

# Conceptual Valences Regarding the Economic and Financial Performance of the Public Sector Institutions

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## Abstract

*The economic and financial performance of the public sector institutions represents a particularly current debate topic, receiving increasingly more attention both within the academic research and the practical activity, and, equally, an extensive and controversial subject, since it is still very difficult to be identified and quantified. The economic and financial performance concept was developed in the public sector institutions on the background of the growing degree of complexity in solving the problems they face, as a result of the consistent progress registered towards globalization as an overall phenomenon. Starting from the concept of performance in general, the main objective of this paper consists in identifying, presenting and advancing conceptual meanings regarding the economic and financial performance of the public sector institutions, through the delimitations and theoretical fundaments provided by the specialty literature. The paper is based on a quantitative research approach, aiming a deeper understanding of the debated concept.*

**Key words:** economic and financial performance, public sector, efficiency, effectiveness, rentability.

**J.E.L. classification:** I22, H52, H75.

## 1. Introduction

Starting from Marston's motto “do not diminish your expectations to achieve performance, but raise the level of performance in order to meet your expectations”, far from making a simple word game, we could say that performance is not only an essential lever to achieve the objectives, but also a motivating factor in order to become better, under competitive conditions.

Through this paper we aim to reflect, in polyhedral vision, the concept of *performance* in general and the concept of *economic and financial performance* in particular, through the delimitations and theoretical foundations provided by the specialized literature. To this end, we shall appeal to the scientific documentation, taking into consideration rich references including: specialty books, articles and studies, various reports issued by the specialized bodies in such issues and also research papers.

The main research tools used in the elaboration of this paper include: literature review, observation, analysis, synthesis, deductive reasoning and, sometimes, exemplification.

## 2. Conceptual Delimitations on Performance

Performance designates a wide, multidimensional, extremely complex and extensively debated

concept both in academic research and in pragmatic activity. With the title of testimonial, a simple search on the World Wide Web reveals over 1,280,000 results related to this notion.

In terms of etymology, the term “performance” is of Latin origin (*performare*), but its significance is rooted in English (*to perform, performance*). According to “Dictionnaire fiduciaire. Organization et gestion” the meaning of the word “performing” is to achieve entirely one thing, while “to perform” means application, execution, method, to achieve something regularly, to achieve it in a convenient manner.

On the other hand, the Explanatory Dictionary of the Romanian Language defines performance as “*a result (particularly good) obtained by someone in a sporting event; an outstanding achievement in a field; the best result of a technical system, machine, device etc.*” (Dicționarul Explicativ al Limbii Române, 2009, p. 802). This definition reveals the fact that the term was taken from mechanics and sports, subsequently being used to characterize the very good results achieved in other activity sectors.

Since the beginning of our initiative, we must mention that, **because of its multifaceted character, performance is a difficult term to define, the different characterizations that are associated with it being mostly subjective, sometimes even abstract or ambiguous.** Treating the problem in a realistic manner, since each stakeholder has his own vision by referring to his interests and objectives, an exposure of performance from an accounting perspective will not coincide either with the approach of those interested in the operational aspects of the business or with the vision of the actors concerned about its social effects. As an example, while the management focuses on the overall performance of the entity, the present and potential investors focus on performance in terms of their investments. In their turn, the commercial and financial lenders seek for liquidity and solvency issues, while for the staff prevails the flexicurity, namely job security and flexibility in relation to the working conditions (Avram *et al*, 2011, p. 179).

Under these circumstances, although **so far it has not been performed at an unitary vision on the concept of performance**, in the followings we shall try to advance some landmarks of the research in the field, on the path of knowing the concept of economic and financial performance.

In a general manner, the performance is associated with a positive result of an action or an action which leads to success.

The specialists in this field consider **the performance a “sponge word” or a “suitcase word”**, whose variety of meanings revolve around three main connotations: success, result of an act or the action itself. In their view, the term of “performance” is the bearer of an ideology of progress, of effort, of achieving always more or better (Bourguignon, 1997, p. 94).

Another opinion worthy of taking into consideration and which highlights the multidimensional and polysemantic nature of the concept, is that according to which **performance is one of those “right words” in which everyone places the desired meaning, letting the definition to depend on the context** (Quoted by Tripon *et al*, 2013, p. 83).

According to the approach of Colasse, performance can be expressed by meanings such as: *growth, rentability, profitability, productivity, yield, competitiveness* (Colasse, 2008, p. 23).

The organizational performance, as well as sports performance, captures the ability to progress thanks to constant efforts. Practically, performance means *competitiveness, action, effort, success, being the optimization of the present and the projection of the future*. Regarding this aspect, Kane was motivating that performance was what the individual left behind and what existed beyond the followed purpose (Quoted by Armstrong, 2004, p. 3). Extending the reasoning, Ganea considers performance as *the result of a deliberate construction, of a continuous effort, whose presence stimulates incessantly the success* (Ganea, 2012, p. 12).

### 3. Literature Review on Performance in the Public Sector

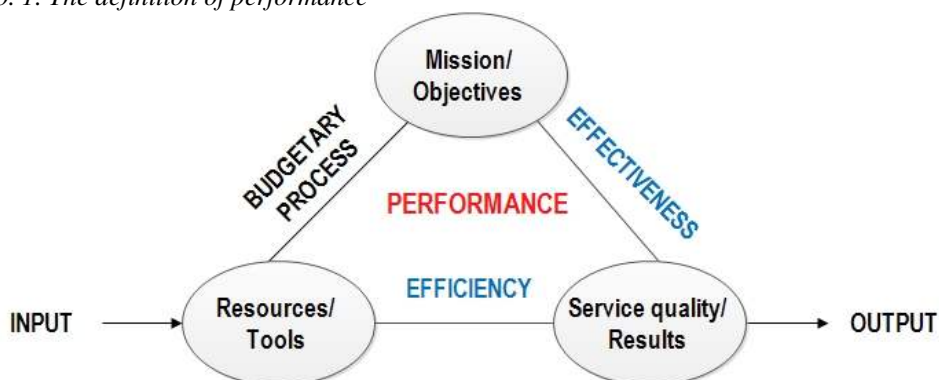
If we turn our attention to **the public sector**, the movements for the orientation towards performance require the development of the institutions, which must constantly adapt in order to meet the community public needs.

In the vision of Demestère, in the public sector, the concept of performance is located at the intersection of three concepts (Quoted by Matei, 2006, p. 191) regarding: not only the implementation of the guidelines followed by the institution with its own policy tools, focusing on

the target groups – “customers”, users and other actors of the public services provided by the institution, but also the effective use of the public entity’s resources in order to achieve the desired results.

As the author Profiroiu affirms, defining the public sector performance requires *the existence of a relationship between objectives, means and results so that performance is the result of the simultaneous exercise of the efficiency, effectiveness and an adequate budgetary process* (Profiroiu, 2001, p. 8). This definition is represented graphically in Figure no. 1.

Figure no. 1. The definition of performance



Source: (Matei, L., 2006, 192)

A more recent approach supports the transition from the 3E system (efficiency, effectiveness, economy) to a 5E system (economy, efficiency, effectiveness, environment and equity) *in order to incorporate in the definition of the public sector performance not only the financial aspects, but also those related to the achievement of the environmental and social equity objectives* (Chai, 2009, p. 68).

In the opinion of the specialists in accounting from the Academy of Economic Studies in Bucharest, defining the performance of public sector entities must capture polyvalent aspects such as (Ștefănescu *et al*, 2010, p. 114):

- connotations of the financial result;
- the quality and quantity of the services offered to the public;
- the number of users who have requested the services of the entity;
- the professional quality of the human resources from the entity;
- the credibility of the entity;
- the compliance with the public resources allocated to the entity;
- the economic, efficient and effective use of the public resources allocated;
- attracting financial resources complementary to the public ones in order to achieve the objectives;
- the outcomes recorded by the public as a consequence of the services provided by the entity;
- competitiveness on the market of the services offered by the private sector.

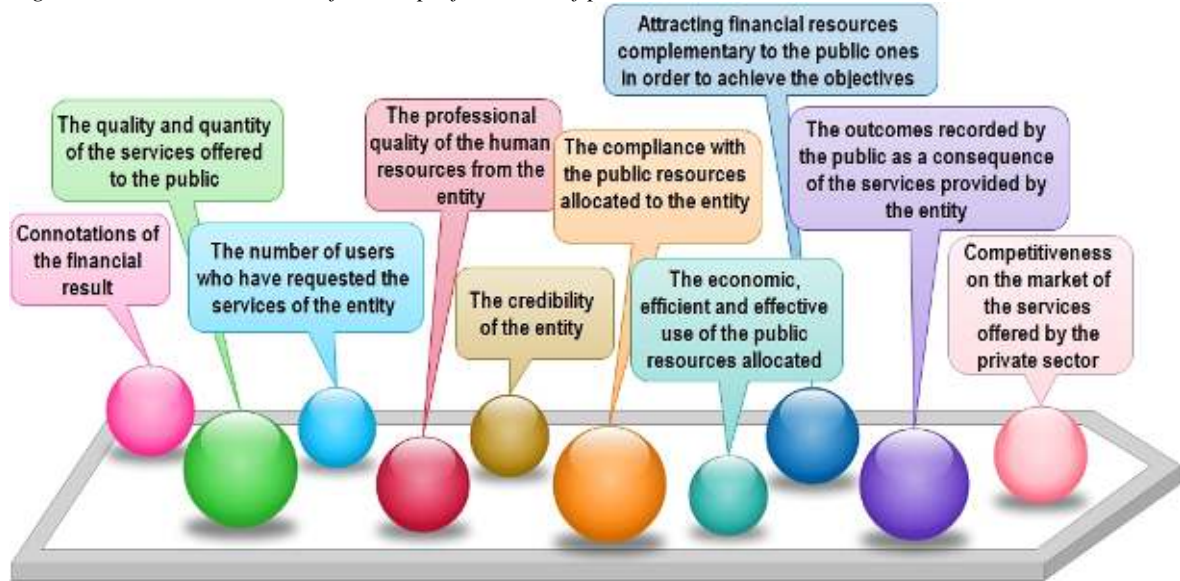
This complex of elements is represented through Figure no. 2.

In the newest edition of the book entitled “*Management dans les organisations publiques*”, the authors Bartoli and Blatrix define performance through items such as *evaluation, pilotage, efficiency, effectiveness and quality* (Bartoli *et al*, 2015, p. 2).

From an accounting perspective, authors such as Robert and Colibert, and also Lande define performance in the public sector through *the accrual accounting*. The first ones consider the accrual accounting a very useful tool for evaluating performance, since it recognizes the expenses of the accounting year in relation to the corresponding revenues. Also, the last one emphasizes the usefulness and the finality of the information disseminated through the accrual accounting as a factor in reforming the public management culture (Quoted by Ștefănescu *et al*, 2010, p. 230).

At this level, it is interesting to follow and highlight how the performance concept is being approached by the national regulatory authorities in accounting.

Figure no. 2. Elements that define the performance of public sector entities



## PERFORMANȚA UNEI ENTITĂȚI DIN SECTORUL PUBLIC

Source: (Processing after Ștefănescu, A., Calu, D.A., Țurlea, E., Nicolae, F., 2010, 114)

After analyzing the regulations in force in accounting (Order of the Minister of Public Finances no. 1917/2005, with the subsequent amendments and additions), **we note that the term of performance is used in its proper meaning only three times**, regarding:

- **the object of public accounting**, specifying as follows “*the accounting must provide the chronological and systematic registration, processing, publishing and keeping the information regarding the financial position, **the financial performance** and cash flows for both the requirements of the internal, as well as the external users: Government, Parliament, lenders, customers, and other users (the international financial institutions)*”;
- **the periodical summary reports** which „*must provide a true and fair view of the assets, liabilities, financial position (net assets/ net patrimony/ own equity), of **the financial performance** and of the patrimonial result*”;
- **the patrimonial result** which is being described as „*an economic result that expresses the financial performance of the public institution, respectively patrimonial surplus or deficit*”.

**As we can notice, the legislator regulates only the financial side of performance, focusing on the patrimonial result as a quantification tool.**

There are also autochthonous authors who associate to the concept of performance in the public sector a new dimension – *the performance through coercion* - which they define as “*the degree in which the limiting value of a type of revenue X leads to the occurrence or the increase of an extra-budgetary revenue category or to the restriction of the institution activity*” (Ștefănescu et al, 2009).

### 4. Economic and Financial Performance in the Public Sector – Main Features

Getting nearer to the notion of economic and financial performance, full of meanings becomes also the remark of Jacot who stated that “*in achieving the overall performance, at physical level productivity is sought, at market level - competitiveness and at financial level - rentability*” (Jacot, 1997, p. 29).

Branded autochthonous authors, Lala Popa and Miculeac believe that the most common financial meanings of performance are *growth, rentability (economic and financial), profitability, productivity and competitiveness*. According to them, the information related to performance variability are important in predicting the entity's ability to generate cash flows using the existing resources and also to formulate judgments on the effectiveness with which it can use new resources (Lala Popa et al, 2009, p. 186).

In turn, Buglea considers that analysing the performance of an entity allows formulating assessments on *forming the activity results and on the correlation with its financial structure, liquidity and solvency* (Quoted by Achim *et al*, 2012, p. 266).

In turn, the professors Niculescu and Lavalette define the economic performance as the unstable equilibrium resulted from the evolution of the concepts of efficiency and effectiveness (Niculescu and Lavalette, 1999, p. 256). As well, Siminică presents the performance as *a function of two variables: efficiency and effectiveness*. In his view, if the effectiveness reflects the fulfillment of the external expectations, the efficiency is measured by the degree of fulfillment of the internal environment expectations (Siminică, 2012, p. 108).

In another optic, Robu, Anghel and Șerban define *efficiency* as maximizing the effect obtained per an unit of consumed effort or minimizing the consumed effort per an unit of obtained effect, while through *effectiveness* they understand achieving and overtaking the set objectives (Robu *et al*, 2014, p. 300).

According to the author Androniceanu, the concept of *efficiency* is used with the meaning of maximum effect of certain activities in relation to the allocated or consumed resources, while *the effectiveness* is understood as a set of processes through which a positive result expected, planned and wanted is achieved. In other words, the effectiveness is the capacity to produce the expected effect (Androniceanu, 2008, p. 329).

Recognizing that the definition, recognition, measurement and diagnosis of the economic and financial performance is a difficult and complex process, full of subjectivity and personal judgments, but absolutely necessary at the level of each entity, the author Ganea believes *that performance can be approached starting from the following elements: objectives, continuous effort, achieving potential, results, measurement system (indicators of performance expression), comparing the result with a well defined referential (internal or external, chosen or imposed), progress (to do better than last time), judgment and interpretation, comparison, analysis, decision* (Ganea, 2012, p. 17).

## 5. Results and Conclusions

We conclude by expressing our opinion according to which the commonly used is the concept of performance, the more difficult is to define it. However, reviewing the existing knowledge in the field, we have shown that there are some essential attributes that can be associated with it, in the attempt to describe it, namely: the complex, multidimensional and polysemantic character, the subjective approach and connotations related to achieving a positive result which usually exceeds expectations, under the difficult conditions, sometimes harsh, of the competition.

By reviewing this multiplicity of assertions and conceptual valences, we noted that economic and financial performance of an entity can not be conceived outside the diptych efficiency-effectiveness. These attributes should not be approached in a dichotomist or in a complementary way, as they represent composite elements of the performance concept, reflecting not only the internal judicious use of the resources, but also meeting the expectations of the external environment (business partners, financial lenders, public or community and others).

Compared with the private sector in which performance can be characterized by a 2E type dimension (efficiency and effectiveness), for the public sector we dare to advance a 6E approach, adding to the two previous variables not only the context of sustainable development in which the performance of a public institution must be appreciated, but also the economy, equity and the informational expressiveness, considering that, since the activity of the institutions in this sector is conducted on the basis of important public resources advanced by the state and supported by the community, the information transparency is imperative regarding the engagement of these funds as a performance criteria.

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