NEW VISION OF PERFORMANCE INTO THE PUBLIC SECTOR ENTITIES IN ROMANIA*

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Abstract:
The dynamic operating environment of the entities, the descending trend of the public resources, their opaque use, objectives not enough defined, public's mistrust in the quality of the delivered services, and low performance of management lead to a new vision of performance within the public sector entities in Romania. This is the overall vision of performance, defined, measured and reported on the basis of the International Public Sector Accounting Standards.

Key words: *public sector entity, financial performance, non-financial performance, International Public Sector Accounting Standards, transparency.*

JEL classification: M41

INTRODUCTION

The objective of our study is to develop the concept of performance and the its measurement structures into the public sector entities in Romania in accordance with the European and international good practice of reporting in the domain.

Our research is based on a synthesis of the ideas published into literature, regulations issued by national and international accounting regulators, by accounting bodies.

By the constructive undertaken research we identify the performance meanings and boundaries, we analyze the manner in whcich performance is explained, measured and disseminated in the public sector entities, at national and international levels.

1. INTERACTION AND CONCEPTUAL BOUNDARIES REGARDING THE PERFORMANCE DEFINITION WITHIN PUBLIC SECTOR ENTITIES

Generally, performance shows the achievement of objectives. Whilst in the private sector entities the objective of profit maximization defines performance, its absence in the public sector entities generates difficulties, even paradoxes, in explaining this concept.

Bouckaert & Balk (1991) state that the opportunity and necessity of performance measurement in the public sector entities rise questions. For Meyer & Gupta (1994) performance in the public sector entities is a paradox. The same opinion is shared by Jones & Pendlbury (2000) and argued by the difficulty in measuring the result/outcome and also by its absence as an indicator of performance measurement.

Unlike the authors above, Robert & Colibert (2008) sustain that the lack of profit in the public sector entities should not generate a low interest in studying performance. In their opinion, the concept of performance simply means that current revenues of the entity shall be compared with current expenditures not only for the sake of covering the expenses but also for leading to a little surplus.

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Likierman (1993) approaches performance in the public sector entities in terms of indicators, considered as managerial tools which ensure that resources are not wasted and managerial actions are not distorted.

Another view shows performance in terms of value creation. Lorino (1995) states that performance is what contributes to the improvement of the couple cost-value, and not only what contributes to the diminution of cost or increase of value. This approach concerns three directions of action for the public sector entities: implementation of strategies allotted to the entities by political authorities; value infusion for the public, users whom the entity addresses to; control of resources that were allotted in order to accomplish their mission.

Peter & Waterman (1995) assimilate performance to excellence on the basis of the following determiners: entity's efficiency, social identity, objective achievement and entity's reputation.

From managerial perspective, performance – the attribute of managerial control – is defined upon the effectiveness–efficiency relationship. Effectiveness focuses on achieving outputs within clear stated objectives, and efficiency shows the best management of means and capacities in relation with the output. From point of view of other authors (idea adapted to the needs of public sector in accordance with Niculescu & Lavalette, 1999), performance is the competitive state of the entity, achieved on the basis of its two components, effectiveness and efficiency, elements ensuring for the entity a sustainable presence on the market. The authors argue that efficiency and effectiveness generate two cost categories, i.e. "the coercion cost" (cost of efficiency), resulting from actions which do not concern the environment and "the outcome/result cost" (cost of effectiveness), as an effect of the actions allowing the entity to achieve an outcome desired by its environment. By reporting the two categories of cost, there can be obtained the necessary information to manage performance.

Kaplan & Norton (1996) suggest using a system of performance monitoring called the "balanced scorecard" helping the entity to balance the long term strategies with the short term actions.

Alazard & Sépari (1998) plead for a global view of performance. These authors are in favour of performance measurement not only on financial outcomes but also on a global vision of interaction between internal and external parameters, quantitative and qualitative parameters, technical and human parameters, physical and financial parameters of management.

Danziger (2000) & Bértin (2007) define performance of the entity with reference to social performance. Without giving a definition to this concept, Danziger considers that human resources play a significant role in creating the entity's performance, and Bértin defines social performance as a measure of effectiveness of human resources policy (tracing the social issues, forecasting their evolution, and establishing the opportunity cost of solution).

Robert & Colibert (2008) do not define performance in public sector but they are in favour of public sector performance measurement on the basis of accrual accounting. The authors consider accrual accounting the surest and most viable instrument to measure performance due to the fact that accrual accounting is the one recognizing the exercise expenditures in correlation with the corresponding revenues.

The undertaken research shows that there is not an exhaustive and unanimously accepted definition of performance for the public sector entities into literature. The lack of a definition does not emphasize the researchers' low interest in the concept of performance, but on the contrary, their major concern to identify ways through which an entity ensures a continuous delivery of services to the public and a good management of the public money.

In opposition, the international accounting regulators define performance by reference to the International Public Sector Accounting Standards (IPSAS), a unique information and analysis framework of state performance, an intelligible, credible and relevant instrument for users.

In Romania the efforts of the regulators to align performance to European and international tendencies, in line with the International Public sector Accounting Standards (IPSAS) are still shy. Currently, performance of public sector entities is explained only from financial point of view and determined on the basis of the mix of both cash and accrual accounting. By examining the components of the financial statements, we identified the following indicators of performance evaluation:

- The patrimony outcome, which though not defined in a comprehensive way by the national regulations, it is an economic result and emphasizes the financial performance of the institution, respectively, patrimony deficit or surplus.

By reference to economic theory, the economic result is the difference between total revenues and opportunities of all production factors (inputs) used during a certain period of time. We consider that the patrimony outcome, though regarded by national accounting regulators as an economic result, is not perceived in its real economic meaning. From accounting point of view, the concept of economic outcome is more enhancing than the concept of result reflected by the patrimony outcome account, because it includes unaccomplished elements, discovered in the entity's own capitals but not encountered within the patrimony outcome account.

- The treasury outcome explains the way an entity gets finances and ensures its sustainability; it is determined by cash movements resulted from the entity's activity.
- The economic (global) outcome explains the way performance is created.
- Budgetary outcome, determined on cash-based accounting, is the difference between the gathered revenues and the paid expenses in the structure of the approved budget.

The set of financial statements and the way of dissemination of public sector entities performance are shown as it follows:

Table no.1 **Performance: measurement, dissemination from national point of view**

Elements of the financial statements	*The Indicator of financial performance measurement*	*Explanation*
Account of patrimony outcome	Patrimony outcome	Direct
Account of budgetary operation	Budgetary operation outcome	Indirect
Statement of treasury flows	Treasury outcome	Indirect
Statement of assets/capital structure modification	Economic (global) outcome	Indirect

By studying the four dimensions of performance, we identified the following deficiencies in its definition and measurement: coexistence of patrimony outcome and budgetary operation outcome; coexistence of budgetary operation outcome and treasury flows; confusion of the concepts patrimony outcome – economic outcome.

The dynamic operating environment of public sector entities from Romania, the decreasing trend of public resources, lack of transparency in their use, objectives not enough defined, public's mistrust in the quality of the delivered services, and low performance of management impose a new approach of performance within public sector entities.

2. PERFORMANCE PERSPECTIVES IN THE PUBLIC SECTOR ENTITIES

Within the actual context, characterized by a slow-down of the economic growth simultaneously with the increase of income disparity, as effects of the economic recession deeply felt at international and national levels, the demand of transparent, pertinent and viable information upon the performance of public sector entities has an ascendent evolution.

Performance definition and description with reference to the International Public Sector Accounting Standards (IPSAS) is the best international financial reporting practice for the public sector entities and, at the same time, the manner of possessing a unique framework of financial/nonfinancial information and analysis of state performance, comprehensible for various users.

With reference to the International Public Sector Accounting Standards, the measurement structures and ways of explaining the public sector entities financial and nonfinancial performance are the following:

Table no.2 **Performance: measurement, dissemination from IPSAS point of view**

Elements of the financial statements	*The Indicator of financial / nonfinancial performance measurement*	*Explanation*
Statement of financial performance / profit and loss account / Statement of operation / Statement of incomes and expenses	Net surplus of the period	Direct
Statement of treasury flows	Treasury outcome	Direct
Statement of net assets / own capitals modification	Global outcome	Direct
Accounting policies and notices for the financial statements	Financial / nonfinancial information	Direct

Transparency, pertinence and viability of financial / nonfiancial performance with reference to IPSAS is argued by the results of a survey carried out by the Professional Accountants in Business Committee (PAIB) of the International Federation of Accountants (IFAC) in 2008. 250 public sector entities from all governmental levels, from different sectors (municipal councils, public services and various ministries) from 41 countries answered the questions in this survey. The survey results demonstrate that respondents are satisfied with the performance measurement structures in the public sector entities because:

- they contribute to improve transparency, accountability, integrity and professionalism;
- they are objective driven and show performance of the entity, and the main suppliers of resources – the public – obtain information on the efficiency, effectiveness and economy of the resource use;
- they show in a simple and sure manner the achievement or non-achievent of the objectives set by the entity;
- they support the managerial control; on the basis of the performance measurement structures the entity establishes the performance framework, instrument of planning, decision making and control;
- they improve risk management and (internal) control;
- they supply structural reports for users at different levels of planning and decision making;
- they ensure a periodical relevant comparable reporting of the public sector entity performance.

At present, the International Public Sector Accounting Standards implementation in all the countries of the world is not compulsory, but the European Commission, International Monetary Fund, World Bank encourage IPSAS application for financing the ongoing accounting reform programmes or, coercively, as a condition for going on with the technical assistance programmes of the relevant countries. Starting with 2010, IPSAS implementation becomes compulsory.

The dimension of implementing the International Public Sector Accounting Standards at European and international level emphasizes the following stages of application:

- Stage 1 includes countries such as Albania, Algeria, Argentina, China, Salvador, India, Fidji, Maroc, Slovakia, Uruguay, which have adopted IPSAS under pressure of the International Monetary Fund and World Bank, as a step of the programme imposed by the reform of public accounting and, also, as a condition for continuing their financial support, IPSAS-based reporting being certified with the highest degree of financial transparency.
- Stage 2 is represented by countries such as Afganistan, Cipru, Indonezia, Latvia, Mongolia, Pakistan, Vietnam, the Netherlands, which have adapted their regulations to meet IPSAS provisions and started to establish their own regulations inspired by the International Public sector Accounting Standards.
- Stage 3 gathers countries like France, Italy, Japan, Israel, which in 2006 adopted their new standards in line with IPSAS provisions and later on implemented the public governmental accounting.
- Stage 4 includes New Zealand, Australia, the United States of America, the United Kigdom, advanced countries due to the fact that their public accounting regulations have already been aligned to IPSAS, and the reforms within public accounting started six years ago.

An examination of the implementation programme of the International Public Sector Accounting Standards shows that, at least by 2010, the public sector entities in Romania will not have defined and disseminated (non)financial performance in terms of comprehension, transparency, relevance and credibility. Reporting of performance either only financially, according to the regulations drafted five years ago (inadequatelly developed), in a public system severely affected by the economic crisis, generates doubts and mistrust on the accomplishment of the state obligation to protect services/quality of services delivered to the citizens.

The analysis of performance and its dissemination structures in the public sector entities from Romania rise the following problem questions: Will coexistence of four manners of exclusively financial performance measurement, though three of them are not explained, allow managers to focus on appropriate outcomes and strategies in order to achieve them or will it generate a surplus of information creating difficulties to management? Will financial reporting of performance on the basis of cash/accrual accounting, contrary to the principles of the budgetary process, ensure information clearness, relevance and transparency necessary to the user? Will little/lack of nonfinancial information regarding performance ensure assessment and relevance of the entity performance? At present, we consider that these questions have two alternate or not answewers: to adopt coercively IPSAS, as a result of the loan grated to Romania by the International Monetary Fund, in order to surpass the effects of the economic recession; to adopt IPSAS starting with next year when the International Public Sector Accounting Standards Board (IPSASB) will set out concrete structures.

CONCLUSIONS

The undertaken study emphasizes the fact that the financial approach is of major importance in measuring the public sector entities performance, but not exhaustive. Definition, measurement and dissemination of financial and nonfinancial performance on the basis of the International Public Sector Accounting Standards and the budgetary system reform on the basis of the same principles allowed us to effectively and transparently describe the process of evaluation of the public policies based on the analysis of outcomes, by reporting ourselves to specific objectives clearly identified and quantified.

The International Public Sector Accounting Standards implementation in Romania will shape a new vision of performance in public sector entities, offering to the public high quality financial and nonfinancial information, ensuring the transparency of funds allotment and the elimination of doubts in using efficiently the resources and service supply. This is the overall view of performance in public sector entities including: financial performance; economic performance, respectively, the competence of the entity to create economic value; social performance which shows the measure of effectiveness of the human resources policy of the entity; and eco-performance, as a measure of effectiveness of the environment policy of the entity.

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