

# APPROACHES OF THE ROLE OF PERFORMANCE INTO THE PUBLIC SECTOR ENTITIES FROM ROMANIA<sup>1</sup>

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## **Abstract:**

*The principal – agent relations existing in the public sector impose a mechanism binding the entities to act in the public best interest. In this respect, this research has as objective to explain and develop the concept of performance and its role into the public sector entities. By fundamental research methodology, we explain the concept of performance and identify the performance role within the public sector entities, in terms of the entities typology and the public.*

**Key words:** public sector entity, performance, informational asymmetry, consumers of public services

**JEL classification:** M41

## **INTRODUCTION**

The economic recession generated by the world financial crisis requires a new dimension of performance and its role into the public sector entities, in terms of inverse ratio to the services requested by the public and the existing resources. The research takes into account a synthesis of the ideas published on the topic, the regulations issued by the national and international accounting regulators, and by bodies of the accounting profession. Starting with the various valences given to the concept of performance into the professional literature, as well as the informational asymmetry describing the financial communication within the public sector domain, we intend to mark out several general directions useful for describing the performance of the institutions from the Romanian public field.

In order to achieve the proposed objective, there will be used a fundamental research methodology consisting in the research of professional literature and legal regulations in the field aiming at the performance definition. Also, we will refer to comparative analyses in order to identify the dual approach of the performance role.

## **1. SYNTHESIS OF PROFESSIONAL LITERATURE: APPROACHES OF THE PUBLIC SECTOR ENTITIES PERFORMANCE**

Conceptual difficulties occur when defining performance because this frequently used concept is hard to define, most of the times having an ambiguous character. In our opinion, defining performance within the public sector entities arises the following problems: connotations of the financial outcome, quality and number of services offered to the public; number of users resorting to the entity's services; professional quality of human resources into the entity; credibility of entity; staying

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within the public financial resources assigned to the entity; efficient, effective and economical usage of the financial resources assigned for public services; drawing in financial resources complementary to the public ones in order to achieve objectives; the public results registered due to the services offered by the entity; competitiveness on the market of services offered by the private sector, too. The foundation for answering these questions is the multidimensional approach of performance, seen at general, economic, managerial, and respectively accounting levels.

There is a *general* framework of the concept, performance being a result obtained by someone into a sports competition, or a special accomplishment into a certain field of activity (<http://www.dexonline.news20.ro>). This definition is just a point of reference in our attempt to identify an appropriate approach to describe performance within the investigated field (public sector entities).

In terms of the *economic theory* (Angelescu et al., 2001), the performance of an entity is defined by comparing the results with the consumption of production factors which have contributed to their manufacturing, or by comparing the forecast with the achievements. In accordance with the same approach, the performance of entity is defined also by means of global productivity. Global productivity expresses the aggregate efficiency of the usage of all production factors at an economic entity level. This approach is also supported by Didier (1994) who states that global productivity expresses the overall performance or global effectiveness of the production factors. Also in economic terms, Bourguignon (2000) defines performance in general manner, as the achievement of the objectives of the entity, no matter their nature and diversity. Subsequently, Djellal & Faiz (2007) have a different position from scientific point of view, interpreting performance as a social construction, a convention instigating to contradictory debates. In the attempt of defining performance, they rest upon effectiveness, efficiency, economy and productivity as forms of performance. One of the most recent economic approaches of performance is the one belonging to Bartoli (2009) who defines performance by means of efficiency, effectiveness, quality and plus value.

By analysing the economic approaches of performance, we retain two ideas characteristic to this area: *comparison of forecast and results*, respectively *its definition through global productivity*. In respect of the first approach, comparing the forecast and reality represents an important reference element to be taken into account when defining performance into the public sector. It is not an essential element to take into account global productivity in order to define performance into the public sector because this is a sector characterized by the service offer.

From economic point of view, performance can be described by *managerial* approach. In this respect, performance encompasses the following coordinates: economy, efficiency and effectiveness (Cohen, 2005). This trinomial describes the essential elements of the *public management based on performance*, having a significant impact on the process of creating performance. In this approach, the concepts of economy, efficiency and effectiveness are defined as it follows:

- *Economy* means that the main criterion of implementing strategies and policies, and of supplying services is the economic one, respectively, the lowest level of cost required by the public entity to satisfy quantitatively and qualitatively the public interest.
- *Efficiency* consists in obtaining the maximum possible result with determined level of resources or with a lower one, or, in obtaining constant performances when decreasing the level of gained resources; it is determined as the ratio between the obtained effects (results) and the taken efforts to get the desired results.
- *Effectiveness* emphasizes the accomplishment of the objectives defined by the public managers; it is measured by the obtained results as compared to objectives and by the impact of the achieved objectives on the public.

Approaching performance in terms of economy, efficiency and effectiveness, implies the development and implementation of a system to monitor performances which are being continuously developed as entities learning within the process of obtaining a better level of performance.

The first component in the attempt to define performance into the public sector was extracted from the economic approach and it is based on the comparison of forecast and results, or on *effectiveness*. In the attempt to define performance into the public sector, there must be taken into consideration the *economy* and *efficiency* elements as well.

In terms of accounting, the last two decades approaches are various. Thus, Kaplan & Norton (1996) propose a monitoring system of performance called "balanced scorecard". On the other hand, Murray et al. (2000) consider performance a relative concept, due to the fact that it takes into account the comparison of the obtained results and those which could have been realized. A different approach is the one offered by Bertin (2007) defining performance by appeal to social and societal performance. Social performance is the measure of policy effectiveness related to personnel (detecting social problems, anticipating their evolution and determining the opportunity cost of solution), and societal performance is the measure of policy effectiveness related to the environment of the entity. An essential vision is the one of Colasse (2008), according to which the concept of performance covers various and different expressions, such as growth, rentability, profitability, productivity, output, competitiveness.

In our attempt to define performance into the public entities, at the above elements we add the informational valences given by the social and societal elements, identified by Bertin (2007) as a result of the study of performance into the accounting domain.

Remaining within the public accounting, three approaches are important: the "balanced scorecard" approach adapted to the public sector (2004), the approach in which performance is defined by accrual accounting, respectively the approach of performance in terms of changing the accounting domain within the public institutions.

Regarding the second approach of performance into the public sector, Robert & Colibert (2008), respectively Lande (2008) define performance into the public sector on the basis of the accrual accounting. For Robert & Colibert, accrual accounting is the instrument of measuring performance into the public sector, due to the fact that it recognizes the expenditures of the accounting exercise in relation with the correspondent incomes. On the other hand, Lande considers that the introduction of the accrual accounting leads to a cultural reform of the public management and also to taking into account the unity and purpose of the accounting information.

In the Romanian professional literature, the approach of performance concept into the public sector entities is limited. What is new here is the proposal of a new side of measuring performance into the public sector entities, namely *performance through coercion* (Stefanescu et al, 2009). They define this type of performance as being "the degree in which the value restriction of a type of budgetary income X leads to emergence/increase of a category of extrabudgetary income or to restriction of activity of the institution".

There is a "gap" of professional literature in Romania regarding the concept of performance into the public sector entities. Therefore, it is interesting how the accounting regulators from Romania approach performance, in the context of turning to an accrual accounting in 2005 (Calu et al, 2008). By analysing the regulation text, there can be noted that at national level the accounting regulators give performance a financial connotation, defined by the patrimony result (patrimony excedent/patrimony deficit). But performance is not always expressed by financial results, especially into the public sector.

The international accounting reference book is an essential element for the people involved as producers and users of accounting information. Thus, the International Public Sector Accounting Standards (IPSAS) encourage entities to come with information on the financial and non-financial performance. The correlation between the typology of performance and the manner of its measurement is presented below (Table no.1):

Table no.1 *Performance into the public sector entities: typology and measurement in international terms*

<i>Performance typology</i>	<i>Financial performance</i>	<i>Non-financial performance</i>	
<i>Measurement indicators</i>	Net excedent/surplus of the period	Inputs	
	Treasury result	Outputs	
	Global result		Results
			Programmes
			Processes or activities
			Organizational structure
			Mix of the previous indicators

Unlike Romania, where the measurement of non-financial performance is absent from point of view of legal regulations, the existing international public sector entities give similar importance to both the financial and non-financial performance. This statement is argued by a survey performed by IFAC Committee for Professional Accountants in Business in close cooperation with the Chartered Institute of Public Finance and Accountancy in the UK (IFAC,2008), on a sample of 250 public sector entities at all governmental levels, from various sectors, respectively, municipal councils, public services and different ministries from 41 countries. The survey results show that 93,1% of the entities set financial performance objectives and 91,6% of them set non-financial performance objectives. In respect of the manner in which the financial and non-financial performance objectives are set, the results of the survey are the following:

- The financial performance objectives are generally set by the public sector entity's board or by its own managing body – in a percentage of 41,9%; by an executive body – in a percentage of 20,5%; by an executive governmental body – for 20,1% of the respondents; by a regulating body – for 10,9% of the investigated population, respectively by a mix of the previous methods – for 6,6% of the entities.
- The non-financial performance objectives are generally set by the public sector entity's board or by its own managing body – the case of 55,7% of respondents; by an executive body – 16,4%; by a legislative governmental body – for 12,8% of respondents; by a regulating body – for 7,3% of respondents, respectively by a mix of the previous methods – for 7,8% of the entities.

In addition, if we approach the performance of the public sector entities in terms of the ratio demand-offer, in accordance with the theory of the agency, we note an informational asymmetry. According to this approach, while the producers of information are interested in financial performance, the consumers are oriented mostly towards information on non-financial performance.

The study of the performance meanings into the public sector entities shows the difficulty of defining it, due to the following factors: typology of public sector entities; diversity of perception of performance; informational asymmetry of the users of information concerning performance; nature of the offered public service; complexity of the economico-social environment; ascendent trend of consumers; discrepancy between the number of consumers and the one of contributors towards the establishment of

public resources; managers' low interest for identifying new financing sources; real non-existence of the correlation financial performance – non-financial performance, respectively the influence of the political system.

Referring to the characteristics of the public sector entities, we define performance as *the extent in which, the entity answers the consumers' expenctances through the offered services*. Although they are interested in the quality of the services they receive, there must not be omitted the correlation between quality and the entity's financial resources.

## **2. ROLE OF PERFORMANCE INTO THE PUBLIC SECTOR ENTITIES**

The public sector is characterized by the existence of the principal-agent relationships (agency theory). Such a relationship occurs any time the wealth of a person, called *principal*, depends on the actions of another one, called *agent*. This approach points to the difficulties which occur in case of incomplete or asymmetric information, happening as a result of the fact that the principal's interests (the public) are different from those of the agent (state and its entities), this relationship is inherently conflictual. Therefore, it is required a mechanism by which the agent should be determined to act in the principal's interest.

In this context, we consider performance the binder between the public, as the information consumer, and the state entities. In our opinion, a first argument for this statement is that the role of performance into the public sector entities is to turn their actions towards answering the public's demands. The second argument is the acceptance of the performance concept. Thus, the achievements, results obtained into the public sector, are represented by the satisfaction of the public (citizens) through the offered services. In this respect we mention that quality is the fundamental attribute of the public services, and at the same time, a powerful means to stimulate performance.

In another approach (the one of credit managers), performance has the role to show the manner in which the entity has achieved the proposed objectives. On the other hand, in terms of typology of the public sector entities, according to their responsibilities as financing entities and respectively, service supply entities, performance is a foundation for the assignment of future public resources.

The careful examination of the performance role into the public sector shows that, although approached in a dual manner (entities-public), it cannot be separated, due to the fact that the entity's performance is reflected into the services offered to the public and, thus, in the manner of perceiving performance by it. A dual approach of the role of performance within the public sector is shown in table no.2.

The dual analysis of the role of performance into the public sector shows the following:

- Interdependence of the entities: according to their typology, the manner in which an entity achieves its objectives determines the accomplishment of the objectives of the subordinate entities;
- Entities' performance assures the public that they act for the accomplishment of the proposed objectives, and thus, in its interest;
- The public appreciates the entities' performance by quality, pertinence, diversity and continuity of the offered services;
- A performant entity will give appropriate services to the public expectations.

Table no. 2 *Intercorrelation of the role of performance into the public sector entities*

<i>Public sector entities</i>			<i>The public (service consumers)</i>
<i>Typology</i>	<i>Objectives</i>		
Regulation, coordination and monitoring of public sector policies	Exhaustive, pertinent and appropriate regulations for the typology of the public sector entities	→ <b>PERFORMANCE</b> →	Service quality
Financing/ managing the public resources	Collection of public resources to the state budget, budget of the state social insurances, budget of insurances of unique fund of health social insurances, insurances for unemployment, local budgets		Diversity of services
	Assignment and monitoring of resource uses		
Service supply	Use of resources in terms of efficiency, economy and effectiveness		Pertinence of services
	Gain of a minimum cost in order to satisfy quantitatively and qualitatively the public interest		
	Results (services) constantly obtained in terms of diminution of the level of gained resources		
	Results (services) obtained in terms of impact they have on the public		
	Equitable acces to the offered services		Continuity of services

## CONCLUSIONS

This research emphasizes the fact that performance into public sector is a concept with multiple approaches both in terms of theoreticians and accounting regulators. These do not disguise the difficulty of defining the concept as a result of at least the following factors: nature of public service, informational asymmetry, influence of the political system, discrepancy between the public resources and the required services.

Limitation of resources and the public discontent with the received services, generate conflictual relationships, argued by the fact that the interests of entities (the state) are different from those of the public.

In our opinion, performance has the role to assure the contributors (the public) that the entities act towards the accomplishment of the proposed objectives, which enter the public demands: qualitative, various, pertinent and continuous services.

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