

KEY PERFORMANCE INDICATORS TO MEASURE EFFICIENCY IN THE PUBLIC SECTOR

MIRELA MONEA *

ABSTRACT: *Performance measurement has been discussed, more often in public organizations in last period and is now, more than ever, a necessity, but difficult to achieve. Key performance indicators could be considered a type of performance measurement. A distinct segment of the public sector, public administration needs special attention; public management based on performance has to be implemented in any public institutions in Romania.*

KEY WORDS: *performance, public sector, financial performance, public entity, efficiency, performance measurement;*

JEL CLASSIFICATION: *H70, D61, H83.*

1. INTRODUCTION

In each economy, of each state, the presence of the public sector is manifested in several ways. Generally, public sector is linked to governmental activity and state's intervention in the economy; public sector is comprised of those organizations owned by the government in order to provide public services for citizens.

There are many aspects of our lives that are correlated with the public sector: public goods, public education, health care services, public finances, public organizations, public transport, public opinion, public choice, public relations, public interest, public services, governmental services (law enforcement, military services, infrastructure), etc.

In a general short concept, the public sector consists of governmental and all publicly controlled organizations and entities that provide public programs, goods and services.

Compared with the private sector, organizations from the public sector do not desperately seek to generate profit. Performance measurement in public sector is now, more than a necessity.

Assoc. Prof., Ph.D., University of Petroșani, Romania, moneamirela@gmail.com

The microeconomics aspects of the public sector are related to the economic phenomena and processes which characterize the activity of the public sector as an economic agent. The macroeconomics aspects of the public sector refers to the economic phenomena and processes which characterize the activity of the public sector as a regulator of economy, in particular, all macroeconomic policies and measures adopted to mitigate the negative effects of imbalances, actions related to taxation, public debt, income distribution, etc. (Platiş M., Dudian M., 2011).

Delimitation of micro and macroeconomic aspects is a difficult attempt, which cannot always succeed due to the complexity of economic activity in general and of the public sector in particular, and because there are multiple correlations between the public and private sector, between the state and private entities, between public and private goods.

2. PERFORMANCE AND PERFORMANCE MEASUREMENT

2.1. Approaches about the concept of performance

Generally, the concept of "performance" means a great achievement in one or another activity sector, being difficult to define.

The economic literature attributes many meanings to performance.

The word performance has three basic meanings: success, action, the result of the action, (Bourguignon, 1995 – cited by Pintea & Achim, 2010):

- Performance means success: performance does not exist by itself, is in fact a dependent representation of the success of the different categories of users of accounting information;
- Performance is action: in this sense, performance is a process and not a result that appears at a time; performance is not a state but a process and its content became almost secondary in relation to its own dynamics;
- Performance is the result of the action: performance measurement is understood as "ex post assessment the results".

The different meanings of the concept of performance are explained by Pintea (2011) through the evolution of the concept of performance:

- First period between 1950-1980 when the concept of performance and performance assessment was explained by some criteria, such as: productivity, adaptability, capacity, flexibility, turnover or production costs;
- Second period between 1980-1990, when performance was defined through the entities objectives and goals and the level of achieving those objectives;
- The third period between 1995-2000, when the concept of performance was explained by productivity, effectiveness and efficiency of the enterprise's activity.

Niculescu & Lavalette (1999): "Performance is a state of competitiveness of the economic entity, reached by a level of efficiency and productivity that assures a

sustainable presence on the market". So, that, the concept of performance is related to efficiency, competitiveness, productivity, in terms of sustainable development.

Also, the word performance is frequently used and express different terms such us: growth, return, profitability, performativity or related to value creation:

There are authors who define performance in terms of profitability appreciating that like the ability of an economic activity to generate revenues higher than expenses involved. The profitability indicators are known as profitability ratio or accumulation margin (Ștefea, 2002);

Performance of an entity could be define through other concepts: performance means to achieve the strategic objectives, and as an economic concept implies the creation of wealth and value in the enterprise (Albu, 2005);

Performance is a function of two variables, efficiency and efficacy; efficacy reflects the achievement of external expectations, and efficiency is measured by the achievement of internal environment of a company (Siminică, 2008),

A common criterion for measuring performance since the 90's is to value creation. Starting from value creation, a series of economic indicators was developed for measurement: the economic value added, market value added, total shareholders return, cash-flow return on investment, return on capital employed, cost of capital (Robu, 2010).

Performance is a word often used for the metaphorical allusions it contains - organizational performance shows the individual's ability to progress, thanks to constant efforts;

The diversity of meanings of the concept of performance demonstrates that it is defined differently by users of financial information according to their interests. Thus, managers are focused on the overall performance of their company, current and potential investors perceive performance in terms of return on investment, employees show interest in the stability and profitability of the company, creditors, for its solvency, and customers, for the stability of the company.

The most complete meaning of the concept of performance is global performance. Therefore, in order to measure the performance of a company, it is necessary to use not only the financial results, but also a global vision of the entire entity's activity and objectives, taking into considerations quantitative and qualitative aspects, internal and external features and influences, material, human and financial resources.

The global entity's performance is based on the following pillars:

- technical performance;
- staff performance;
- resource management allocation;
- product competitiveness;
- services quality;
- customer's satisfaction;
- managerial team performance;
- non-financial performance;
- financial performance;
- social responsibility;

2.2. Efficiency, performance and performance measurement in public sector

Key performance indicators could be considered a type of performance measurement. Usually, performance indicators measures efforts or inputs, results or outputs, and outcomes or the effects of achieving them, but performance "is considered the result of the simultaneous effort of efficiency, effectiveness and of a proper budget" (Profiroiu A.; Profiroiu M, 2007).

In 2010, Mihaiu D.A. & all, studied the correlation between efficiency, effectiveness and performance in the public sector. The efficiency can be achieved under the conditions of maximizing the results of an action in relation to the resources used, and it is calculated by comparing the effects obtained in their efforts. Measuring the effectiveness requires (Mihaiu D.A. &all, 2010):

- estimating the costs, the resources consumed the effort, in general, found in the literature as the input;

- estimating the results, or the outputs;

- comparing the two;

Concerns expressed at different levels of decision-making determined outlining several dimensions of performance. In OECD countries, performance can be assessed using several types of general measurements. (OECD, 1995 by Profiroiu A; Profiroiu, M., 2007):

- "Measuring the savings of resources", which means to obtain adequate quality resources with lower costs than forecast. In this assessment, has to be included all the relevant costs. A measure of the savings resources can be determined by a comparison between the purchase prices of inputs or resources and the value expected as a goal.

- "Measuring the costs", which involves measuring resource consumption, expressed in monetary units, achieved to provide a certain volume of products or services.

- "Measuring efficiency": which takes into consideration the relation between the obtained result and resources used to achieve it. A process is efficient if the maximum possible results are achieved with a certain level of resources or if it uses the minimum level of resources for a certain volume of the results.

- "Measuring effectiveness": which takes into account the ability of an activity to provide an expected result. Its quantification is given by the ratio between the current result and the expected level of the result. This suppose that the result (goal) to achieve to be defined in advance and the result obtained to be measure as an indicator. Effectiveness is the most important element of the balance between quality and price. Goods or services may be provided in an economic manner or efficient, but if they do not achieve the expected goal (result), so that, the resources used will be considered wasted.

- "Measuring the quality of services": monitors the degree of consumer satisfaction, the product or service has to be in accordance with the consumer' needs. In this sense, quality encompasses effectiveness of a program, not only the quality of a product or service.

- "Measuring financial performance": it is specific to assess economic public services.
- "Measuring overall performance": takes into account performance dimensions, approached globally"

Measuring the performance in the public sector must take into account the efficiency, effectiveness, economy, financial performance, quality of service, the fulfillment of social and environmental requirements, so there cannot be build a single model that would measure the performance at the level of the public organizations (Mihaiu D, 2010).

According to the new trend of public management, the organization performance is determined by the way in which staff, resources, information, informational system and financial resources are used to provide citizen satisfaction through services provided (Androniceanu A., 2003).

Public management based on performance can be implemented in any public system, therefore also, at the level of public institutions in Romania, if at least the following aspects are taken into account and addressed as fundamental requirements (Androniceanu A., 2003):

- the existence of a general references, containing a series of definitions on performance, performance indicators and methodological approach of indicators system; without that references it is not possible to apply a comparable measurement system;
- to identify general and specific performance measurement indicators for public sector and to take into account the particularities of each segment of the public sector in applying the performance measurement system;
- to correlate the analysis methods to the diversity of services and particularities in context of central administration or and local level;
- continuity and unitary coordination when applying the performance indicators system;
- to elaborate a unitary, but also, diversified performance indicators system at the national level, according to the cascade approach and its particularization for each local public institution;
- to develop of a monitoring, assistance and consulting system at national and regional level, in order to assess the public management performance.

Performance criteria has to be expressed by economy, efficiency and effectiveness.

3. FINANCIAL PERFORMANCE OF LOCAL PUBLIC ADMINISTRATION

At the level of public administration entity, economic and financial analysis is a necessary tool in the decision - making process, an important tool which has help the public management in solving management responsibilities.

The analysis of the financial performance of public administration entity focusses on the level of taxation, types of revenues, operational expenditure, the level of investments of the local authority.

At the institutional level, efforts have been made to draw up a set of indicators that can be used to measure the financial performance public administration entity. Among the studies that provide support in this regard, we note those of the Federation of Local Authorities in Romania (FALR) and the Association of Economic Directors and Accountants from Romanian Counties (ADECJR) (Moldovan B.A., 2014). Moldovan B.A. (2014) studied the initiatives from those organizations from our country.

The first important initiative, regarding to draw up a set of financial indicators at institutional level, was made by the Federation of Local Authorities in Romania (FALR), which, through a project in partnership with the World Bank Institute in 2003, and initiated the construction of a financial indicators database.

The Guide to Financial Performance Indicators” (of FALR) is based on the following aspects:

- the capacity of the local community to generate revenues - indicators measuring the level of revenues of local governments and highlights the extent at local level;
- the rigidity expenditures of local community - indicators that reflect the degree of flexibility of local authorities to establish the destinations of the financial funds, starting from the premise that some expenditures are mandatory through the powers of local authorities, while others can be decided by them;
- the investments and indebtedness capacity of local community - indicators that reflect the ratio between capital and operating expenditure, as well as their ability to attract long-term financing for investments;
- the quality of financial management - indicators that reflect the performance of local financial managers taking into account the revenues and expenditures dynamics.

The performance indicators system of includes:

- Indicators related to incomes – which are reflected the capacity to generate income (e.g. operating income – total, per capita, weight in total income, total operating income, income per capita, income from property taxation, income from taxes, level of local taxation);
- Indicators related to operating expenditure which are reflected their rigidity (operating expenditure – total, per capita, weight in total expenditure, staff expenditure, capital expenditure);
- Indicators related to indebtedness capacity and investments (investment expenditure, debt service);
- Indicators related to ability and performance of the financial management (operating result – surplus/deficit; patrimonial result - surplus/deficit).

The other initiative, is the system developed by the Association of Economic Directors and Accountants from Romanian Counties (ADECJR), both the capacity to generate revenue and expenditure rigidity are no longer treated as dimensions, as in the FALR model, but to these categories there are draw up specific indicators. These system, has a higher degree of complexity compared to the system proposed by FALR, and was developed in 2004 through a project funded by Development Alternatives Inc. and the United States Agency for International Development (USAID), within the

Program “Public Administration Reform through Sustainable Partnerships” (Moldovan B.A.,2014).

Indicators system regarding the local budgets execution are grouped into three categories:

- income indicators;
- expenditure indicators;
- results / performance indicators.

The capacity to generate revenues of the local administration is closely related to the level of local autonomy, the dimension of the community, the level of economic development in the community. Current revenues, provide a clear picture of performance. The expenditure rigidity is measured in particular by indicators of the expenditure structure. Indicators of investment capacity and financial management emphasize the authority's ability to meet public needs.

4. CONCLUSIONS

Time ago, it has been considered that in the public sector, performance is not a goal, but the limits of such a thinking are gone. The fundamental objective of the public management emphasized the concept of performance in public sector.

Key performance indicators are needed to measure entity's performance, both in private sector and public sector. Overall, it is more difficult to measure performances in public sector but it is a necessity. It is recommended when talking about performance in public sector to take into consideration more many aspects than financial performance.

REFERENCES:

- [1]. **Androniceanu, A.** (2003) *Noutăți în managementul public*, Editura ASE, București
- [2]. **Androniceanu, A.** (2003) *Tendențe noi în managementul public internațional și oportunitatea adaptării și implementării lor în instituțiile publice din România*, Revista Administrație și management public, Nr. 1, pp.6- 19, Editura ASE., București
- [3]. **Bourguignon, A.** (1995) *Peut-on définir la Performance?* Revue Française de Comptabilité
- [4]. **Drucker, P.** (2001) *Eficiența factorului decizional*, Editura Destin, Bucuresti
- [5]. **Markic, D.** (2014) *A Review on the Use of Performance Indicators in the Public Sector*, TEM Journal, 3(1), pp. 22-28
- [6]. **Moldovan, B.A.** (2014) *Instrumente de măsurare a performanței financiare a administrației publice locale*, Revista Transilvană de Științe Administrative 2(35), pp. 71-83
- [7]. **Monea, M.; Guță A.J.** (2011) *The Relevance of the Performance Indicators in Economic and Financial Diagnosis*, Annals of the University of Petroșani, Economics, 11(4), pp. 207-214
- [8]. **Monea, M.** (2013) *Information System of the Financial Analysis*, Annals of the University of Petroșani, Economics, 13(2), pp. 149-156
- [9]. **Monea, M.** (2012) *Analiză financiară. Noțiuni teoretice și studii de caz*, Editura Sitech, Craiova
- [10]. **Mihaiu, D.** (2010) *Measuring Performance in the Public Sector: Between Necessity and Difficulty*, Studies in Business and Economics, Universitatea Lucian Blaga din Sibiu, pp.

40-50

- [11]. **Mihaiu, D.; Opreana, A.; Cristescu, M.P.** (2010) *Efficiency, Effectiveness and Performance of the Public Sector*, Romanian Journal of Economic Forecasting, 4, pp. 132-147
- [12]. **Oprea, F.** (2013) *Managementul financiar al colectivităților locale*, București: Editura Tritonic
- [13]. **Pintea, M.O.** (2011) *Performanța entităților economice în contextul dezvoltării durabile*, Editura Risoprint, Cluj Napoca
- [14]. **Platiș M.; Dudian M.** (2011) *Economia sectorului public*, Editura ASE
- [15]. **Profiroiu, A.** (2001) *Economia sectorului public*, Editura Economică, București
- [16]. **Profiroiu, A.; Profiroiu, M.** (2007) *Cadrul de analiză a performanțelor sectorului public*, Economie Teoretică și Aplicată, vol. 1 (506), pp. 41-50
- [17]. **Competition Council from Romania** (2014) *Competition Developments in Key Sectors*