything which you cannot measure." These claims reveal the need in organisational performance measurement. Besides, organisational governance is inherent in performance measurement, since this is like feedback which helps us make the right decisions in further governance of the organisation.

19.2 Characteristics of the public sector governance

Various authors submit different definitions of the public sector. We can support the opinion expressed by G. Kazakevičius [43]: "Speaking about the public sector and its size, there is often some kind of confusion due to its various definitions. Some count appropriation managers, others count budgetary institutions, and still others count institutions of public administration." As it can be seen, it is a difficult task to define the public sector, but we will try to clarify that.

Lane pointed out that the public sector is most often seen as a separate from the private sector subject which is divided into sectors of private organisations and non-governmental organisations. However, only at first sight it seems that the definition of the public sector is simple. This concept was explored more in-depth by a Norwegian scientist J. E. Lane, who submits six definitions of the public sector:

35. The public sector is the government's performance and its consequences;

36. The public sector is the state's common solutions and their consequences;

37. The public sector is the government consumption, investment and payments;

38. The public sector is the public production;

39. The public sector is the public property; the basis is the criterion of ownership of the means of production;

40. *The public sector is* the public personnel, provided that the status of employees, taking into account if they are employed in governmental (public) or private organisations, is the criterion of division between the public and private sectors.

D. Gudelis claims that "*The public sector* is the state's financial (funds, shares, etc.), material (land, buildings, etc.) and human resources (leaders and employees salaried from the funds of the state and municipality budgets), processes changing the above resources and products of the processes (public and administrative services, individual acts and regulations, and payments and investments). The public sector can also be seen as the system of organisations managing and using the state resources." Besides, such significant diversity of definitions of the public sector reveals that the limits between the public and private sectors are not always clear.

It is stated in the Regulation of Public Sector Accounting of the Republic of Lithuania (actual edition of 26/06/2007) that public sector entities are the following: 1) *the state; municipalities;* 2) *budgetary institutions;* 3) *healthcare establishments under control by the state, municipalities and budgetary institutions;* 4) *higher education institutions and research institutes which are set up as public institutions;* 5) *schools of general education, vocational training institutions which are set up as public institutions;* 6) *social care institutions which are set up as public institutions;* 7) *resources funds; and tax funds.*

Thus, on the basis of the sources examined, we can state that *the public sector* consists of the public institutions managing and using the state resources in order to provide public services to the citizens.

Analysing the scientific literature, we noted that some authors state that there are significant differences between the public and private sectors, while others claim that the differences are not really significant. Activities in public and private sectors, the sectors as such and their administration can be compared one to the other and are different in various aspects (see Tables 19.1 and 19.2).

Table 19.1 - Differences between administration of the public and private sectors *[36, p. 45]*

Administration differences	**Operational objectives and performance measurement**	**Process of finding solutions**	**Publicity**
Public sector	providing services	involving citizens into public governance	continuous interest of the civil society
Private sector	making profit	fast and risky solutions	occasional interest of the civil society

It can be seen from Table 19.1 that in the public sector, providing services is both the operational objective and performance management, while in the private sector, it is making profit, which will never be a purpose of the public sector. Comparing the process of finding solutions, we can see that in the public sector, the focus is on involving citizens into public governance, and in the private one it is on fast and risky solutions. Analysing the significance of publicity for the sectors mentioned above, we can point out that it is of great importance in the public sector, since the public sector and its operation are of continuous interest of the civil society, while in the private sector, publicity can occur as an occasional interest of the civil society.

Despite the fact that the private sector has a lot in common with the public sector bearing in mind the nature of organisational activities, they have certain “genetic” differences as well. Thus, organisations of the public sector cannot be characterised as seeking maximum profit, and they do not have sufficient potential of revenue generation. Besides, the criteria for measuring their performance are not clear or definite enough. P. Arveson identified summative differences and similarities of both sectors [51], which are presented in Table 19. 2.

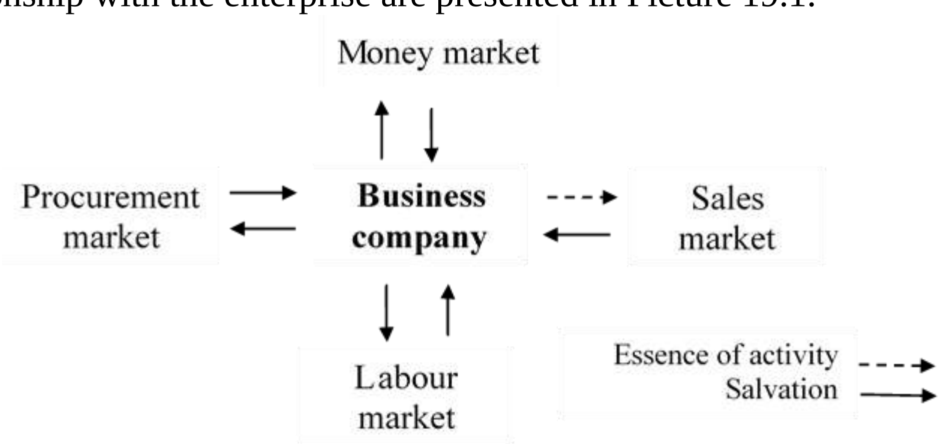
Table 19.2 - Differences and similarities of the private and public sectors *[51 p.20]*

Strategic feature	**Private sector**	**Public sector**
Overall strategic goal	Competitiveness	Efficiency of the mission
Overall financial goal	Profit, growth, their market share	Cost reduction, efficiency
Values	Innovation, creativity, good will, recognition	Honesty, integrity, accountability to the society
Intended outcome	Customer satisfaction	Customer satisfaction
Stakeholders	Shareholders, owners, market	Tax payers, inspectors, legislators

Budgetary priorities are determined by	Customer demands	Legislators, planners, political leaders
Justification of requirements for confidentiality	Protection of intellectual capital	National security
Critical success factors	Growth rates, income, market share	Best managerial practices
	Uniqueness	Respecting the standards
	Most advanced technologies	Standardised technologies

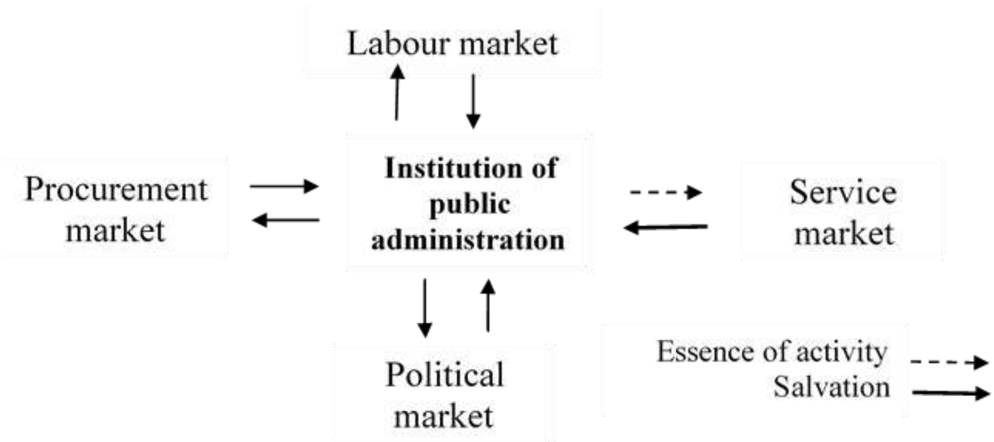
It can be seen in Table 19. 2 that the strategic goal of the private sector is competitiveness, and that of the public sector is efficiency of the mission. Meanwhile, the financial goal in private institutions is profit, growth and market share, and that in the public sector is cost reduction and efficiency. Thus, we can see that effectiveness is focused on in the goals of the public sector, and profit and competitiveness are in the private sector. A conclusion can be drawn that these sectors are largely different in their goals. The sectors analysed differ in regard with their values (innovation, creativity, good will and recognition are focused on in the private sector, and honesty, integrity and accountability to the society are focused on in the public sector), stakeholders (shareholders, owners and the market in the private sector, and tax payers, inspectors and legislators in the public sector), justification of requirements for confidentiality (protection of intellectual capital has been distinguished in the private sector, and national security is distinguished in the public sector) as well as critical success factors (growth rates, income, market share, uniqueness, most advanced technologies in the private sector, and best managerial practices, respecting the standards and standardised technologies in the public sector). Customer satisfaction is the intended outcome in both sectors.

Researchers noted that institutions of the public sector and business companies differ in regard with the market they deal with. A business company has its labour market where it brings together its personnel; its procurement market, where it purchases necessary raw materials; its money market, from which it can get loans or shares and to which it pays interest and dividends; its sales market where it sells its products or services. The mentioned above markets of a business enterprise and their relationship with the enterprise are presented in Picture 19.1.



Picture 19.1 - Markets of a business enterprise *[4, p. 75]*

As it can be seen from Picture 19.1, the sales market is the essence of activity and salvation, sales of its products and services in particular. M. Arimavičiūtė states that even products or services of high quality will not save the business enterprise which is not able to sell them. As it can be seen from Picture 19.2, an institution of public administration, as well as a business enterprise, has both labour and procurement markets, but, in contrast, has a service market, which provides services, and political market, approving of the budget, establishing rules and providing subsidies. M. Arimavičiūtė claims: “The essence of institutions of the public sector lies in the service market; however, the political market, which is indirectly related to the institutional activities in the service market, is of great importance for it, too. Due to this reason, institutions of public administration are not only in need of service strategy but also in “rope rescue strategy”, which addresses the political market.”



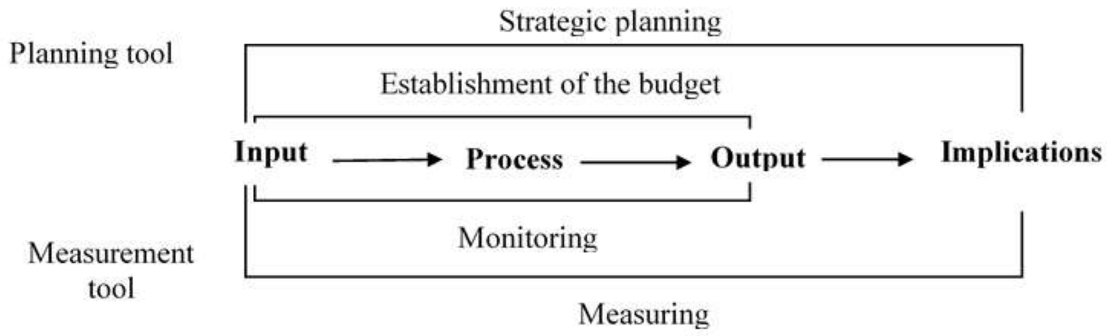
Picture 19.2 - Markets of a public administration institution *[4, p.76]*

M. Arimavičiūtė claims that distinguished differences of the public and private sectors tighten the limits of different areas of activity of the public and private sectors. However, since the end of 19th century, the strict limit and differences between the public and private organisations have significantly decreased due to the reforms in the public sector, which were intended for drawing the public sector closer to the private sector.

Comparing specifics of performance in the public and private sectors, an obvious advantage of the private sector can be noticed, provided that it is characterised as much faster and more efficient in finding solutions. That is why a good idea to reorganise activities of the public sector following the example of the private sector was generated; nevertheless, implementation of such an idea in practice is more difficult than it had seemed [36]. With the development of performance measurement, which is unthinkable without indicators of performance measurement, various methods of performance measurements were used in the private sector rather than in the public sector. The desire to apply models of performance measurement of the private sector in the public sector is highly commendable; however, in order to implement that, certain corrections have to be made [32].

19.3 Public sector performance assessment system and its components

Result-oriented governance is based on strategic and business planning, which necessarily refers to performance measurement and feedback systems (see Pic. 19.3).

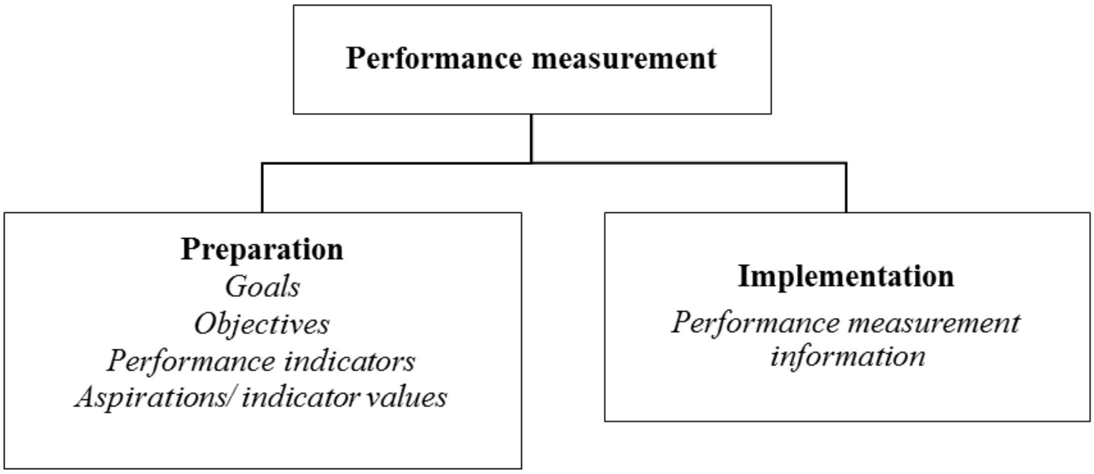


Picture 19.3 - The link between the measurement and planning "toolboxes" [13, p. 101]

It can be seen in Picture 19.3 that planning includes strategic plans and establishment of the budget and the measurement "toolbox" includes monitoring and measuring. Thus, we can see that monitoring is linked to monitoring implementation of the budget, and measuring measures if the strategic goals were achieved.

The result-oriented authorities should focus on the customer in order to achieve best results, to respond and be accountable to the tax payers. It can be seen that performance measurement is a component of performance governance and helps to illustrate the organisational success and point out in which area improvement is required. This system cannot suggest what means should be taken in order to remove the existing deficiencies, but it is a sort of early warning system that facilitates better management and helps to solve complex issues before they grow into major problems. That means that this system assists in measuring the difference between the present situation in the organisation and that pursued [29]. In particular, organisational performance in the public sector is linked to achieving social goals and to the means for achieving that goal. That is why the whole performance measurement system should include both components mentioned and present the presence or absence of their impact to the society. Due to this reason, institutions not only have to make use of the indicators used for resource measurement and completed actions, but also use the indicators which could inform about the world situation outside the organisation. This system should also monitor efficiency of the resources used, i.e. input transformation into results of the activity (yield), and yield into results [44]. In conclusion, we can point out that the key elements of performance measurement are very similar to those related to the total quality improvement activities: 1) leadership and commitment; 2) good planning and strategy being implemented correctly; 3) typical involvement of employees; 4) simple measurement and assessment; 5) control and improvement.

T. Poister generated a scheme in which he identified general features of performance measurement system – the system not only has to identify but also be responsible for the formulated mission, strategy, goals, objectives, subject and standards of the system performance. Besides, there are three functions appointed to the performance measurement system: 1 – sampling, data processing, calculating performance indicators, and ensuring assessment quality; 2 – various comparisons to be performed (time and goals), comparison between subdivisions, similar external systems and other unexpected factors; 3 – defining solutions aimed at using the strategies designed, programmes being implemented, operations, resources, goals, objectives, subjects and standards [40].



Picture 19.4 - Components of performance measurement *[16, p. 30]*

Performance measurement consists of two parts (see Pic. 19.4): preparation of performance measurement and implementation. *Preparation of performance measurement* is generation of the main elements of the performance measurement system and identification of their relationship. *Implementation of performance measurement* is the performance measurement information, which is used in the organisation [16].

It can be seen in Picture 19.4 that goals and objectives, performance indicators, which are used while measuring how goals and objectives are being implemented, and aspirations or indicator values, which the organisation wants to achieve in a specific period of time, are the key elements of the performance measurement preparation subsystem, which are generated for all levels of the organisation. The relationship between the goals and objectives can be explained formulating causal hypotheses; besides, there can be foreseen the initiatives which could help the organisation to plan implementation of the goals and objectives set. Performance measurement implementation consists of the only element, performance measurement information, which can be used while accounting to institutions at a higher level, analysing the current environment status in strategic plans, revising goals and objectives of the organisation, establishing incentives, performing early decision assessment, choosing budgetary financing priorities and establishing the budget, performing collation inside the organisation and between similar organisations, improving process quality within the organisation, making decisions towards employee stimulation and in-service training, and presenting information to the society. Only when preparation and implementation subsystems are properly organised and close connection between them and their individual elements is ensured, will the performance management system be effective. In reality, it is impossible to ensure a close connection between performance measurement systems, and it is even inappropriate provided that performance measurement systems with a weak connection are more effective [16].

The extensive information received applying the performance measurement system helps while finding solutions related to strategic planning, activity planning, establishing the budget, or service or performance measurement. Having analysed the scientific literature, it was revealed that different authors detect a different number of stages of the measurement system, from minimum four to maximum ten stages. It can be seen in Table 19.3 provided below.

Table 19.3 - Comparison of stages of the measurement system

Number of stages	**Stages of the measurement system**	**Author**
4	1. To identify key steps; 2. To identify measurement indicators; 3. To perform measurement; 4. To initiate improvement.	http://www.businessballs.com/dtiresources/performance_measurement_management.pdf
	1. To set headline targets which could help in finding solutions; 2. To set objectives which will help in achieving goals; 3. To establish the budget based on the methods which will help to achieve goals; 4. To measure performance and make corrections.	A. Probst (2009)
5	1. To divide products into groups; 2. To establish key goals; 3. To identify measurement indicators; 4. To check measurement indicators; 5. To implement and revise.	M. Bourne et al. (2003)
6	1. Selection of measurement object; 2. Perception of the object and common goals; 3. Definition of success criteria; 4. Definition of success indicators; 5. Measurement; 6. Processing and publication of results.	The Lithuanian Institute of Public Administration
	1. To establish goals; 2. To translate goals into activities; 3. To establish performance indicators; 4. To determine results to be achieved according to the indicators; 5. Submit data and establish implementing measures; 6. To use performance indicators and monitor progress.	The Government of the Hong Kong Special Administrative Region
7	1. To establish the sequence of key results; 2. To identify and select performance indicators; 3. To determine operational tasks or guidelines; 4. To prepare performance measurement plan; 5. To collect and analyse information about performance; 6. To interpret the received data and perform necessary	Canadian Transportation Agency

	corrections; 7. To communicate results.	
10	1. "To guarantee managerial commitments of the organisation; 2. To organise system development process; 3. To highlight the goal and system parameters; 4. To identify results and other operational criteria; 5. To identify assess and select performance indicators; 6. To develop sampling procedures. To take care of ensuring quality; 7. To describe system design in detail; 8. To make a pilot experiment and corrections to the system design if necessary (optional); 9. To implement the system to full extent; 10. To use, assess, and properly modify the system."	S. Puškorius (2010) – according to Poister (2003)

It can be seen from Table 19.3 that the simplest performance measurement system consists of four major stages: 1) strategic goals of the organisation are established and converted into desired performance standards; 2) measurement indicators are set; they are used for comparing desired performance goals with factual ones; 3) measurement is performed, the results obtained are analysed, and deficiencies are identified; 4) improvement process is initiated based on the results obtained. These steps are continuously being implemented and revised. It has been noted from the scientific resources that the most complicated performance measurement system consists of ten stages.

Organisations of the public sector while implementing performance measurement have to focus on the primary objectives which are essential ensuring successful performance of the organisation. For identification of objectives, it should be based on the criteria supporting selection of indicators of performance measurement system. Nowadays, the most widely used selection of criteria both in Lithuania and in the European Union is "SMART":

***S**pecific* – the indicator should express goals and objectives set for the organisation in a quantitative way. It is essential that the indicators are related to those activities and results in the organisation which receive the major financial resources;

***M**easurable* – the indicator has to be clearly defined and expressed in a quantitative way;

***A**chievable* – the indicator and its value should be reasonable, i.e. should be proportional both in regard with the goals set for the organisation and the funding asset for the activities;

***R**elevant* – the indicator value should remain the same, having calculated it next time, i.e. constant;

***T**imely* – the indicators should be available for periodical measuring in order to record and monitor the performance and result-based progress.

The next step is selection of measurement indicators, which are used to ascertain if the desired organisational objectives were achieved. According to N. Pfaff, there are two possible ways to measure organisational performance: one of them is accomplished using quantitative indicators of performance measurement, and the other one is accomplished using qualitative measuring units. A. O. Nakamura et al. single out the following measurement unit range: 1) *production phase performance indicators* (input, productivity, yield, and results), which provide information about efficiency of these processes and information necessary for distribution, utilisation of resources, equipment maintenance and making strategic solutions; 2) *financial indicators* indicating financial success, good financial control and accountability; 3) *qualitative (non-financial) indicators* (production, productivity) indicating labour productivity. The results of the indicators can be used for strategic planning. Thus, we can see that there are three groups of performance measurement indicators, in which the Lithuanian Institute of Public Administration singles out three performance measurement systems: 1) the Accounting system, in which financial indicators are used; 2) the Production activities measurement system, in which production phase performance indicators are used; 3) the Performance measurement system, in which qualitative (non-financial) indicators are used.

Analysis of the scientific literature revealed that majority of authors do not identify performance measurement indicators according to groups. They simply identify the indicators (see Table 19.4) which should be used while accomplishing organisational performance measurement.

Table 19.4 - Classifications of performance measurement indicators

Authors / **Indicators**	Mark Schater (1999)	Richard Boyle (2000)	A. Neely et al. (2000)	cosites/annualreport/reports/p m.pdf (2001)	Miami-Dade County (2004)	Paul G. Thomas (2006)	David N. Ammons (2007)	N. Pfaff (2008)	Alan Probst et al.(2009)	J. Snyder et al. (2009)	Washington State Office of Financial Management (2011)	http://parsproject.xzn.ir/tarjome/hesabdari/h38.pdf	**Definition**
Input	**x**	**x**	**x**	**x**	**x**			**x**	**x**	**x**	**x**	**x**	Resources used for providing services, e.g. input, working hours, and operational cost.
Yield	**x**	**x**	**x**	**x**	**x**		**x**	**x**	**x**	**x**	**x**	**x**	Amount of manufactured production, e.g. number of customers serviced.
Process		**x**	**x**	**x**	**x**						**x**		Business process duration
Results	**x**	**x**	**x**	**x**	**x**		**x**	**x**	**x**	**x**	**x**		The benefits obtained from the process or impact on customer, e.g. reduced number of deaths in fires.
Effectiveness	**x**	**x**				**x**	**x**	**x**	**x**		**x**	**x**	Rational utilisation of resources, which

													is estimated by unit selling price, e.g. per capita expenditure, and operation price.
Cost effectiveness		**x**				**x**							Minimising resources utilised preserving a certain level of the result.
Efficiency		**x**				**x**						**x**	Implementation level of the goals set, utilising a certain amount of resources.
Service quality		**x**						**x**	**x**		**x**		Satisfied customers, services provided timely and accurately, e.g. average waiting time, number of satisfied customers.
Productivity					**x**							**x**	A measurement indicating if resources were used well.
Clarification								**x**					Indicators affecting the performance, e.g. weather conditions for accomplishment of roadwork.

Based on the data in Table 19.4, we can see that majority of authors identify 4 or 5 performance measurement indicators. In most cases the measurement indicators are such as input, yield, process and results, and some authors, in addition to the four mentioned above indicators, mention efficiency and productivity. R. Boyle identifies most, i.e. eight, indicators. Meanwhile D. N. Ammons identified only three measurement indicators, such as yield (work load), productivity, and consequences (efficiency). P. G. Thomas identified the three E measurement indicators: cost effectiveness, efficiency and effectiveness. Occurrence of these indicators was brought about by the New Public management, which promotes performance measurement through E concession.

In order to achieve useful and effective performance measurement, performance measurement indicators have to be: *relevant*, which means having target audience and related to the activities measured; *easily understandable*, which means clear, concise and easily understandable even by non-professionals; *timely*, which means that the information perceived is necessary for making decisions; *comparable*, which means that they enable to identify if the present situation meets/does not meet the goals set; *reliable*, which means independent, they can be verified, they clearly reflect their purpose; and *cost effective*, which means accomplished with minimal cost.

The information obtained through performance measurement is really valuable for an organisation of the public sector as it can be used for:

1) *Promoting productivity and creativity.* In that case performance measurement information can be used for promoting employees' creativity and productivity, when the cost is being reduced and providing services is being improved, as well as attention is focused not on the fact that the work was completed but on that how it was completed.

2) *Establishing a better budget*. The budget is based on actual costs and benefit while being prepared. It is monitored if the intended budget and level of services are satisfactory.

3) *Responsibility*. It is one of the means to inform interested parties and tax payers about achievements, problems and show them where the money goes; it is another way to compare actual results with those desired.

4) *Cooperation*. Performance measurement promotes more cooperation between tax payers, members of the council and other municipalities.

5) *Setting up priorities*. Based on performance measurement results, it is possible to set up priorities for distribution of the budget.

6) *Paying attention*. Analysing performance measurement results, it is possible to note costs of performing the services and their effect, and pay attention to customers' needs which may change.

7) *Establishing goals*. In order to improve governance, clearer and assessed in the quantitative way goals are set.

8) *Better service supply*. Better service supply can be caused by more intense collaboration, setting up goals and adjusting services to the current situation [15].

According to J. Mikulis, the benefit from performance measurement is the following: 1) *A tool for governance*. The measurements obtained provide a firm basis for organisational leaders and employees for decision making and a possibility to react more quickly to the changes in the environment. 2) *The employees' behaviour is affected*. The way the organisation measures its performance shows what is significant to it. 3) *A tool for enterprise strategy implementation*. Measurement should be the bridge between the organisational strategy and operational activities. Performance measurement system helps to ensure unity of all the employees' efforts and objectives directing them towards implementation of common strategic goals of the organisation. 4) *Part of promotion system*. An organisation should measure whatever is important for it. The issue that is important for an organisation should be important for the employees, too. Thus, having set up appropriate indicators at corresponding organisational levels, subdivisions and at individual level, all the employees would be concerned and motivated to implement it.

It is obvious that performance measurements accomplished provide diverse benefit to organisations. However, they sometimes can remain unaccomplished due to meeting certain obstacles:

1) Methodological. Relationship between input and yield is easily measureable; however, it is much more difficult to measure the relationship between input and the results. It is difficult among a variety of factors to distinguish those which might have most significant influence on their results.

2) Financial. Operation of an efficient performance measurement system is

costly in terms of the employees' time and technical equipment. The leaders have to decide if the total cost of performance measurement is worth the investment.

3) Management. It is much more difficult to accomplish performance measurement in the public sector than in the private sector. Majority of ongoing programs in the public sector are complex, provided that they have numerous multidimensional and changing objectives, thus, operational indicators are much more difficult to develop and apply.

4) Political and supplying public services. Politicians do not support performance measurements if they forecast negative results, which their opponents might use as inconvenient arguments against them. Besides, in order to protect their interests, civil servants tend to implement programs so that it seemed they were being accomplished properly. That is why it is often claimed that whatever is going to be measured, it will be accomplished. Thus, whatever is accomplished, is not necessarily what had to be accomplished. It is not surprising that there is a lot of disagreement about usefulness of performance measurement. This is all the more that more attention is paid to input and yield rather than result and impact. Despite that, performance measurement can be a means of promotion of efficient and effective performance accountability (IPAC).

19.4 Methods of Public sector performance assessment

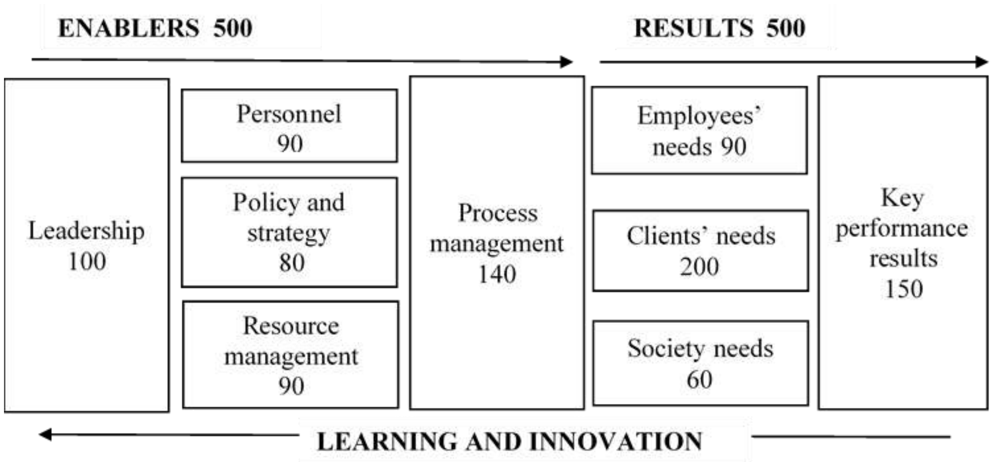
Since 1980, the New public management policy (hereinafter NPM) has encouraged governments to concentrate efforts on improvement of public services efficiency. That is why from 1980 to 1990, politicians and leaders of the public sector put special focus on performance measurement systems in order to ensure better services of the public sector [19]. NPM performance assessment was suggested as the method which will assist governments reducing annual deficit, accumulated debts and improve supply of services (IPAC). Throughout this period, a gradual transition from non-monetary indicators to quality efficiency indicators took place [19]. Thus, the current focus on performance measurement in the public sector was largely influenced by NPM movement, which can be characterised as paying particular attention and oriented to performance (IPAC).

According to A. Leskauskaitė et al., there is a wide range of Total Quality Management (hereinafter TQM) models, but in terms of public sector enterprises, it is worth pointing out that at present most applicable models are ISO 9000 series quality standards, Excellence model set up by the European Foundation for Quality Management and the Common Assessment Framework. Meanwhile, other models, such as the Balanced Scorecard, Public Service Excellence Model, Six Sigma and others, are less popular. Selection of a particular model or model combination in an organisation is determined by various factors, such as organisational status, specifics of services supplied, understanding of the quality in the organisation, in which stage of governing cycle the organisation is, what scope of changes it is seeking for, what amount of financial and human resources it is ready to invest in these changes.

Excellence model set up by the European Foundation for Quality Management.

In 1988, leaders of fourteen large European companies signed the European Foundation for Quality Management establishment protocol, and the European Foundation for Quality Management was established. Its main goal is to strengthen the role of management in development and implementation of strategies, and to strengthen the position of European industry [1].

Excellence model by EFQM is based on self-evaluation of the institution, i.e. self-analysis. According to this model, organisational performance is assessed by nine criteria (see Picture 19.5), quality level of which is assessed in points. The initial five criteria, such as leadership, personnel, policy and strategy, resource management, and process management, assess the organisational processes able to ensure quality management. The rest four criteria, such as responding to the employees' needs, responding to clients' needs, responding to the societal needs, and performance, assess organisational performance. While following the methodology, organisational performance quality is compared internationally, nationally and within the frames of organisational subdivisions [25].



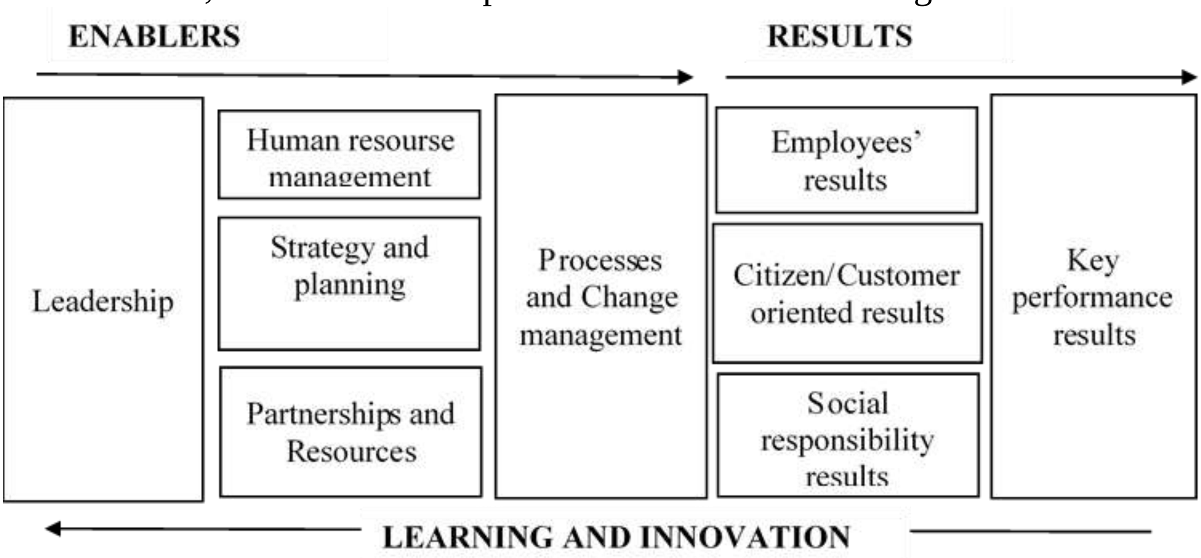
Picture 19.5 - Excellence model by EFQM *[31, p. 11]*

According to Č. Christauskas et al., EFQM is used as a diagnostic tool, which shows the entire view of the organisation and allows the organisation to assess its strengths and areas to be improved. Due to the fact that this model is pretty flexible, it can be applied to any type of organisation, no matter how big it is or which sector it is applied for. Excellence model by EFQM can be used in several ways: to assess oneself; to establish a standard with other organisations; to point out the areas to be improved; to form the basis for a common vocabulary and understanding; and to be a structure for organisational governance system. Episodic character is indicated as a disadvantage of this model, provided that it does not suggest a consistent way of performance measurement [28].

EFQM is characterised as containing eight key concepts: orientation to results, human education and involvement; attention to customers; continuous learning, innovations and performance improvement; leadership and stability of the purpose; cooperation development; governance based on processes and facts; and accountability to the society [49].

<u>*The Common Assessment Framework – CAF*</u>. The Common Assessment Framework is a result of cooperation between ministers of the European Union responsible for public administration. The pilot version of CAF was presented in 2000. The model was created for application in the whole public sector, organisations of the public sector at regional, national and local levels. It can be applied in different circumstances, for instance, as part of systemic program of the reform or as basis for establishing development priorities for organisations of public service. That is why CAF is simple, easy and suitable for applying in organisations of the public sector. On the basis of this model, various organisations perform self-assessment, realise their areas to be improved, can use experience of other organisations about how to improve their performance and implement innovations [1].

The structure of the CAF model (see Picture 19.6) can be characterised as having nine criteria, the primary five of which, namely actions of managers, human resources management, strategy and planning, partnership and resources, and management of processes and changes, – allow assessment of ongoing processes in the organisation intended for quality management improvement. The rest four criteria, namely human results, customer-oriented results, society results, and key performance results, – allow to assess performance results of the organisation.



Picture 19.6 - Structure of the Common Assessment Framework** [55,* p. 6]***

This model can be characterised by four major functions:

1) to identify the unique characteristics of organisations of the public sector;

2) to serve as means to the leaders intending to improve organisational characteristics;

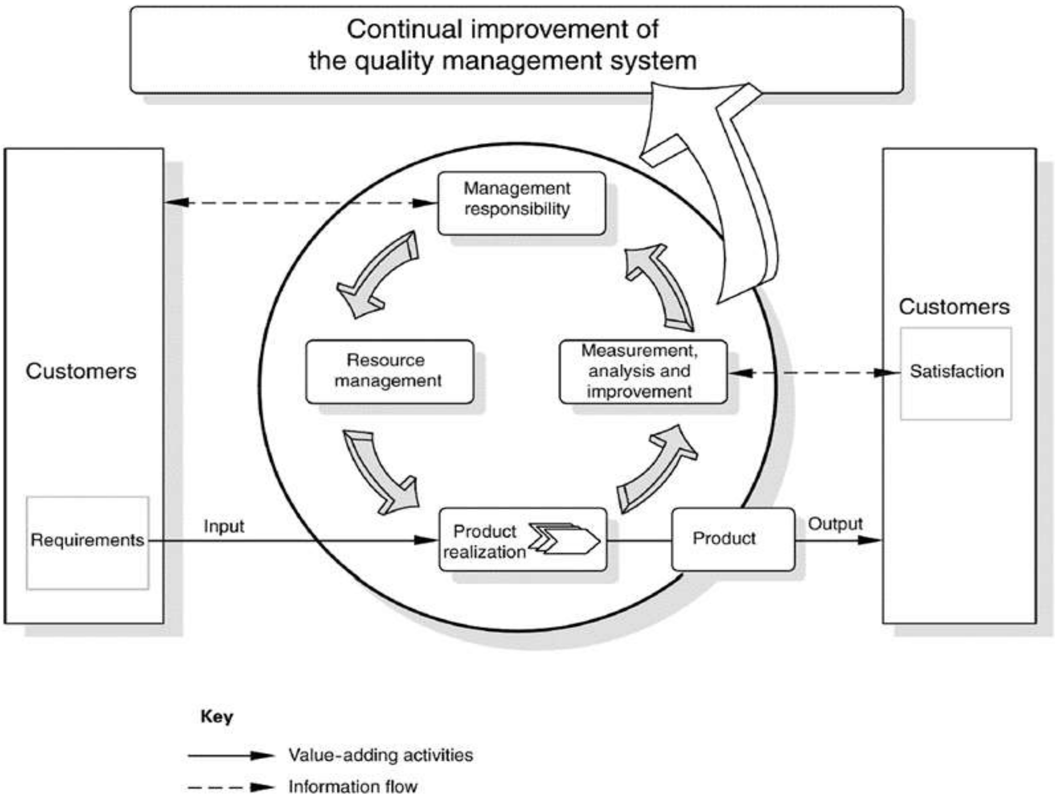
3) to unite various models of quality management;

4) to enable comparing of organisations of the public sector. As the EFQM model, CAF is also characterised by the same eight fundamental concepts.

<u>*Quality standards of ISO 9000*</u>. The International Organisation for Standardisation (ISO), established in 1947, prepares international standards promoting international trade and technical progress. The first quality standard was set for the arms industry of the USA in 1959. Until 1987, there was an indefinite period of time due to the fact that different countries and enterprises used quality

management systems and standards, and it caused numerous problems. For that reason, in 1987, ISO issued international quality management standards, which have been constantly improved. At present, there are the following standards of ISO 9000 series: *ISO 9000:2005 Quality management systems. Fundamentals and vocabulary; ISO 9001:2008 Quality management systems. Requirements; ISO 9004:2010 Quality management systems. Guidelines for performance improvements [21].*

Application of the process-based approach in all the work supplied by an organisation is a basis of the ISO 9001 model, which means that the organisation establishes processes of design preparation, manufacturing, and product or service supply. Thus, this standard is based on: *procedures* covering all major processes of organisational performance; *supervisory review process* allowing to make sure that the procedures are efficient; *documentation; defect inspection and, should the need arise, their correction; constant revision of the individual process and quality system efficiency;* and *continuous improvement.* An organisation can apply selected requirements of the standard in order just to improve their performance [25]. The model mentioned above consists of five parts (see Picture 19.7): quality management system design, documentation, implementation and constant improvement; administration accountability; resources management; process of product development and delivery to customers' management; and measurement, assessment analysis and improvement [20, 46].



Picture 19.7 - Process-based quality management system model *[20, p. 73]*

There are 8 principles applied for ISO 9000 series quality management standards, which are basis for international quality management standards of other ISO 9000 series: *customer-orientation; leadership; employee involvement; process-*

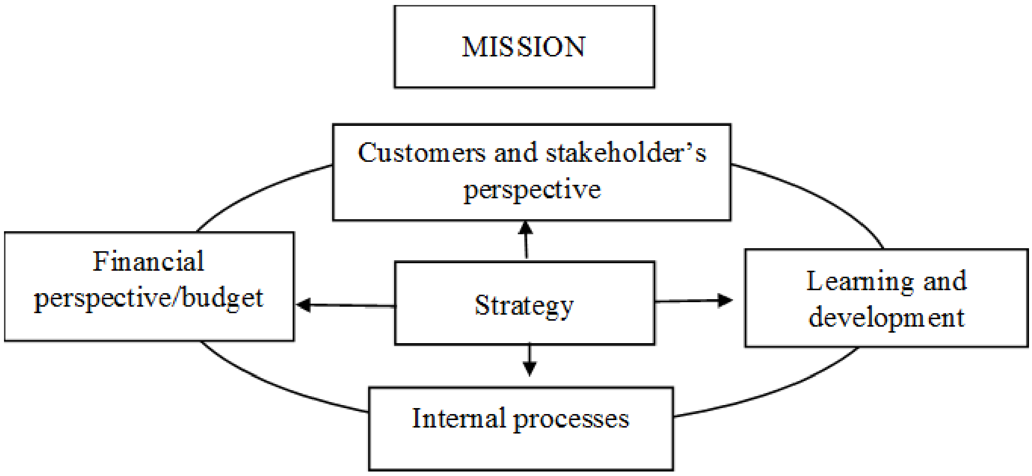
based approach; systemic approach to the customer; continuous improvement; factual approach to decision making; and *mutual relationships with suppliers*. Advantages of the mentioned above quality management principles are divided into three major groups: direct benefit, cost management, and risk control [21].

Balanced Scorecard (hereinafter BSC). Beginnings of the Balanced Scorecard system appeared yet in 1987, but only in 1992 it was developed and spread by R. S. Kaplan and D. N. Norton, when they created a model of balanced performance measurement indicators system, which they further developed and improved [60].

BSC model can be used in an organisation as a ***planning, measurement system, strategic governance system and means of communication***. This model is based on vision development and implementation and organisational strategy oriented to the major objects and information consisting of financial and non-financial indicators. Total organisational performance is measured based on four strategic perspectives: finances, customers, internal processes, and learning and improvement, which are all balanced [49]. Each perspective of the indicators is characterised by goals, measurement indicators, desired results and actions.

Based on the help from mentioned above indicator groups, it is possible to find answers to the four essential for an organisation questions: *finances* – what should we look like to our “shareholders” in order to be financially successful?; *customers* – in order to achieve our vision, what should we look like to our “shareholders”?; *internal processes* – in order to satisfy our shareholders and customers, which business processes should we be best at?; *improvement and learning* – how should we strengthen our abilities and competence in order to meet the constantly changing external requirements? The most important thing is that balanced indicators system is related to shaping of organisational strategy and its implementation. In this model, strategy is seen as a set of hypotheses linked to each other on a cause-and-effect basis. Financial perspectives and those of customers reflect the already achieved results of organisational performance, i.e. the past of the organisation, and the internal processes reflect the current organisational performance, i.e. the presence, while the perspective of improvement and development related to organisational possibilities and potential reflect the future of the organisation [50, 3].

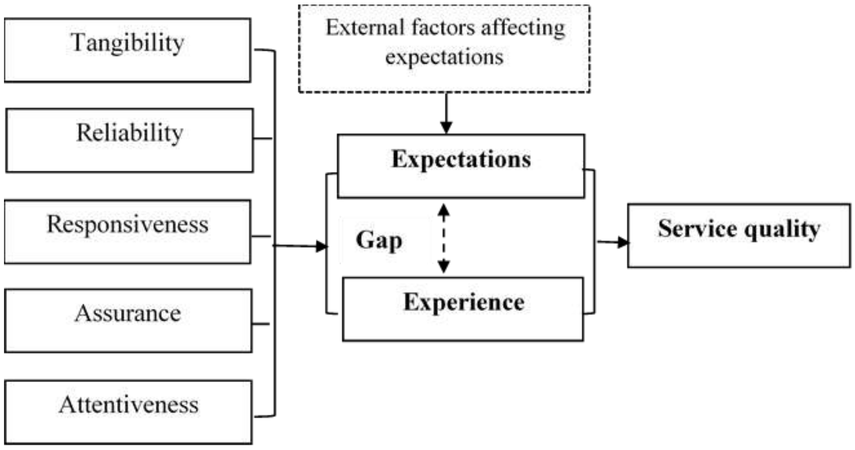
In order to use the BSC model applied in profit organisations more efficiently in the public sector, it has to be accordingly restructured due to the fact that the public sector is mission-oriented, while business entities are focused on profit improvement. Based on these reasons, H. Rohm suggested a modified BSC model for organisations in the public sector [50]. The BSC model is presented in Picture 19.8.



Picture 19.8 - System of balanced indicators in organisations of the public sector *[50, p 41]*

In this model, in terms of orientation of the public sector, the mission is pointed out. Its principle is to describe and measure the final results of the work. Organisations of the public sector are oriented to the mission based on the society and only eventually on financial decisions. This is because while establishing the mission of the public sector, the primary focus falls on the society, i.e. customers, then on internal processes, on learning and development and, eventually, on finances [6]. All four perspectives are cause-and-effect-linked. In these cause-and-effect links, financial perspective and that of customers are reversed; the concept of customers is given a wider meaning including not just direct beneficiaries of the organisation, but also other stakeholders, related public organisations. Besides, improvement and development perspective is renamed into employee competence and organisational capability perspective, provided that the significance of human resources is being focused on. Despite the respective changes in the balanced indicators model, while comparing models of the public and private sectors, strategy is the keystone in the public sector, and thus, the balance between various perspectives linked on the cause-and-effect basis is ensured, and the perspectives reflect the past, present and future of the organisation [50].

SERVQUAL model. In 1985, for service quality in the private and public sectors measurement and management, SERVQUAL model was created. R. Stašys et al. claim that SERVQUAL method is universal and has a reliable, and definite structure. Due to these reasons, it has been widely applied in the public sector, banking sector, information systems, the sector of telecommunications, for flight services, and institutions of higher education. This model measures the service quality, which is seen through the gap between customer expectations and quality of the received service, i.e. comparison of customer expectations before receiving the service and the service received. SERVQUAL can be characterised by five criteria (see Picture 19.9) describing functional service supply: 1) tangibility (the environment where the service is supplied, equipment, and personnel appearance); 2) reliability (ability to deliver the promised service in a reliable and accurate way); 3) responsiveness (willingness, and readiness to assist customers and proper delivery of the service); 4) assurance (knowledge, competence, behaviour manners, reliability and honesty of the supplier should create confidence that the service supplied will meet the expectations); 5) attentiveness (individual attention to the customer).



Picture 19.9 - Adequacy ratio of SERVQUAL criteria and expectations to the service received *[48, p. 3]*

G. D. Kang and J. James pointed out that SERVQUAL criteria initially can be observed in functional service quality implementation, and only when the common service quality, satisfaction of user expectations and supplier image are affected in combination with the technical quality standard. Each of the five criteria is measured in accordance with 4-5 statements. This model is characterised by as many as 22 statements, and the number can be decreased or increased depending on the study area. The order of the measurement is as follows: first, customer expectations towards a certain service are measured; then, consumer perception of the service delivered is identified; and the difference between the expectations and the service delivered is estimated. The difference mentioned above is identified as the “result of the drift”. In order to get digital values of the variables, evaluation of 22 statements within the range of 7 points on the Likert’s scale is performed, where one point means a total disagreement with the statement, and seven points means a total agreement. The smaller value of the “result of the drift” is, the better customer’s expectations were satisfied by the service delivered [48].

The discussed models are compared with each other, and the data of the analysis is presented in Table 19.5.

Table 19. 5 - Comparison of performance measurement models

Characteristics of the	**Performance measurement model**				
	EFQM	**CAF**	**ISO 9000**	**BSC**	**SERVQUAL**

models					
Number of measurement criteria	9	9	5	4	5
Measurement criteria	Leadership, personnel, policy and strategy; Resource management; Process management; Satisfying employee needs; Satisfying customer needs; Satisfying societal needs; Performance results.	Management activities; Human resources management; Strategy and planning; Partnership and resources; Process and change management; Human results; Customer-oriented results; Societal results; Key performance results.	Designing, documentation, implementation and consistent improvement of the management system; Leadership accountability; Resource management; Product development and delivery to customers process management; Measurement, evaluative analysis and improvement.	Finances; Customers; Internal business processes; Improvement and learning.	Visibility; Reliability; Responsiveness Warranting; Attentiveness.
Area measured by the model	Performance quality and achievements, improvement achievements.	Self-evaluation, i.e. identification of strong and weak areas.	Organisational processes: designing, manufacturing, product/service delivery.	The past, present and future of the organisation.	Service quality.
Purpose of the model	To identify areas to be improved and promote improvement.	To identify the areas to be improved and implement continuous improvement.	To improve and monitor suppliers' quality, establish and evaluate internal quality management system of the organisation and certify it.	To manage strategic objectives of the enterprise.	To improve and strengthen operations management.

It can be seen from the data in Table 19.5 that EFQM and CAF have the largest number of criteria, the total number of nine, and BSC has the smallest number of criteria. Each of the models analysed measure different areas, except for EFQM and CAF, with the help of which organisations perform self-evaluation. Meanwhile, BSC is characterised by the widest scope of organisational performance measurement, provided that it measures the past, present and future. Comparing the models in regard with their intended use, it can be noted that BSC is most of all related with implementation of strategic objectives of the organisation. Thus, there is a wide spectrum of measuring models, but the purpose of measuring defines which of the models should be used.

We can conclude that BSC is the most suitable performance measuring model of all those analysed, provided that it enables not only measuring the episodic moment of time, but also the past, the present and the future. The Balanced Scorecard not only allows to measure the quality and effectiveness of services supplied, but also link the short-term operational control of the organisation with a long-term vision and strategy. The main target of the strategy is to ensure timely changes while responding to present and future changes in the internal and external environment. That is why effective strategy is a means supporting the stabilisation of economic situation of the organisation and creating opportunities for its further growth. This is because nowadays organisations cannot do without a program under prevailing strict strategic direction appearing due to substantially changing environment.

CONCLUSIONS

1. The new public management model significantly differs from the traditional public administration model, yet it does not invalidate, but just complements it and creates assumptions for increasing operational efficiency. However, in some cases it may create a threat to democracy. That is why in recent years, a new public management ideology has been emerging, which is called the new public service and which points out that in the public governance such concepts as democracy, self-esteem and the citizen should prevail rather than the market, competitiveness and the customer.

2. In order to achieve the public sector efficiency and performance modernization, public entities apply various techniques, methods and procedures which have a purpose to govern changes and reforms in the global environment through better structuring of labour processes, strengthening of employee needs motivations and improving performance assessment methods.

3. Having analysed the scientific literature, it was concluded that performance measurement is a component of the operational governance and is identified as a system which supports operational results measurement. Performance measurement in the public sector differs from that in the private sector, provided that efficiency of mission is the purpose of the sector, and reducing costs and efficiency are the financial purposes. That is why performance measurement helps to provide accountability to the citizens, to improve performance, and improves budget management processes and promotes productivity and creativity.

4. Performance measurement contains two components, such as preparation and implementation. The preparation subsystem can be characterised by generation of performance measurement system key elements, i.e. goals, objectives, performance indicators and intended/indicator values, and identification of their relationship. The implementation subsystem is identified as performance measurement information which is used in the organisation. Various authors suggest a different number of measurement system stages. There is a number of performance measurement indicators identified which are divided into three groups: operational stage activity

indicators, financial indicators, and qualitative/non-financial indicators. Input, performance yield and consequences are classified as operational stage indicators. Efficiency, effectiveness and productivity are classified as qualitative indicators.

5. The newest performance measurement models are influenced by the New public management, where the emphasis is put on improving efficiency of public services, and for its implementation quality efficiency indicators are used. Performance measurement model can be selected from a wide range: the European business improvement model (performance quality and achievements, and improvement achievements are measured), Common Assessment Framework (used for self-evaluation), ISO 9000 series quality standards (measures organisational designing, manufacturing, and product or service delivery), Balanced Scorecard (evaluates the past, present and future of the organisation), and SERQUAL model (measures service quality). Among the above mentioned models, the widest spectrum is measured by Balanced Scorecard, which enables measuring of quality and efficiency of supplied services as well as linking organisational short-term operational control with the long-term vision and strategy.

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