Performance Management Options in Public Administration in the Czech Republic in Terms of the Principles of "3E’s"

OTRUSINOVA MILANA, PASTUSZKOVA ELISKA
Department of Finance and Accounting
Tomas Bata University in Zlin
Nam. T. G. Masaryka 5555, Zlin
CZECH REPUBLIC
otrusinova@fame.utb.cz, pastuszkova@fame.utb.cz, www.fame.utb.cz

Abstract: The paper deals with performance management within public administration institutions. All public administration reforms that have been undertaken are accompanied by questions regarding the efficiency of various functions of public administration. Unlike the private sector, public administration institutions and other public sector organizations are disadvantaged concerning the evaluation of performance and efficiency, because they are managed primarily on non-profit basis and therefore cannot apply the profit criterion as a performance indicator. The aim is to discuss the possibility of performance management using the principles of “3E’s”, i.e. economy, effectiveness and efficiency, namely on the example of the Czech Republic. The paper introduces a decision-making model design applicable to performance management using the principles of “3E’s”.

Key Words: performance, public administration, economy, effectiveness, efficiency, Czech Republic.

1 Introduction
Information on prosperity, profitability or loss are among the important information necessary for financial management and performance measurement, including information on cost structure and its links to revenues. This applies even to public sector institutions, although they often do not provide paid services, however, they always have their performance and thus revenues as well (in the form of various subsidies and transfers, tax revenues, etc.).

Since 2010 an ongoing financial reform in the Czech Republic has resulted in a gradual adjustment of public administration accounting to business accounting and some significant differences are slowly fading away, however, public administration will always differ in its nature. There is still the cash-based state budget setting, but accounting has been gradually transferred to the accrual principle.

All of the reforms undertaken in the public sphere are accompanied by consideration of the efficiency performance of public sector activities. Unlike the private sector, public administration institutions and other public sector organizations are disadvantaged concerning the evaluation of performance and efficiency, because they are managed primarily on non-profit basis and therefore cannot apply the profit criterion as a performance indicator. In the case of public sector institutions it is therefore necessary to manage and evaluate performance, alternatively, using other indicators.

This article aims to show the possibilities of performance management in public administration institutions through the principles of “3E’s”, namely on the example of the Czech Republic. In the first part of this article, the authors discuss the definition of performance issues within public administration institutions. The second part consists of the definition of using the principles of “3E’s” in connection with the very performance management. Part of the text comprises also a proposal for a decision tree applicable to performance management using the principles of “3E’s”. Addressing the issue is adjusted to the situation in the Czech Republic, but general conclusions can be applied to the situation in other countries as well.

2 Problem Formulation
Public administration must be viewed as an economic system and in assessing the economic aspects of the processes of public administration is often very difficult to vary between categories that are hard to define, especially in terms of revenues
and profits. It may not always be the case that the activity is effective if the result is achieved with the lowest resources or costs. It is often questionable as how to value the benefits of public administration performance, how to measure them, what is an objective or subjective category? The decision-making in this area often includes ethical and solidarity dimension. For example, would it not be useful to spend some resources, energy or work in other areas of public administration? Some revenues are often measurable after a few years from the cost spending and time blurs the causal relationship with realized costs. The question is how much solidarity should there be between generations, regions, or sectors of national economy, etc.

If it is difficult to define and value the required or necessary public administration spending, it is even more difficult to define revenues in terms of expected or likely outputs. If we want to express some specific economic performance of public administration, it should be measurable in form of a change in the satisfaction of an individual or a company and should be measurable according to the relevant performance of public administration. However, this specification is often subjective and different participants of public choice may have different preferences. These different preferences can be described as financial relations within the public budgets. For example, employees may, i.a., wish to have high and stable wages, users and citizens want quality and cheap or free services, the state may often prefer to obtain high taxes and banks high interest on loans. The authors believe that the very understanding of these different preferences and definition of synergetic effects, which represent the common interests of the entities on both sides of the financial relations, can help increase the efficiency and performance of public administration.

2.1 Public Administration Performance

Understanding the concept of public administration performance has been still developing in connection with changes in the economy. The specialized literature has been dealing with the issue of performance of public sector, see, e.g. [1], [2], [7], [8], [9], [13]. It is true that all mechanisms of performance measurement and management are adequate and useful if they are designed to achieve goals. All of the reforms undertaken in the public sphere are accompanied by consideration of the effectiveness of performance of public administration activities, see e.g. [11].

If we want to assess the success of public administration using performance measures, it is necessary to define the term performance at first. The definition of performance or performance measurement is not very clearly defined anywhere in the literature. As Neely et al. [10] states, „performance measurement is a topic often discussed but rarely defined“. The same authors [10] present their own definition how to understand the performance and its measurement: „Performance measurement can be defined as the process of quantifying the efficiency and effectiveness of action“.

However, in the natural and technical science the system performance is relatively well defined by a performance variable (amount of work done per unit time), in public administration there is not any similar unambiguous and long-dated definition of a variable, economics and finance that would be respected by all authorities. This is primarily due to the fact that public administration is a very complex system, whose inputs and outputs are both measurable (e.g., financial nature), but also largely immeasurable (e.g., personnel area, outputs in the form of a quality of non-profit services, activities of officials, etc. ...). The most successful concept in this area is generally based on the principle that says that you can not measure the immeasurable, you can not even manage the immeasurable and therefore it is necessary first of all to make all variables affecting performance as much measurable as possible. Here the question arises whether this is in public administration possible and whether such strict approach makes sense. Anyhow, performance measurement and evaluation may answer the question, how effectively and efficiently public services are delivered [5].

It is a widespread opinion that non-profit organizations, which include all public institutions, generally can not reach any profits or surplus by their activities. This opinion is inaccurate, because non-profit organizations are indeed organizations that do not generate profit for redistribution among its owners, administrators or promoters, but may under certain circumstances, create profit, which then must be put back again to the development of the organization to achieve its aims (in case of the Czech Republic). Therefore we can not talk about non profit, but about limits to the use of improved trading income. A different concept of profit in the non-profit sector compared to business entities is related to the limited use of meaningful indicators of performance evaluation. Public organizations have so far lacked a clear system of performance measurement indicators that would adequately
reflect the effectiveness and efficiency [14]. *Performance in public administration* can be understood as part of the financial management system ensuring the economical, effective and efficient use of public funds. A universal model of performance measurement is not defined anywhere and varies in different organizations, but it is an integral part of management. We can call it a set of mechanisms and procedures to ensure quality and efficient management of the organization.

2.2 The Principle of “3E’s” – Economy, Efficiency, Effectiveness

The terms as economy, efficiency and effectiveness are currently often in use in the Czech Republic, in the sense of the so-called “3E’s” principles [4]. It is hard to find a clear concise one-word Czech equivalent to the meaning of individual words in the Czech translation. Ways to understand the different meanings of the terms “3E’s” are many, meanings and concepts often overlap. A number of Czech authors use different translations with different meanings, which makes the orientations among these terms very difficult. For example, the effectiveness as expediency, efficiency, profitability, economic efficiency, total effectiveness, prosperity, performance ... [12].

The principles of “3E’s” are in the Czech environment collectively defined as organizational performance and the model concept of the “3E’s” is (for ex. according to [6]), considered the basis for performance monitoring in public administration, when based on the objectives are provided inputs, i.e. resources that are in the form of personnel and material securing transformed into outputs. Outputs are developing effects in which public administration is interested. When considering all the aspects of economy, efficiency and effectiveness, it is essential to proceed comprehensively. Even with a separate study of the economy or efficiency of the given activity, it is essential to assess the effectiveness at least in general, which has fundamental importance. And vice versa, in assessing the effectiveness is necessary to evaluate the economy and efficiency, because assessed activities, programs, operations, etc. could indeed have the desired result, but resources to achieve this result have not been used economically and efficiently. A generally known and customary explanation of how to understand various terms is represented in a quote by Drucker [6]: “Efficiency is doing things right, effectiveness is doing right things.” In the Czech Republic, the principle of “3E’s” is a basic principle for the area of financial control in public administration under the rule of statutory regulations (Act No. 320/2001 Coll., on Financial Control).

The meaning of words can be loosely interpreted as follows:

*Economy* = the lowest possible expenditure of funds within the appropriate quality (performance in relation to price), the evaluation criterion for input based on the principle of doing things inexpensively.

*Efficiency* = achieving the necessary outputs for little money, the relationship between inputs and outputs based on the principle of doing things the most suitable way.

*Effectiveness* = expresses the degree of progress towards the set objectives (Do we have what we wanted?), the evaluation criterion for output based on the principle of doing only those things that really should be done.

The following chart (Fig. 2) illustrates the essential links and processes in use of financial resources from public budgets in relation to performance management through the principles of “3E’s”. From the chart are also visible the links of individual principles to inputs and outputs - the economy principle is the evaluation criterion for input into the decision-making process, the effectiveness principle is the evaluation criterion for output and the efficiency principle assesses the link between inputs and outputs.

![Fig. 1 Basic links within the public administration processes and their relation to the principles of “3E’s”](Source: Author’s illustration)
3 Problem Solution

The authors in their own research examined the above issues based on an analysis of processes occurring in public administration. Using the principles of “3E’s” for performance management can be simplified to the basic decision model generally applicable to any decision-making institutions of public administration. Based on the decision-making model are defined and specified objectives based on the needs, consistent with the objectives are provided inputs, which are then transformed into outputs. It is also necessary to define separate evaluation criteria for each “3E’s” principle in each institution individually as necessary. After meeting the condition that the management of the specific institution or activity corresponds to the set criteria of economy, efficiency and effectiveness, we can talk about the process performance.

Basic decision-making model of processes in public administration shows Fig. 2.

As part of their decision-making process, public administration institutions have to determine their objectives. Given that public administration institutions operate with limited financial resources from public budgets, in order to manage and evaluate the performance it is necessary to define the inputs (including their quantity, quality and price) and specify outcomes that will lead to achieving the objectives.

If we want then to evaluate the performance of the institution using the principles of “3E’s”, we will require that all three principles are met at the same time. The given decision-making model allows us to focus on each principle separately and thus determine which principle has been met and which has not. Consequently, managers of the public administration institution can investigate only that part of the decision tree, where satisfactory results have not been achieved.

Economy represents minimizing costs on resources used in specific activities within the appropriate quality. In principle, this term means “doing things inexpensively”, refers primarily to the costs of specific activities and is the evaluation criterion for input. In the case of determining whether the principle of economy has been met by the relevant institution in the process of ensuring the public good, regarding the performance evaluation, it is tested whether the minimizing of costs occurred during the process without reducing the quality of results. It is always necessary to combine the two criteria of this test - it is not possible to consider the process as economical, if it

![Diagram showing the decision-making model](Source: Author’s illustration)

**Fig. 2 Proposal for the basic decision-making model of processes in public administration in relation to the principle of “3E’s” and performance**

only one condition of cost minimization is met. In some cases, the cheapest option is not the most economical.

One example is assessing the economy in the use of external entities, or when purchasing technology. In providing the services of external entities, cost savings do not always guarantee the required quality and the cost saving can often be in terms of input completely counterproductive. Regarding the technology, the purchase of the cheapest device or equipment does not always mean maintaining required quality. The assessment
of individual cases needs to be approached objectively as well as the consideration of the balance of the two requirements - the requirement to minimize costs and to maintain the required quality. For this purpose, both exact (statistical data) and empirical assessment methods (references, negative experiences of other entities, or their referrals) can be used.

**Efficiency** is the relationship between outputs in the form of goods, services or other results and resources used to achieve them. Efficient activities maximize outputs towards given inputs, or minimize inputs towards given outputs, again always with a view to maintaining the required quality. In principle, this term means “doing things the right, or the best way, in the best possible manner”. It is a criterion that evaluates the relationship between input and output, thus using the resources for the right purpose. Performance evaluation of the public administration institution using the efficiency principle again begins with the assessment of costs minimization, i.e. the evaluation criterion for input. However, since the efficiency principle also assesses the process link to output, it is necessary to ask whether the process of ensuring the public good or service has achieved the desired results. In the case of the fulfillment of both conditions, it can be stated that the efficiency principle has been met.

**Effectiveness** describes the extent to which objectives have been achieved, i.e. the relationship between the intended and the actual impact of the monitored activity, i.e. the verification of the actual effects of activity compared with the intended. In principle, this term means “doing the right things or doing only those things that really should be done”. An effective activity is such activity whose results most closely match the expected goals. It is a criterion for evaluation of the output. In terms of performance evaluation we therefore expect a positive answer to the question whether the results obtained are in accordance with defined objectives. A classic example is the assessment of the effectiveness in spending resources defined and identified by specific programs or projects, or evaluation on whether objectives of specific activity were met, or whether there was derogation from its original program.

The extent of meeting all principles of “3E’s” - economy, efficiency and effectiveness of the given public administration institution then determines the extent of performance. However, it is clear that the evaluation of the level at which the public institution performance is and whether it can be further increased, is not provided by the decision-making model. Given differences in public administration institutions, each institution must set its own performance measures, according to the outputs which it provides for the company.

### 4 Conclusion

Nowadays, the topic of performance management in public administration institutions is very up-to-date. Public budgets are faced with a lack of resources and increasing public spending, due to both economic processes (see, e.g., the consequences of the recent economic recession on the revenue and expenditure side of public budgets), and increasing technical and technological demands of certain activities of public administration. Neither the public sector nor public administration can longer afford to waste a large extent of limited resources from taxpayers. Taxpayers, therefore voters, require from the public sector what is already common in the private sector - the optimal binding of results to inputs used, thus they ask for the emphasis on the highest possible performance of the public administration institution.

The aim of the article was to show the possibilities of performance management in public administration institutions using the principles of “3E’s”, namely on the example of the Czech Republic. In the Czech Republic, the principles of “3E’s” are incorporated into the Act on Financial Control, listed as fundamental to achieving economic efficiency. The law, however, does not specify how to achieve these principles, or how it is possible to link them to the performance management in public administration institutions. But the authors believe that these principles can be used in the very relation to performance management, because achieving all three principles at the same time means also increasing the performance of institutions. In this connection, the decision-making evaluation model of the principles of “3E’s” was designed. In the framework of this model, each principle is evaluated in the given institution separately, in order to allow performance management to focus only on the area that has poor results. The performance improvement of the institution occurs if the results of the individual (ideally all three) “3E’s” principles enhance. Addressing the issue is adjusted to the situation in the Czech Republic, but general conclusions can be applied to the situation in other countries as well.

**Aknowledgements:**

This paper was carried out with the financial support from IGA TBU No. IGA/70/FaME/10/A.
References:


