Elements on the Efficiency and Effectiveness of the Public Sector

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Abstract

The policy orientation towards sustainable economic development focuses on increasing the efficiency of the public sector in equitable supply of goods and services needed by citizens.

Efficiency, an important element of development, is more easily to be highlighted in the private sector than in the public sector, whose activities are directed, firstly, towards covering the needs of citizens, to a greater degree, as much as possible, the allocation of resources being related to supply of goods and services. According to authors, the interpretation of efficiency and effectiveness refers to the relationship between inputs and outputs, between the obtained results and the expected ones, increasing productivity.

The study attempts a review of the main theories related to efficiency and effectiveness, the relationship between the two concepts, forms of efficiency encountered in the professional literature, and its characteristics in the public sector parallel to the private sector, finalizing through conclusions and proposals towards increasing efficiency in the public sector.

Key words: efficiency, effectiveness, public sector, private sector, responsibility

J.E.L. classification: D61; H21; H44

1. Introduction

For all sectors of the economy, the *efficiency* is an imperative requirement for development, with public administration being responsible for providing efficiently and equitably the public goods and services needed for citizens, policies targeting, in the last years, focusing on increasing the efficiency of public sector, for sustainable economic development.

The efficiency and effectiveness terms, often, relate to private sector activity, where it can be more easily emphasized than in the public sector, which is primarily concerned with meeting the needs of citizens, the way of resources allocation being subordinated to the objective of supplying public goods and services. Concretizing the presence of the private sector as a provider of goods and services of public interest, in time, has led to a reduction in the monopoly situation of the public sector, in the field, favouring the competition and its orientation towards efficiency (Florişteanu, 2004).

2. Approaches about the concept of efficiency, effectiveness

Studying efficiency and effectiveness pursues the relationship between inputs, outputs and outcomes. The issue of measuring efficiency has been addressed by Farrell since 1957, (Farrell, 1957, pp. 11, cited by Mandl, Dierx, Ilzkovitz, 2008, p.2) which has noticed its importance to politicians, the ways to encompass the efficiency, improving, in time, and becoming frequent, especially in industry.

The considerations relating to *efficiency* have been reported, over the years, to:

- increasing productivity, production;
- activities in the business environment;
- society's expectations regarding the degree of citizens' needs coverage.

The economists studies aimed at the concept definition in relation to inputs, outputs, benefits and costs to which are related the efficiency types shaping.

A general definition, given to efficiency, refers to the report between the outputs and the inputs made to achieve them (Mihaiu, Opreana & Cristescu, 2010, p.133).

The Merriam Webster Dictionary (cited by Afonso, Schuknecht & Tanzi, 2003, p. 8) considers the efficiency from the perspective of a comparison between inputs and outputs or between costs and benefits. The higher is the result (output) obtained in terms of prescribed resources (inputs), the greater is the efficiency of an activity (Afonso, Schuknecht & Tanzi, 2003, p. 8)

In another form, the definition is in terms of comparisons between countries concerning the relationship between benefits and costs, used in the case of total governmental spending, or of specific categories (such as health, education, social protection expenditure, infrastructure), the assessment of the benefits acquired from these expenditures, being quite difficult (Afonso, Schuknecht & Tanzi, 2006).

Other approaches of different authors, to define the concept, are presented by the authors Mark R. Rutgers, Hendriekje van der Meer (Mark R. Rutgers, Hendriekje van der Meer 2010, p. 758 cited by Manzoor, 2014, p. 2), respectively:

- ✓ "[...] a ratio between input and output, efforts and results, expenditure and income, costs and the resulting pleasure" (Slichter, 1950, p. 437);
- ✓ "[...] to take the shortest path, the cheapest means toward the attainment of the desired goals"; ,,the attainment of maximum values with limited means"; "the ratio between input and output" (Simon, 1976, pp. 14, 65, 180);
- ✓ "[...] producing a good or service at the lowest cost possible, while maintaining, a constant level of quality" (Rainey, 1997, p. 92);
- ✓ "Obtaining the greatest output for a given level of resources" (J. Q. Wilson, 1989, p. 316);
- ✓ "[...] that resources or inputs should be used so as to produce an output, in the cheapest possible way". (Johansson & Lofgren, 1996, p. 217)

Efficiency analysis is in relation to the notion of effectiveness (Manzoor, 2014, p. 4).

Effectiveness is expressed by the ratio between the result *achieved* and the *programmed* one and shows the success acquired by using the resources to accomplish the proposed objectives. (Mandl, Dierx, Ilzkovitz, 2008, p. 3).

According to Nikola Kjurchiski (2014), in the paper "Public Administration Efficiency in Resource Economies", the effectiveness refers to the "achievement of the final aim" while efficiency "measures the quality". (Kjurchiski, 2014, p.8). It is an element of influence of efficiency because it depends on the knowledge and qualifications of the personnel, the quality of the public sector being directly influenced by that of the human resources, from its composition. Measuring effectiveness in the public sector means comparing the objectives that can be achieved with those actually achieved, or in other words (Veiss, 2012, p. 375) comparing input or output with the final objectives to be achieved, ie "outcome". Between the terms "output" and "outcome" there is an important distinction. For example, in the educational system, "output" is considered and analyzed in the form of performance or the percentage of pupils of a certain age who have gained education. "Outcome" (the final result) can be considered in the form of working age population qualifications acquired through education. (Mandl, Dierx, Ilzkovitz, 2008, p.3).

2.1. Forms of efficiency

Specialty literature observes different, forms of efficiency distinguishable by forms of consideration:

Productive efficiency – "[...] producing goods and services for the lowest cost" – it can be found on the Production Possibilities Frontier where obtaining a larger quantity of a good involves diminishing the quantity of another. (Pettinger, 2017)

Technical efficiency concerns the use of a set of factors of production to produce an output. "A firm is said to be technically efficient if a firm is producing the maximum output from the minimum quantity of inputs, such as labour, capital and technology" (Pettinger, 2017). It is manifested in terms of a system of quantification of inputs and outputs. (Rutgers & Van der Meer, 2010). It is a relationship between inputs and outputs, taking into account the Production Possibilities Frontier, respectively, the effectiveness of using a set of factors to produce a result.

Technical efficiency gains economic expression through allocative efficiency which "reflects the link between the optimal combination of inputs taking into account costs and benefits and the output achieved" (Mandl, Dierx, Ilzkovitz, 2008, p. 4)

Allocative efficiency consists of a cost/benefit ratio and occurs when there is an optimal distribution of goods and services, having the most efficient allocation of resources, in relation to consumer preferences (Pettinger, 2017).

2.2. Efficiency - effectiveness relationship

In their studies, some authors note *the link between efficiency and effectiveness*, as can be seen in the following:

- ⇒ Peter Drucker highlights the efficiency-effectiveness interaction, the latter being a prerequisite for obtaining the first (Drucker, 2001, p. 147).
- ⇒ Hatry (1978) defined *efficiency* "extent to which the government produces a given output, with a least possible use of resources" (Hatry, 1978, p.28 cited by Manzoor, 2014, p. 4) and *the effectiveness* "the amount of end product, the real service to the public that the government is providing" (Hatry, 1978, p.28 cited by Manzoor, 2014, p. 4);
- ⇒ Mandl et al. (2008), in their studies, considers the two categories, in relation to inputs, outputs and outcome (results). Results means final goals (for example, for government, political objectives) that depend on the effective use of resources as input or output. They consider the link between efficiency and effectiveness, by the vulnerability to environmental factors that can influence the production or outcome (Afonso et.al. 2005).
- ⇒ Mandl U., Dierx A. and Ilzkovitz F. (2008), analyze the link between efficiency and effectiveness, through the relationship among inputs, outputs and outcomes, in the paper "The effectiveness and efficiency of public spending".

Effectiveness which illustrates to what extent, the desired objectives have been achieved through the use of resources, is more difficult to measure than efficiency, because the final goals (related to welfare or growth) are influenced by a number of exogenous factors (Mandl, Dierx, Ilzkovitz, 2008).

3. Aspects of efficiency in public administration

The constitution of the public administration system relates to the arrangement of social collectivities on the territorial principle and represents a criterion for the society layout. These collectivities make up the population of a country, a determinant element for a state.

In the context of the rarity of resources and pressure of growing and diversified needs of a growing population, studying efficiency in public administration has gained importance, by capturing its perception over time.

An efficient public administration is a base for strengthening democracy and of a good governance, which implies the responsibility of elected leaders in protecting citizens' rights, mobilizing resources towards deliver quality goods and services to community.

Efficiency and effectiveness in the public sector means considering an assembly of conditions concerning the competence, organization, assuming responsibilities, governmental transparency, citizen participation in decision-making on certain common issues, of public interest, efficient allocation of public resources, democratic governance. This depends on the quality and efficiency of civil servants, on the quality of administrative act, conditioned in turn, by the qualification of the staff in the administration.

The state monopoly in the production of public goods/services means eliminating competition, to the detriment of the quality of public goods and services offered to citizens, but also, of the use of resources, efficiently. The situation knows another orientation pursuant to the involvement of the private sector through the provision of goods and services of public interest leading to the emergence of competition and, implicitly, of performance in public administration.

Wilson (1989) (cited by Rutgers & Van der Meer (2010), Manzoor, 2014, p. 2) shows the difficulty that the government faces in being effective in activities development, given the multiple goals pursued by governmental organizations (legality, integrity and democracy), parallel with the

private sector whose primary goal is to obtain profits. For the public sector, the efficiency is given by the level of satisfaction, equitably, of the citizens' needs, while for the private sector, it is an indicator of profit maximization.

3.1. Comparative elements between the public and private sectors, on the approach about the efficiency

The distinction between the objectives pursued by the two sectors (public and private) is relevant to approach efficiency in public administration, as seen in the table below (Table no. 1):

Table no. 1 Distinctive elements concerning efficiency in public and private sector

Table no. 1 Distinctive elements concerning efficiency in public and private sector Public sector Private sector	
Private sector	
It pursues profit maximization. (Kotler P., Lee Nancy R. (2008) p.18, cited by Mihaiu, Opreana & Cristescu, 2010, p.133)	
Operates on competitive markets.	
Produces private goods and services which have market value, easily to evaluate.	
Production is based on the manufacturer's decision depending on the market demand and supply, respectively, on the consumer's payment.	
Allocation of goods depends on the achievement and level of profit, on the requirements of consumers.	
Leaders of companies take responsibility for shareholders, boards. (Kotler P., Lee Nancy R. (2008) p.18, cited by Mihaiu, Opreana & Cristescu, 2010, p.133)	
Flexibility in decision making (Kotler P., Lee Nancy R. (2008) p.18, cited by Mihaiu, Opreana & Cristescu, 2010, p.133); taking free initiative.	
Producing and sharing resources. Financing comes from their productivity, if the investment decision prooves feasibility. (Kotler P., Lee Nancy R. (2008) p.18, cited by Mihaiu, Opreana & Cristescu, 2010, p.133)	
It pursues diminishing costs.	
High transparency regarding the investors and shareholders information.	
It is profit-aimed, sometimes to the detriment of to the quality of goods and services.	
Activity data are available at a very detailed level.	

Source: adaptation from Kotler P., Lee Nancy R. (2008) p.18, (cited by Mihaiu, Opreana & Cristescu, 2010, p.133), Profiroiu A., Hogye M., Moldovan Bogdan A. (2011), Rutgers Mark R.; Hendriekje van der Meer (2010); Mandl U., Dierx A., Ilzkovitz F. (2008); Raadschelders, J. C. N. (2003); Wilson, J. Q. (1989); Mihaiu, Diana M.; Opreana, A.; Cristescu, Marian, P. (2010)

Comparing the efficiency of the public sector with that of the private sector is difficult because the public sector's objectives take into account, in addition to the economic benefits, the social issues, also (Stoian M., Ene N. C., 2003, cited by Mihaiu, Opreana & Cristescu, 2010, p. 135). The existence of social pressure requires the presence of the public sector through the services provided to society wherefore the private sector is not interested in providing them in the absence of economic benefits (Scutaru, 2009 cited by Mihaiu, Opreana & Cristescu, 2010, p. 135).

4. Conclusions

The efficiency and effectiveness are key features of a good governance, with the public sector being responsible for finding ways to make the best use of resources (human, material, financial, etc.) to ensure the population needs coverage, in the best conditions.

From the studies mentioned in the paper, finally, should reveal that *efficiency* refers to the relationship between the effects obtained and the efforts made for them, and the *effectiveness* expresses a relationship between the achieved result and the programmed one. While efficiency is in relation to quality, effectiveness is about the achievement of the ultimate result.

A number of actions can encompass efficiency increase in the public sector:

- legislative simplification of administrative rules and procedures;
- diminishing bureaucracy;
- increasing budgetary and fiscal transparency and accountability at governmental level;
- extending the use of electronic means of information in the development of the processes, in the administration-citizen relationship in order to make the activity performance more efficient;
- implementation of training and improvement programs, in relation to existent needs at local public administration level;
- targeting the efficiency of the public sector towards a level of satisfaction of social needs, as high as possible, through: social protection systems for vulnerable groups, increasing the quality of provided goods and services; heritage and environment preservation etc.

Increasing efficiency in the public sector has to meet the growing and more diversified requirements of citizens, as an essential objective of public administration actions, to this end, determining the efficiency of the public sector, in different fields, making a contribution to the formulation of strategies of public funds management, aimed at the objectives fulfilment.

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