

# PERFORMANCE MEASUREMENT IN THE CZECH PUBLIC SECTOR

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## Abstract

This paper deals with performance measurement in the area of the public sector. Performance management is considered as an inevitable part of the public finance reforms and a crucial assumption of sustainable and stable public finances. That is why also the Czech Republic similarly as other developed countries has decided to monitor the public sector performance last years. The paper analyses recent development and present situation concerning performance measurement in OECD countries. Further the paper examines the current state of performance measurement in the area of the Czech public sector. As OECD data suggest the Czech Republic seems to be at very beginning as to the public sector performance monitoring. Reasons of this state may be various but the situation starts to change slightly in the context of the proceeding public finance reform. Thanks to financial statements prepared under the accrual basis from 2011 and their release to various internal and external users a possibility of performance control increases. The paper summarizes the present situation concerning performance measurement and its tools in the Czech public sector, more specifically the Czech state administration.

**Key words:** performance, performance measurement, public sector, state administration

**JEL Code:** H 11, H 70, H 83

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## Introduction

A need of performance measurement was nowise urgent in the public sector until the late 80s of the 20th century. This period was characterized by relatively low indebtedness and institutional way of financing. The amount of aliquot budget resources was modified by indexation method and their evidence proceeded almost solely on the cash basis. Financial control lied in budget incomes and outcomes monitoring and legislative compliance mostly. Near the end of 80s the situation has started to change due to increase of indebtedness of the

public sector and its relatively low performance. An attention aims to business sector and business-like tools and methods of management.

Initiatives connected with implementation of managerial tools to the area of the public sector are usually referred as the new public management. Hood (1991) commented this process in connection with public finance reforms among the firsts. He summarizes that the new public management means an attempt to introduce performance indicators to the public sector, to decrease expenses of the public sector activities and to improve its financial control in fact. Lynn (1998) introduces three possible beneficial impacts of the new public management initiatives on the organizations of the public sector:

- Strong accent on performance motivated administration and its implementation to the internal environment,
- International dialog and stronger comparative background for research of the public sector theories,
- Complex utilization of economic, sociological and other advanced conceptual models and procedures in the public sector practice.

Though the author considers some of these impacts, especially the third one, as partly controversial he states that both concepts of management, i.e. business and the public sector can be surprisingly similar in many aspects. In the course of 90s of the 20th century business-like methods and tools start to penetrate to the area of the public sector more intensively. Simultaneously a barrier of poor data sources has arisen. Traditionally accounting of the public sector was organized under the cash basis and its outputs represented mainly budget incomes and expenditures. However for the purposes of new public management also other data, for example expenses or long-term debts were needed. For that reason a change of accounting methodology became an inevitable part of the public sector reforms and accounting data are prepared under the accrual basis mostly at present. As a consequence accounting outputs are comparable mutually and with the business entities and their transparency and information capability increase significantly (Vodáková, 2012).

First practical knowledge concerning implementation of the business-like tools to the public sector emerges around the turn of the century and it seems to be slightly inconsistent. Monro (2003) for example points out a discrepancy between former high expectations and present reality. The author proclaims that nevertheless considerable effort to set and utilize performance indicators their role is limited by absent responsibility and other factors. Common managerial framework for organizations of the public sector examined also Martin

and Jobin (2004) who proposed a cycle of several gradual steps for implementing of performance management to the public sector. Moynihan and Pandey (2005) reflect a relationship between management and performance and finally they maintain position that management is supposed as a crucial factor of performance improvement in the public sector organizations. But on the base of empirical data inquiry the authors observe that this assumption is conditioned by various external and internal factors. Fundamental external factors include support of elected deputies and influence of the public or media. Organizational culture, emphasis on performance by way of clearly defined aims, and decentralization of authority can be considered as internal factors.

Present period can be characterized by systematic implementation of business-like methods not only to the performance measurement but to the strategic management of the public sector organizations generally. Also the role of performance audit changes significantly from former individual control of legislative and financial compliance to institutionalized performance evaluation. Relatively numerous group of authors (for example Sanger, 2012 or Saravia and Gomez, 2008) advocate that even increase of transparency and performance indicators utilization lead to performance improvement only rarely. On the other hand there are authors like Poister, Pasha and Edwards (2013) or Guo (2012) who on the base of empirical data proclaim that wider utilization of performance measurement techniques can contribute to increase of organizational performance. It is also evident that the situation differs across various parts of the public sector.

## **1 Methodology and data**

This paper deals with performance measurement in the area of the public sector. Its content is divided into four parts. The first one (the Introduction) gives a brief review of a historic development of performance management in the public sector. The second part (Chapter 1) describes the aim of the paper, used scientific methods, limiting conditions and main data sources. The third part (Chapter 2) summarizes main findings of the paper and comments some questionable points. Principal conclusions are formulated in the fourth part (Conclusion) finally.

The aim of the paper is to find out a real situation in performance measurement of the Czech public sector organizations. The most important research questions are following:

- Do the Czech public sector organizations develop any kind of performance data?

- What are the content and the structure of these performance data?

Description, analysis, comparison and synthesis were used as basic scientific methods in the paper. With respect to a considerable extent of the public sector the paper is limited to the state administration (particular departments) only. There are several reasons for this decision. The first one lies in importance of the state administration as a significant user and redistributor of budgetary sources. The second is connected with our preliminary findings and hypothesis that the state administration may be more resistant to performance measurement implementation than other parts of the public sector such as municipalities.

As main data sources scientific papers relating to performance measurement were used for review of historical development. Further the Government of the Czech Republic and the Ministry of Finance materials and database were used, analysed and discussed for the purposes of the Chapter 2.

## **2 Main findings and discussion**

Organisation for Economic Co-operation and Development (OECD) data suggest the Czech Republic and Belgium were the only two member countries that prepared no performance information for evaluation of the state administration performance in 2007 and 2008 (Vodáková, 2013). In the case of the Czech Republic this situation continued till 2012. In 2013 thanks to the public finance reform and increase of transparency and information capability of accounting data the Government of the Czech Republic introduced three so called key analytical indicators for performance evaluation of the state administration. These indicators represent simple financial ratios relating to important kinds of expenses or assets of the state administration units.

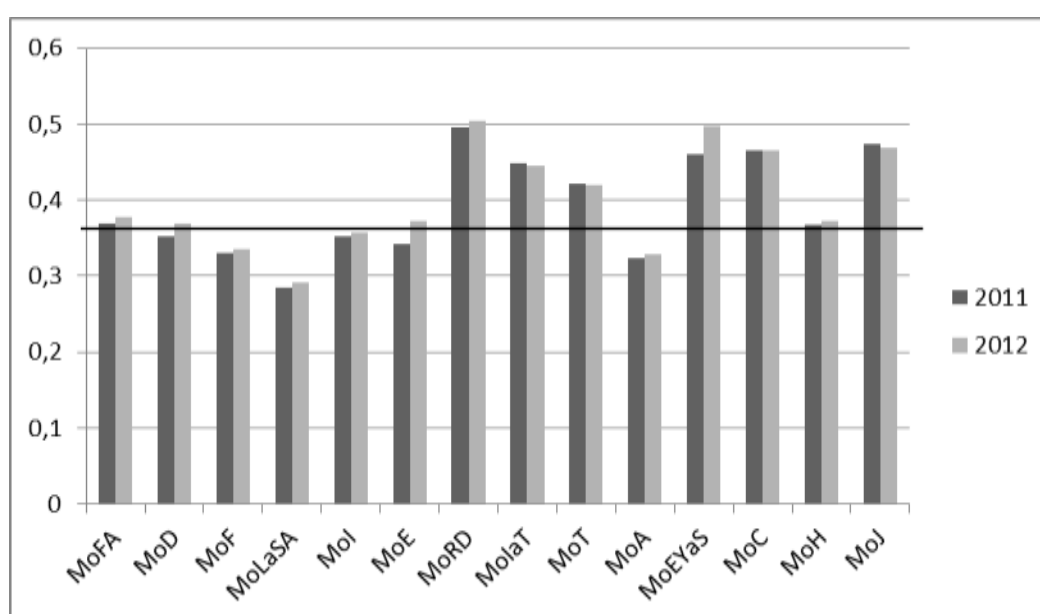
The first one is a ratio of salaries and wages expenses to number of employees and it is calculated in Czech Crowns per one employee of the state administration organization. Results of the ratio computed for 14 Czech departments<sup>1</sup> are introduced in figure 1. As the figure implies median of the ratio represented 0.375 mil Czech Crowns per employee in 2012. The highest values of the ratio were identified in the case of Ministry of Regional Development (0.504 mil Czech Crowns per employee), Ministry of Education, Youth and

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<sup>1</sup> Examined sample includes Ministry of Foreign Affairs (MoFA), Ministry of Defence (MoD), Ministry of Finance (MoF), Ministry of Labour and Social Affairs (MoLaSA), Ministry of the Interior (MoI), Ministry of the Environment (MoE), Ministry of Regional Development (MoRD), Ministry of Industry and Trade (MoIaT), Ministry of Transport (MoT), Ministry of Agriculture (MoA), Ministry of Education, Youth and Sports (MoEYaS), Ministry of Culture (MoC), Ministry of Health (MoH), and Ministry of Justice (MoJ).

Sports (0.497 mil per employee), Ministry of Justice (0.469 mil per employee) and Ministry of Culture (0.465 mil per employee). The lowest values of the ratio were identified in Ministry of Labour and Social Affairs (0.291 mil Czech Crowns per employee) or Ministry of Agriculture (0.329 mil Czech Crowns per employee). This indicator can be further modified by dividing salaries and wages expenses on payments to external and internal persons which may have surprisingly weighty impact on presented values. The highest values of ratio of external wages and salaries can be observed in Ministry of Education, Youth and Sports, i.e. 16 % in 2012 and Ministry of Culture (7 % in 2012).

**Fig. 1: Ratio of salaries and wages expenses per employee**

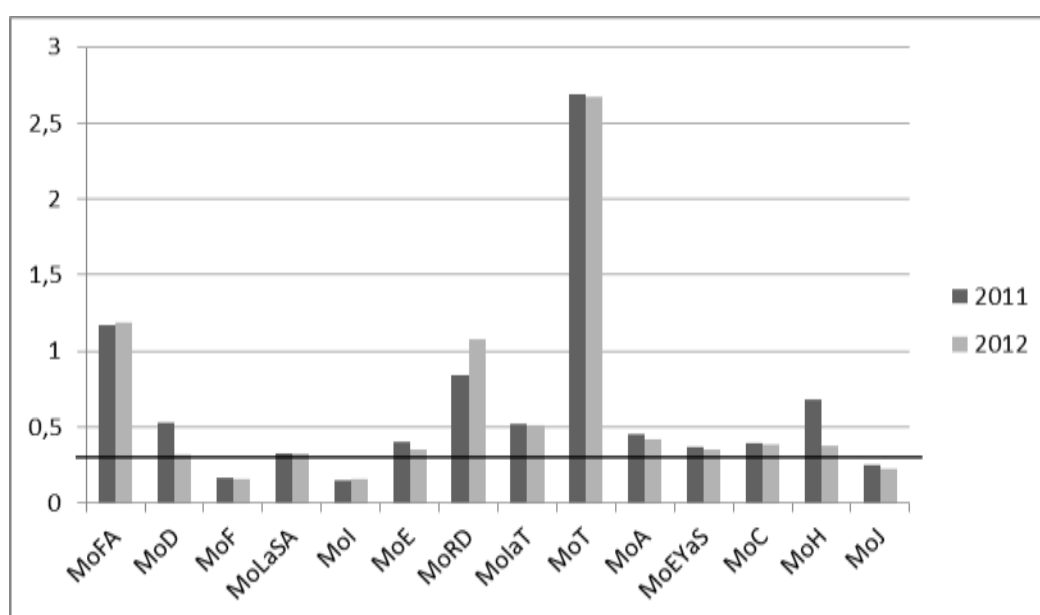


Source: MoF (2013), online: <http://www.mfcr.cz/cs/verejny-sektor/monitoring/financni-parametry-vykonnosti>

The second ratio is computed as a quotient of controllable operational expenses and number of employees. It is also calculated in Czech Crowns per 1 employee. As can be seen in figure 2 the median of this ratio represented 0.363 mil Czech Crowns per employee for the period of 2012. The highest value was recorded in the case of Ministry of Transport (2.676 mil Czech Crowns in 2012 and 2.693 mil Czech Crowns in 2011). This amount is approximately seven times higher than the median which would deserve a closer analysis evidently. Further values of Ministry of Foreign Affairs and Ministry of Regional Development amount to more than 1 mil Czech Crowns per employee. On the contrary values of Ministry of Interior (0.159 mil), Ministry of Finance (0.161 mil) and Ministry of Justice oscillate low under the median.

The third ratio can be computed as a quotient of selected controllable operational expenses<sup>2</sup> and book value of long-term assets plus depreciations, i.e. long-term assets in acquisition costs. The main intention is to eliminate an influence of depreciation on values of the ratio that is calculated as percentage. Figure 3 implies a review of ratio values in particular departments for the period of 2012 and 2011. The median for 2012 represents 17.2 %. Absolute values of the ratio are highest in the case of Ministry of Health (34.9 % in 2012 and even 70.1 % in 2011), Ministry of Regional Development (41.6 % in 2012 and 34.6 % in 2011), Ministry of Education, Youth and Sports (33.3 % in 2012 and 33.8 % in 2011) and Ministry of Transport (33.075 % in 2012 and 35.7 % in 2011). On the contrary the lowest values of the ratio occurred in Ministry of Defence (3.9 % in 2012 and 7.5 % in 2011), Ministry of Finance (7.8 % in 2012 and 9.0 % in 2011), and Ministry of Culture (9.1 % in 2012 and 8.3 % in 2011). It is evident that values of this ratio differ most of all and its interpretation would be relatively difficult due to unique character of particular departments and their specific claims to the extent and the structure of infrastructure.

**Fig. 2: Ratio of controllable operational expenses per employee**



Source: MoF (2013), online: <http://www.mfcr.cz/cs/verejny-sektor/monitoring/financni-parametry-vykonnosti>

An introduction of three above commented key analytical indicators for performance evaluation means a step forward definitely. Apparently the Government of the Czech

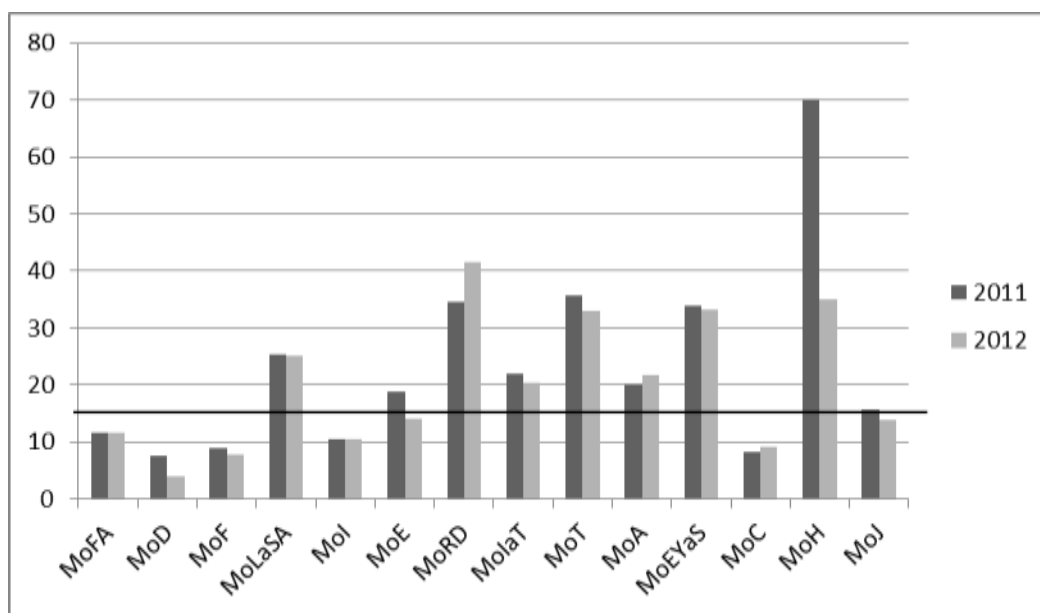
<sup>2</sup> Selected operational expenses include material cost, energy consumption, maintenance, other services, and other operational expenses.

Republic tries to monitor as large part of economic development of the state administration organizations as possible. For that reason wages and salaries, operational expenses, and long-term assets were chosen as important characteristics of their financial position. On the other hand their unique character, different infrastructure requirements and mission may make any mutual comparison relatively complicated. This comparison would be probably easier in the case of other parts of the public sector, for example in the case of municipalities with similar parameters. Especially the third indicator seems to be slightly unsuitable for comparison. Partial solution of this obstacle could be dividing the state administration organizations into several relatively homogenous groups, especially if the indicator values would be used for future standardization purposes. Also longer time series of indicator values, their deeper analysis and further specification of the key analytical indicators would be desirable in this case.

Further problem is related to the construction and the content of indicators. Anyway all three refer to inputs of the state administration activities, i.e. they may evaluate economy only. However this is only one component of performance. The other components, i.e. efficiency and effectiveness are connected with evaluation of activities outputs and these outputs cannot be measured by way of three above mentioned indicators. Therefore it would be desirable to supplement evaluation of the state administration performance with other forms of measures in future (for example some non-financial described in balanced scorecard non-financial perspectives).

It will be also necessary to consider properly the purpose and the extent of performance data utilization. According to available information they should serve to budget negotiation purposes in 2015.

**Fig. 3: Ratio of selected controllable operational expenses and long-term assets**



Source: MoF (2013), online: <http://www.mfcr.cz/cs/verejny-sektor/monitoring/financni-parametry-vykonnosti>

## Conclusion

The paper deals with a real situation in performance measurement of the state administration organizations in the Czech Republic. Till 2012 performance of the state administration was not monitored at all. In 2013 the Government of the Czech Republic has introduced a set of three key analytical indicators. Among others this development may have positive psychological consequences and so it represents an important step together evidently.

On the other hand some difficulties as for their content and obstacles as for their implementation may occur in future. Firstly these indicators refer to only one component of performance. Further there exist only very short time series of values at present. Also implementation of performance evaluation system may collide with some obstacles such as an absence of accountability system, inconvenient or formal performance target setting, political pressure and others.

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