

# THE PERFORMANCE OF PUBLIC ORGANIZATION: STILL UNCLEAR

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**Abstract:** *Nowadays, the present discussions about the organisation's performance have revealed the fact that the concept is unclear. The use of the concept is more difficult in public organisations. The paper presents the case of Romanian SOE Hidroelectrica and the case of public universities, to pinpoint the fact that ambiguous objectives are the cause of a dilemmatic management. The general opinion is that the results of the public organisations management reflect a poor performance of the latter.*

**Key words:** *public organisation, performance of the organisation, state-owned enterprise (SOE), public university.*

## 1. Introduction

Over the last decades, the specialized literature has seen an explosion of approaches on performance management. The supposition according to which there would be a close connection between the education in management and the outcomes expected by the organisation has raised a significant interest. Further on, the organisation's performance is supposed to be provided by the effectiveness of the management (Drumea, 2012).

For the main organisation taken into account by a systematic study on economics and management, a so called profit-oriented organisation, the aforementioned connection seems to be reasonably easy to follow. Moreover, the present study is supported by the existence of a reference element, easily identified in the case of companies operating within a competitive environment. The discussion of both the issue of comparison and of performance becomes more intricate in the

case of imperfect competition structures and raises serious difficulties in the case of monopolies or state-owned enterprises (SOEs). The matter of organization's performance is reasonably intricate due to the discussions associated with performance indicators.

Given this supposed relation, the aforementioned issue generates a range of noteworthy difficulties for the appraisal of management performance in public nonprofit organisations, acquainted under the customary label of agencies (Băcanu, 2008). Due to this reason, the management is questionable, as managers remain the victims of subjective appraisals. The consequence of these appraisals is represented by rather arbitrary replacements and nominations of managers, guided by criteria which are not at all related to management or to be found in economics textbooks.

The day-to-day reality of the public nonprofit organisation suggests that the management appraisal is influenced by

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predominantly political criteria, a circumstance favoured by the objective state of this highly specialized segment of management theory. If the situation of public company management is reasonably difficult to manage, agencies may face the same category of problems, as their extent may be more significant.

## 2. Some theoretical references

A more thorough analysis of the concept of performance indicates that the named concept is associated with two separate entities: the organisation and the organisation membership. In what the latter is concerned, one can distinguish between the top management membership and the rest of the membership, the staff, involved in the organisation.

The organisation's performance measurement has represented a topic of implied interest for the management, spurred by the development of the stock market. In one form or another, performance indicators of performance have been associated, with the financial evolution of the companies listed on the stock market. The profit has represented the most reliable reference point, despite the huge amount of criticism (i.e. Goldberg, 2000), which has however triggered the impulse to generate certain multidimensional models, such as those developed by Fitzgerald et al (1991) or Lynch and Cross (1991). The most renowned models have been developed by Kaplan and Norton (1992).

The concern related to multidimensional models has been stimulated by the delusion according to which these models are more suitable to the organisations operating in competitive contexts, inclusively SOEs or academic organisations. Due to Fremann (1984), the concern related to the maximization of the stockholders'

satisfaction has been theoretically replaced by the stakeholders' satisfaction.

As far as SOE are concerned, a balance between the owner's socio-economic objectives and the financial performance of the organisation itself has been endeavoured, directly by the management and indirectly by the regulations associated to the SOE environment. Whatever the assumed reference system might be, the reference to new public management included (Hood, 1991), the acquired results remain questionable (Brignall and Modell, 2000). The consequence of this fact is that each country has modelled both the public sector and the organisation's performance measurement by taking into account the socio-cultural coordinates related to the historical moment. This is the reason why, even within Western countries, successive waves of privatization and nationalization have modelled the public sectors during the years.

In the case of the public nonprofit organisation, the "qualitative" feature of performance indicators emphasizes the subjective character related to performance appraisal. The adaptation of the organisation's performance to provisional political concerns occurs in a natural manner.

Management performance appraisal has also developed in parallel with the organisation's performance measurement, with a certain delay. Even in the case of private companies, the problem of appraisals is under consideration due to unclear criteria (Longenecker, 1997). For the public nonprofit organisation, the unclear objectives have a negative impact on the managerial performance. For instance, in the case of universities, even if a competition-oriented environment does exist de facto, the criteria involved in the performance appraisal represent a bone of contention, as managers' performance remains a matter highly difficult to

appraise. Finally, the consequences prove to be not at all encouraging promotion of management as a science.

Research on the topic proposed by the present study holds an obvious exploratory character. In order to move from statistics to be used in the case of competition structures associated to private companies towards institutions represented by organisations with a high degree of specificity, case studies represent a compulsory methodological stage. On this logical “trail”, the first input is represented by the case study involving an SOE which holds a special position, namely Hidroelectrica.

Consequently, the exploratory study on a nonprofit organisation operating in a competitive environment, namely the university, allows the underlining of observations which are influential for an extensive systematic study on the institution mentioned above.

### **3. Hidroelectrica: a strange case of SOE**

Hidroelectrica is a company that uses the water energy of the rivers in order to produce electricity. Hidroelectrica is a SOE and appeared due to the division of the greater company Electrica in 1998. The division caused the vertical segmentation of the initial company, by separating production, transport and distribution; on a horizontal segmentation, on the other hand, each of these directions the object of activity of one or several companies. The production was initially divided by taking into account the type of primary resource involved as a main criterion, namely water, coal and gas or nuclear. The production relying on the hydrographic resource belonged to one single company, with technical and economic characteristics which are significant for the Romanian environment.

During a normal meteorological year, Hidroelectrica achieves an energy production of 19.8 TWh, involving an installed power of 6400 MW distributed in 274 hydropower units, pumping stations in 14 counties and involving more than 5200 employees (according to [www.hidroelectrica.ro](http://www.hidroelectrica.ro)). The total value of the company is about 3.5 billion Euros. It should be mentioned that the average salary is about 1650 Euros, obviously exceeding the national average salary.

After several years of good financial results, the year 2011 brought an insignificant profit, the first sign of danger announcing the 2012 insolvency of the company. The strange evolution of the economic results of one of the first Romanian SOE has immediately generated doubts related to the organisation’s performance appraisal, and also about the appraisal of the management.

At first, the analysis of the organisation’s performance should refer to the strategy chosen by the State with respect to this SOE, as an independent part of the national energy system. The free market strategy, explained by Haar and Marinescu (2011), specific to Romania’s new economic paradigm, was characterized at first by significant conceptual difficulties, due to the fact that, during the communist regime, the national system of production was designed in order to operate as a whole and the energy price represented an instrument of industrial policy, taking also into account the social component. In other words, the maximization of the profit versus the social and economic effects at national scale would have been the two extremes delimitating the options of the SOE under discussion. On the contrary, if management as a process and content is analyzed, one can ascertain the existence of facts proving that the company has represented an instrument for promoting

the political power of certain groups related to the ruling parties. Especially the price of the electric energy of Hidroelectrica appears as dictated by such interests, with no involvement of a coherent public policy.

The profit of the year 2011 and also the increasing level of debts to banks, on the background of an unfavourable meteorological situation in 2012, made the board of directors declare the company as insolvent. In this context, in April 2012, the Moody agency reduced the rank of the company from “Ba1” steady to “Ba1” negative. Insolvency was considered as a solution in order to correct several significant management errors, including the arrangements dictated by the political parties’ interests, such as the preferential contracts closed with a series of energy traders.

The interesting elements could also be associated with the system of wages, characterized by 70 types of bonuses. Considering all this, the annulment of the aforementioned contracts was applied, a measure concerning mostly the contracts involving energy traders.

Analysts, especially internal ones, who are used to the current political context, emphasize the negative impact of political party policies, which could be distinguished in the appointment of CEOs belonging to the apparatchik category (replaced periodically, as the ministry is changed), proving a low level of technical competency and favouring the trading group labelled as “smart guys”.

Consequently, the management appraisal from the point of view of the facts mentioned generates, apart from financial certainties, questions related both to the competency and to the morality or the responsibility assumed by those involved in this process. One could state that the results would have been predictable even if only the background of the persons

involved in decision making had been researched. The CVs (made available by the website of the company) of the members the current board of directors show they have limited expertise in the field (one member is a ...stomatologist!), a fact that suggests that even at this moment political pressures dictate as far as the performance appraisal of the managers is concerned.

The case discussed, related to a significant Romanian SOE, proves that, on the background of theoretical ambiguities involved in the performance appraisal of SOEs, amplified by the lack of a coherent public policy at national level, the emergence of a chaotic and strange management and of negative organisation’s results represents a logical end. The emergence of “exotic” supplementary negative elements does not influence the essence of the problem, with respect to its objective nature.

#### **4. The case of public universities**

The study on the performance of public universities seems to be facilitated by a large number of ratings and classifications used in order to spur a competition oriented behaviour that is meant to trigger a positive impact on the educational environment. Even if these classifications have appeared only lately in Romania, a certain amount of information related to the state of organisations did exist previously, so one can estimate both the organisation’s and managerial performance.

With no attempt to demythologize these classifications, one could distinguish that the same university seems to hold dissimilar positions (and sometimes the differences are indeed noteworthy!) according to the assumed criteria, and that these ratings reflect the western cultural system and a certain predominance of the

natural sciences. Even if there are multiple criticisms against the aforementioned classifications, they are considered to be a reliable point of reference assumed in order to rank performance, even within the Romanian environment. However, performance is reflected by an aggregated indicator belonging to the balanced-scorecard type.

This approach on Romanian university performance has led to the accomplishment of a hierarchy of organisations and also to the establishment of study programmes provided by faculties. Taking into account the previously mentioned dilemmas and the intricacies that have arisen, these classifications have been questioned to a large extent by universities, also including legal actions. Paradoxically, the extremely high amount of questionable situations has not generated the expected reactions of contestation. For instance, Transilvania University in Braşov, placed according to the ratings of acknowledged systems on the eighth or tenth place, has barely reached the fifteenth place in the official national classification. One can infer that, even if the local political lobby was influential, other organisations involved in the competition have been supported by a more significant lobby.

According to the analysis of the basic processes distinguishable within the Romanian universities, developed by using the common managerial instruments associated with performance, one can ascertain with no difficulty that both the results and the previously mentioned general classification are questionable.

The study on the mission and the system of objectives in universities indicates that they provide a vague general expression, relying rather on the use of certain slogans than on measurable elements belonging to the managerial type. Because of this, the development of appraisal and control

seems impossible, and so does the performance of the activity developed by a certain company. As no plan relying on SMART objectives seems to be available (Drucker 1974), an eventual correction of the activity appears consequently as nonsense.

The relevant measurable elements are actually missing, even with respect to the partial projects related to activities adjacent to the educational process. One can notice that, in the case of the educational process, which represents the rationale of the university even at this historic moment when the university research is considered to be of a more significant importance, it is still difficult and doubtful to set corporate objectives. Even if a mixed indicator is taken into account, the finalization indicators involved in the didactic process cannot be excluded from the discussion. Their “modelling” towards the desired direction represents in itself a questionable aspect.

However, the results of the didactic process developed within universities are actually visible only years after a graduate has completed his formation. The activity of tracking Romanian universities alumni is only at an early stage, even if universities formally claim exactly the opposite. In this manner, the performance appraisal in the light of the success acquired during the post-graduation career remains only a desideratum. In the absence of this reference point, process indicators of doubtful relevance are brought again into discussion, such as the number of works published by professors.

Finally, university performance has been associated with the management plan developed by chancellors. The plan, developed with a four year mandate in mind, distinguishes itself by rather hazy and difficult to control formulations. As a matter of fact, apart from the ministry which supports the politically modelled

classifications in an indirect manner, and from certain agencies with a predominantly decorative involvement, both the appraisal and the control of university performance remain only topics to which resources are afforded in order to beautify them, with no visible effects in the development of the main activity.

### 5. Conclusions

The study on the proposed topic proves that there is an inadequate amount of theoretical and practical reference points. Supposing that these reference points provide, nevertheless, the credibility provided by a certain statistic validation, in the case of Romania there are indeed institutions and cases of organisations that provide elements going beyond the patterns of the identified reference points.

As the case study related to the Hidroelectrica SOE is explanatory in what public forms are concerned, the public university case study is significant for nonprofit institutions. Both for the particular case and for the one related to the institution mentioned, performance management provides few elements related to textbook theory. The predictable pragmatic consequence is the general sense of poor performance.

Therefore, the performance management of the public organisation remains a disputable problem to be solved, despite the stakeholders' overt interest and the specialized literature providing a plethora of titles, but few solutions.

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