PUBLIC MANAGEMENT
IN THE CENTRAL AND
EASTERN EUROPEAN TRANSITION:
CONCEPTS AND CASES

EDITED BY
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NISPAcee

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The Network of Institutes and Schools of Public Administration
in Central and Eastern Europe

PUBLIC MANAGEMENT IN THE CENTRAL AND EASTERN EUROPEAN TRANSITION: CONCEPTS AND CASES

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NISPAcee is an international association focused on public administration and its mission is to foster the development of public administration disciplines and training programmes in post-Communist countries, increase the quality of instruction and research and assist its member institutions development at both international and national levels.

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Preface

*Richard J. Stillman, II**

This text may well be the first of its kind, at least for Central and Eastern Europe (CEE) readers. Unlike prior works proposing to train students as well as practitioners for government careers, especially for CEE executive posts, this book focuses upon managerial responsibilities and roles as opposed to education in law, politics or other fields. In the following pages readers will learn why management is so critical today in making government at all levels work, what key tasks public managers perform and which skills and techniques are vital to carry out successfully public policies and programs. The aim of this textbook therefore is action-oriented, applied and practical, not theoretical nor philosophical. It discusses in straight-forward prose, step by step, how to make things happen in the public sector effectively, efficiently and economically. And is that challenge not the central challenge for CEE nations, if not every modern society today? To make the public service operate to fulfill the public's needs?

Yet, quickly I must add a second unique characteristic of this text: it is all about management for the public good, not the private interest(s). It talks about not merely keeping the trains running on time, but why it is more important that public managers also insure that the trains run in the right direction—even if they should run at all—for the benefit of everyone they serve. Again, this is no small job to accomplish successfully. In business there is "the bottom-line" or the profit and loss statements which reveals quarterly whether or not a business manager performs well for the stockholders. Yet, in a democratic society, in which every voter is a shareholder, what is and is not operating in the public interest is much, much harder to judge and calibrate, in turn making the public manager's role significantly more complicated compared to private or for-profit management. How to get everyone into the act, yet still act for the good of the whole today is the toughest part of being a good public manager. Readers therefore will find that authors of this text repeatedly stress how ethics, morals, and democratic values must infuse every governmental managerial decision and action. The authors certainly cannot—and will not—provide easy answers or THE ANSWERS, but they do help underscore throughout the following chapters why public management requires a special ethical emphasis upon achieving the public good. The dilemmas and difficulties of balancing the values of administrative efficiency and effectiveness with public demands for accountability and responsiveness are therefore what make the public manager's job special.

Realism through use of case analysis is a third unique feature of this new book. Cases, both mini-cases as well as those of some length, are included to

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assist students in comprehending in practice what the authors first outline and discuss conceptually. For many CEE readers, public administration case studies may seem novel, even difficult to comprehend at first. So why include them? Why not just tell what the answers are to the problems posed, rather than confuse readers with complicated cases? But that is the very reason for adding case studies to this textbook, i.e. public management is confusing! There are rarely easy answers to cope with the complex, pressing issues in the public sector. Therefore the addition of cases, large and small, throughout this book underscore the complicated real-world problems public managers face daily and how they solve these problems in reality, or at least the options available for dealing with these problems. Cases bring a "slice of reality" to otherwise dry theorizing, and so students should embrace case analysis as a major part of their public management education. Cases can put students in the position of real life public managers, in the driver's seat, so to speak, and so they themselves can wrestle with the everyday dilemmas of being in charge, by showing the pressures of the job, the choices or lack of choices they confront, the relationship of management concepts to management practice, not to mention the limits of managerial capabilities in government. Again, this book is not a philosophical or esoteric treatise, but rather how to make public programs work well in a democratic society. Here cases may help to demonstrate firsthand for those who have never been actual public managers "the best practices" as well as "not so best practices".

Finally, this first-of-its-kind textbook for CEE public managers does not pretend to tell everything about public management. That would take many, many volumes. Rather this textbook's perspective takes the unique vantage point of sitting at the manager's desk and focusing only on those essential general public management roles, responsibilities and tasks for doing his job. "Essential" then is the key operative word here. And so what are the essential management roles, responsibilities and tasks? A quick scan of the book's table of contents stresses what the authors collectively deem most "essential", namely strategic public management, public personnel management, financial management and management of information. Certainly other topics could be added and discussed, but these are core elements any good public manager should learn and apply. While each chapter outlines those topics logically and sequentially, it must be emphasized that they are hardly accomplished with that sort of neatness and precision. In reality (and there's that word again), public managers juggle simultaneously all those tasks—and often more—in order to do their work well. However, this once more ultimately underscores the uniqueness, perhaps genius, of this text for CEE readers. By incorporating case studies throughout the book, readers can glimpse the messiness, the interconnectedness of all those subjects, even the frustrations, and yes, the rewards of 21st century public management, its central place for making democracy work and importance to the public it serves.

CHAPTER ONE
Introduction to Public Management

Introduction to Public Management

Glen Wright*

This chapter and the following chapters in this textbook have the purpose of bringing together for the first time an introduction to public management in the context of the transition in Central and Eastern Europe. It is not necessary to repeat here the significant changes in the nature of the state and its functions, the relationship of government to citizens, the changed nature of the role of central and local governments, and the reduction of the central government's role as the decision-maker that has occurred in this region over the past decade.

What is needed a decade after these changes began is a reflection on the influences of these changes and the direction of public management in this region for those involved in teaching, researching, and working in public management. There is a need for a synthesis of Western public management theory and practice against the backdrop of the political, economic, social and cultural traditions that permeates the theory and practice of public management that has unfolded in Central and Eastern Europe. This has been recognized within the academic community of the American and European thinkers on public management. For example, a well respected text published in 1996 stated: "Central and Eastern Europe offers a separate and distinctive context where public sector reform programs are currently aimed at a drastic scaling-down of the Marxist-Leninist State. While the public sector is in retreat, the issues and processes involved are very different from the Anglo-Saxon experiences" (Ferlie, et al, 1996).

While public management in Central and Eastern Europe is still in the process of adapting to the transition from socialist to democratic systems, an even larger transition is looming on the horizon for these countries. This is being described in Western Europe as the Europeanization of public management in the European Union (EU) countries, and is beginning to affect Central and Eastern European countries waiting their turn for membership. Jak Jabes has called this development "European Administrative Space" and according to him is just "gradually taking shape" (Jabes, 2000). The changes being made as a result of this emerging dynamic of public management adds a new dimension for public managers to be trained in and learn how to operate in a new European political, social and economic environment. The focus in this chapter on public management as it has developed in the USA, Britain, and Continental Europe provide some background for understanding the eventual emergence of this European Administrative Space.

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In this introductory chapter we seek to accomplish two major tasks. First, define public management in various contexts based on historical as well as recent international developments in this field. Secondly, to describe the role and functions of public managers within the definitions and models commonly recognized. The reader is appropriately cautioned that defining public management and the functions of public managers is not an unimportant or simple task. It is not the intent of this chapter to bring a definitive answer to either of these issues, but, more importantly, to expose the readers to the various ideas, opinions, and thinking that has been expressed over the past century. The readers can come to their own conclusions after reflection and thought on the issues.

A third task that is begun in this chapter and continued throughout the remaining chapters is to emphasize the use of case studies as a part of the teaching and training methods. This is a widely used method of teaching in areas such as business administration, public administration and other disciplines. Case studies provide the opportunity to bring the real world into the classroom environment as well as to open up learning among the students and not just between teacher and student. It has become an invaluable tool of teaching in relating theory to practice in its use throughout the public administration schools and institutes of Central and Eastern Europe. Case studies have been and are a major development in accomplishing the training of public managers in the region.

In the following chapters, we will explore more deeply the concepts, methods and techniques of applying the tools of public management. We consider that a modern public manager must know how to develop the strategic vision and plan for the development of the state and local governments, how to manage human resources available to them, how to adequately finance programs and services and account for the funds they are allocated, and, in a new challenge to public managers, be knowledgeable of the need for and use of information and plan for the appropriate level of technology that will enhance the collection and analysis of information for decision making. These are the requirements for an effective public manager to perform in the new public management environment whether they live and work in a transition country or a fully developed democratic and market oriented society.

I. Defining Public Management

It is by conscious intent that the title of this book and this chapter use the words "public management" and not "public administration." The new student to the study of public management may not be aware of the debate over these terms from the mid-1980s and into the 1990s. During these years, many of the introductory texts in Western Europe began with a discussion of how public management differed from public administration. Public administration was the accepted term for the study of public sector management for nearly the entire

Twentieth Century. However, some important developments occurred in the beginning of the 1980s, both in England and the United States, which initiated the thinking that public administration did not quite encapsulate what was being required of public managers, as opposed to public administrators.

In the last two decades of the 1900s important changes occurred in how public managers were perceived to need to function. Critical thinking on public administration as a field of study and work had occurred throughout the century, but for the most part, these were contained within the public administration academic and research community. What developed in the 1980s was a change in the perception of what government should do and, consequently, how public managers should function. The impetus came from many sources, but perhaps, most importantly, from a powerful political ideology brought forth in England by Margaret Thatcher and Ronald Reagan in the United States. The reader should refer to the text titled *New Public Managers in Europe: Public Servants in Transition* by Farnham and others for a enlightening discussion of all the influences and factors creating the change from public administration to public management and its rise in the 1990s in European countries (Farnham, et al, 1996).

We will examine three perspectives on public management in the next section as a basis for defining public management. These perspectives provide a basis for later examining the roles and functions of the public manager. There are some interesting comparisons to make as we look at the British, American and Continental European approaches. We can encapsulate the overarching themes of public administration of these three perspectives as follows:

- The British perspective has evolved slowly over the years from the 1960s primarily in the nature of the education requirements of the career public servant to the present day orientation on what a manager should do in the citizen oriented service environment initiated by the Thatcher government
- The American perspective of a multi-disciplinary and rapidly changing field of study borrowing ideas from the business field and adapting the management methods in business to government in a trendy and fashionable manner.
- The Continental perspective of slowing evolving and continuing the foundation of theory and practice in the field of law and legal approaches to the scope of the public administrators functions and behavior.

I.A   The British Perspective: From Oxbridge Generalist to New Public Management (NPM) Specialist

A brief historical review of development of the educational background for civil servants in Britain will give perspective on how developments from the 1960s and onwards have evolved. We can view the period prior to the late 1960s as being characterized as follows:

- The civil servants came from the British class system

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- The education required for assuming their positions was a general humanities and classical background obtained at the two main universities, Oxford and Cambridge, hence the term "Oxbridge" to describe this system
- The administrative class was thus described as "professional amateurs" (Mosher, 1982).

The first opportunity to change this system came with the report of the Fulton Committee, or more precisely, the Committee on the Civil Service, chaired by Lord Fulton in 1968. The recommendations of the committee were for the most part adopted and the new civil service turned away from the Oxbridge and administrative class system to a more open entry in the civil service, educational background in specialist areas, more focus on training of managerial skills, and the creation of the Civil Service Department under the Prime Minister, rather than the Treasury, and a Civil Service College.

In the 1980s and into the 1990s, a new perspective began to develop with respect to the requirements for public management and what skills and abilities were needed by public managers. This perspective developed under the name of New Public Management and radically redefined public management in Britain.

Numerous writers, primarily British, have redefined what had been public administration and the role of the public servant. This redefinition has been a major consequence of the New Public Management concepts popularized in Great Britain and in the United States by the Reinventing Government proponents. Some flavor of this redefinition can be gained by looking at what some of the New Public Management authors have described as the difference between "administration" and "management."

Owen Hughes in his text *Public Management & Administration: An Introduction* provides a useful discussion of the old and new when he writes:

"The terms administration and management are not synonymous, neither is their application to the public sector. Public administration is an activity serving the public, and public servants carry out policies derived from others. It is concerned with procedures, with translating policies into action and with office management. Public management does include administration, but also involves organization to achieve objectives with maximum efficiency, as well as genuine responsibility for results. These two elements were not necessarily present in the traditional administrative system. Public administration focuses on process, on procedures and propriety, while public management involves much more. Instead of merely following instructions, a public manager focuses on achieving results and taking responsibility" (Hughes, 1994).

The ideology underpinning this New Public Management was the agendas of Thatcher and Reagan and the popularizing basis for a new style of management and new role for managers came from an unlikely source at the time. According to Lawton and Rose, the popularizing basis for New Public Management came

from the publishing of a book based on private sector management. They write: "A term was to enter the language of both business people and public sector officials alike. We refer to the Peters and Waterman's *In Search of Excellence* (1982). The authors examined a number of companies, including Boeing, IBM and McDonalds, which they identified as excellent and suggested that excellent companies had a number of characteristics" (Lawton and Rose, 1991). It was only a short leap from applying the characteristics of managers in these companies to managers in public sector organizations.

Interestingly, David Farnham and others writing in the text previously cited even trace the origins of New Public Management back to the USA, but within the public administration academic community. They write:

"The NPM can also be seen as a rightist version of the radical new public administration outlined in the Minnowbrook Conference in 1968. The Minnowbrook Conference took place in upstate New York and was a gathering of new young activist thinkers in the field. In both doctrines, public managers are seen as active agents in the policy process, not only as implementers of given policies. Whilst the Minnowbrook approach sees customers of public services as citizens with the right to direct participation, the NPM approach sees customers as rational consumers whose basic influence comes from the exit-option when they make rational choices between public and private producers competing with each other" (Farnham, et al, 1996).

The conflicts of Vietnam, real unequal economic opportunities and civil and political rights issues of the 1960s focused much of the problems on the behaviour of government institutions and their leaders. This source of new thinking in terms of what public administration and public administrators should be came at a time of particular turbulence in America.

Whatever the origins of New Public Management, it fundamentally attempts to redefine the field we called public administration. But what is New Public Management? It seems to combine many of the elements we associate with private managers. That is:

- a focus on efficient use of resources with high quality of the product delivered;
- a competitive environment between public and private sector delivery of services;
- a market driven approach in that citizens are viewed as consumers to be satisfied and who control their purchase of services; and, finally,
- a high level of accountability for performance results on the manager.

After nearly a decade of publicizing New Public Management, what can be said about its long-term impacts? Is it largely a fad or fashion as many other ideas have been in public administration? Will it continue to develop and fundamentally change the thought and practice in the public sector or is it largely limited to its origins in Britain?

This issue was researched in the mid-1990s with mixed results. According to Farnham and others cited, this New Public Management has largely been confined to a few of the European countries. They examined seven characteristics as promoting the adoption of New Public Management in Britain and on the continent. These factors were (1) public expenditures as percentage of GDP, (2) public employment as percentage of total population, (3) influence of new right ideology on politics, (4) percentage of workforce in agriculture, (5) GDP per capita, (6) Catholics as percentage of population and (7) influence of English language. The results of this research were presented in *New Public Managers in Europe: Public Servants in Transition* (Farnham, et al 1996). Summarizing the results on a country-by-country basis they write:

"Combining the seven set of variables, it is clear that Britain is identified as the most receptive to NPM ideas and public managers. The Netherlands, Belgium and Finland have similar profiles to Germany and are predicted to be slightly less receptive, whilst the southern Catholic countries—France, Italy and Spain—are predicted to be the least receptive to the introduction of public managers."

Several reasons help explain why this new managerialism is more confined to Britain and the USA to some extent than to Continental European countries. Among these is that Continental European public managers operate within strong legal frameworks and apply laws rather than make discretionary managerial decisions. Secondly, civil service systems on the Continent are more highly structured and standardized, while in Britain there is opportunity for different government units to develop their own civil service pay and performance systems. These factors may well limit the potential widespread adoption of New Public Management beyond just the Anglo-American countries.

In the United States, the New Public Management and its American equivalent, the Reinventing Government movement, has come under a rather scathing attack from the public administration community. The November-December 2000 issue of Public Administration Review, the American journal for academics and practitioners of public administration, contained three articles critiquing the Reinventing Government reform effort and another article dealing with New Public Management. We will look at these in the next section as we examine the ever-changing American perspective on public administration.

I.B   The American Perspective: Pluralistic Ways of Thinking

The British perspective outlined above provides some consistency and uniformity for those engaged in this intellectual exercise in Britain. No such consistency, uniformity or agreement exists with the American perspective for defining public administration or public management. The American perspective is rich in its diversity and many argue this is the strength of American public administration.

In a widely used text, Richard Stillman identifies twelve different definitions of public administration from textbooks that have been used in the past two decades. The definitions range from an economic perspective, a political process perspective, a sociological or organizational behavior perspective, to a legal perspective all intertwined (Stillman, 2000). The problem of defining public administration in the American context was recognized as early as 1955 by Dwight Waldo, a leading theorist in the field, in his text *The Study of Public Administration.* Waldo wrote: "But in truth there is no good definition of public administration. Or perhaps there are good short definitions, but no good short explanations" (Waldo, 1955).

To get a better perspective on American public administration, we should look at the original thinking about public administration. In order to do this, we can examine some of the central ideas that first underpinned this emerging field in the late Nineteenth Century. European readers might be surprised to learn that the original source for public administration thinking came from Woodrow Wilson, who was then a political scientist, but later the American President, in an article titled "The Study of Administration" published in 1887 in the Political Science Quarterly.

What were the central ideas of public administration as envisioned by Wilson? There were three fundamental aspects of Wilson's thinking which guided the development of public administration up to approximately the 1930's.

The first was that the study and work of administration would be a continuation of the science of politics. Wilson wrote in his essay: "The science of administration is the latest fruit of that study of the science of politics which was begun some twenty-two hundred years ago" (Wilson, 1887). He referred repeatedly to the idea that administration could be a science rather than an art. This optimistic view may also have been an outgrowth of the rapid developments in the natural sciences and development of industrial technology in this same period which hopefully could be transferred to the social sciences as well.

However, Wilson went on to make an important distinction between politics and administration, which became the second basic tenet of American public administration for nearly the next fifty years. This distinction between politics and administration played an important role in the development of the civil service system during this same time in the USA. A disgruntled office seeker had shot the President of the United States. There was rampant corruption in the municipal governments based on machine politics. Government was taking on new tasks as well, such as regulating the railroads and looking at the power of many large corporations that were considered to be dangerous to the public interest. Wilson encapsulated this thought about separation of politics and administration in stating: "Most important to be observed is the truth already so much and so fortunately insisted upon by our civil service reformers; namely, that administration lies outside the proper sphere of politics. Administrative

questions are not political questions. Although politics sets tasks for administration, it should not be suffered to manipulate its offices" (Wilson, 1887).

If administration was to be divorced from politics, then it was necessary to find another source for its basic operating principles. Where was this to be found? Wilson saw it coming from the application of the principles of business management as practiced in the newly emerging large companies and corporations requiring managers with special skills and abilities. He saw the rise in the late 1800s of a managerial profession separated from the ownership of the enterprises whose purpose was to serve the interests of the corporate ownership. This emerging profession had as it goals the maximization of profits and the use of financial and human resources in the most efficient, effective and economical manner. These words, economy and efficiency, became the slogan for a whole era of governmental changes.

Wilson puts it quite succinctly as follows: "The field of administration is a field of business. It is removed from the hurry and strife of politics; it at most points stands apart even from the debatable ground of constitutional study" (Wilson, 1887). So, the emerging field of business management methods became the basis for applying these techniques to the field of public administration. Isn't it interesting that a century later, the application of business management methods as described in the Peters and Waterman book, *In Search of Excellence*, (1982) should also be attributed as a basis for New Public Management in Britain and influenced American management methods as well.

To summarize Wilson's main points we see that he envisioned the following:

- administration developing as a science, rather than an art;
- a separation of politics and administration in the functions and roles of governing; and
- the fundamental methods of public administration developing from the application of business management methods with emphasis on economy and efficiency.

The idea that administration could be a science held sway for the next fifty years. This idea was refuted in the classic text by Leonard White in the 1940s with a chapter titled "The Art of Administration." White wrote:

"The art of administration is the direction, coordination, and control of many persons to achieve some purpose or objective. It is a dynamic art, taking the human and physical resources available in a system of administration and bending them to the achievement of some required goal. It is an art that pervades all levels of organization, binding together the many professions, crafts, and specialties whose contributions, although equally necessary, are not those of management" (White, 1948).

The attempts to develop certain principles of administration largely reflected in the works of Taylor to develop Scientific Management and in POSDCORB

(planning, organizing, staffing, directing, coordinating, reporting and budgeting) developed by Gulick and others in the 1920s were effectively refuted in the classic work by Herbert Simon titled *Administrative Behavior: A Study of the Decision-Making Process in Administrative Organizations*, published in 1947.

The American perspective on what constitutes public administration has gone through numerous stages over the past century as identified by Stillman in the latest edition of his text *Public Administration: Concepts and Cases* published in 2000. He characterizes the period 1926-1946 as POSDCORB Orthodoxy based on the writings of Luther Gulick published in the 1937 text titled *The Papers on the Science of Administration*. It was in this period that the central tenets of separation of politics and administration, that administration as a science could be fashioned based on Taylor's Scientific Management, and economy and efficiency as the watchwords of government activities were developed.

Another stage of American public administration thought began in the 1940s, which was a frontal assault on at least two of these central tenets of the POSDCORB Orthodoxy. These criticisms were directed at the idea of separation of politics and administration and the POSDCORB description of what constitutes management. This assault was led by two individuals and published in classics of American public administration. The first was previously mentioned as Herbert Simon's text on administrative behaviour, which labeled POSDCORB as meaningless "proverbs" or "folk wisdom" (Stillman, 2000). Simon challenged the supposed rationality of managerial decision-making on economy and efficiency terms and substituted a notion of "sufficing" as the basis for decisions. The limits of a manager's knowledge placed bounds on the idea that decisions were made without some subjective elements.

The assault on the separation of politics and administration came from the political scientist Robert Dahl, also writing in 1947, with an essay in the journal Public Administration Review. Dahl provided a comprehensive critique of the POSDCORB Orthodoxy and described a larger field of interest for public administration thinkers to consider. He incorporated human behaviour as a dimension for examination in public administration and thinking, as well as recognizing the need for public administration to deal with the larger context in which it operates—the social, political and economic context of the emerging post-war society.

Stillman labeled the above period from 1947-1967 as the Social Science Heterodoxy. This period was followed from 1968-1988 with The Reassertion of Democratic Idealism (Stillman, 2000). This period was best reflected in the papers from the Minnowbrook Conference previously cited which postulated a social conscience for public managers and an opening of the decision making process to citizens. Another important contributor in this same period was Vincent Ostrom who provided a refutation of what was termed "state building" ideology connected to Weber's ideas on bureaucracy. Ostrom, in his book *The*

Intellectual Crisis in American Public Administration published in 1973, and quoted here from Stillman, "frontally assaulted older state-building ideas that he labeled as 'The Wilson-Weber Paradigm' with its 'single-centered administration,' 'hierarchical structures,' and 'sharp separation of politics and administration" (Stillman, 2000).

The Minnowbrook Conference proponents and Ostrom questioned the fundamental nature of what the state should do and how managers should function within this state apparatus. It would seem, unquestionably, that much of this attitude toward government and government leaders was an outgrowth of the political and social turmoil in the US during the 1960s arising from the Vietnam War and the civil rights movement. This perspective seemed to take the public manager into the realm of social activism or certainly more social consciousness on the part of the public manager. Rather than a passive implementer of the laws, the Minnowbrook proponents proposed that they be social reformers deeply involved in the formulation of policies and responding to citizen constituencies, rather than to just the elected policy makers.

While British public administration thinkers focused on the New Public Management theme in the late 1980s and into the 1990s, the American perspective seemed to fragment into several different groups and all attempted to "refound" American public administration. Stillman identifies six different perspectives ranging all the way from the Reinventors of Government popularized by Osborne and Gaebler and promoted by the Clinton Administration to a grouping termed "New Bureaucratic Analysts" that seem to attempt to revive the basic philosophical tenets of public administration starting with Wilson. This era is characterized by Stillman as "The Refounding Movement" beginning in 1989 to the present.

A discussion of each of these six groups would burden the reader with more information than is necessary for this text. Suffice it to say, that while British and Continental European writers on public management have tended to focus on one overriding theme, New Public Management, the American public administration perspective has still to coalesce around and agree on a definition or scope of the field. The American characteristic of diversity, debate, and competition is a part of the field of public administration as it is with American economic, political and social systems.

We should not leave a discussion of the American perspective without some attention to the Reinventing Government movement of the 1980s and 1990s in the USA. This was alluded to in the earlier section focusing on the British perspective as it related to New Public Management. As previously stated, the Reinventing Government movement has been severely criticized in the American public administration community. As noted, the Public Administration Review published three articles assessing the Reinventing Government effort in both academic and practitioner terms. We will briefly summarize the assessments from these three articles.

The first article by James Thompson focused on assessing the reinvention movement as part of the National Performance Review (NPR) initiated by the Clinton Administration. Thompson wrote:

"The strategy employed here as a means of gaining insight into such phenomena was to couple a broad review of government-wide survey results with an in-depth investigation into the impact of NPR on a single agency, the Social Security Administration. A conclusion is that many of the NPR's 'higher-order' objectives have not been met on a systemic basis. While a variety of proximate explanations for this finding can be identified, a more fundamental explanation relates to a failure by the sponsors to adjust their strategy to account for basic differences between NPR and past reforms" (Thompson, 2000).

The second article is a vigorous attack on the quality of the scholarship and consistency of the recommendations proposed for public managers to follow in implementing the Reinventing Government ideas. The author, Daniel W. Williams, utilizes the reference made by Herbert Simon to "proverbs" in attacking the old POSDCORB principles. Williams writes in his article titled "Reinventing the Proverbs of Government":

"The field of public administration has a long history of popular reform movements. Many of these reforms have failed to deliver the improvements promised. The current 'reinventing government' reforms, which follow largely from the writings of David Osborne and his coauthors, claim to establish a new governmental paradigm based on liberating employees and citizens to do their best and using new management methods to get the most out of what government does. However, a careful analysis of Osborne's chief works, Reinventing Government and Banishing Bureaucracy, reveals that their advice cannot be applied because it is inconsistent. No new paradigm is established, and, more importantly, because of the ahistorical nature of these texts, Osborne proposes discredited ideas for administrative reform and misleads the reader concerning the significance of his observations" (Williams, 2000).

The third article assessed the results of the Reinventing Government movement on the basis of actions taken by city managers throughout the USA to implement the reform ideas. The article, written by Kearney, Feldman and Scavo, was based on a national survey of city managers in cities with over 10,000 population. Out of the total of 1,484 surveys sent out, a response was received from 60.1 percent. The authors concluded from the survey that "A large majority of managers support the key principles of reinvention. A smaller proportion of managers have taken actions to recommend adoption of reinvention programs in their budget proposals to council. Managers' action-taking is influenced by certain characteristics of city managers, their communities, and their governments, including managers' attitudes and experiences, slack resources, and region" (Kearney, et. al., 2000).

In an article by Robert and Janet Denhardt, they formulate a new vision titled "New Public Service" as opposed to New Public Management. In comparing the two, the Denhardts write:

"The New Public Management has championed a vision of public management as the entrepreneurs of a new, leaner, and increasingly privatized government, emulating not only the practices but also the values of business. Proponents of the New Public Management have developed their arguments largely through contrasts with the old public administration. In this comparison, the New Public Management will, of course, win. We argue here that the better contrast is with what we call the "New Public Service," a movement built on work in democratic citizenship, community and civil society, and organizational humanism and discourse theory. We suggest seven principles of the New Public Service, most notably that the primary role of the public servant is to help citizens articulate and meet their shared interests rather than attempt to control or steer society" (Denhardt and Denhardt, 2000).

The Denhardts then go on to identify the seven principles to guide the New Public Service. These are (1) serve, rather than steer, (2) the public interest is the aim, not the by-product of the public servants actions, (3) think strategically, act democratically, (4) serve citizens, not customers, (5) accountability isn't simple, (6) value people, not just productivity, and (7) value citizenship and public service above entrepreneurship (Denhardt and Denhardt, 2000). In many respects, this New Public Service seems to be a refounding of the ideals developed in the 1960s as formulated in the Minnowbrook Perspective by the young academics influenced by the political and social unrest of that period. The New Public Service seems to want to infuse democratic and participatory values in the public administration field much as the effort of the New Public Administration did in the 1960s and 1970s.

There is no question that the Reinventing Government movement has had some impact on how public management is defined and how public managers operate in the USA. Like most reforms, it will probably fade over time, but it has made the public administration community reexamine its foundations and the purposes for which public management exists.

I.C The Continental European Perspective: The State-Centered Dominance of Public Law

From the diversity of the American perspective, it may be more reassuring to the reader to realize that Continental Europe has a very precise view of what public administration is and the basis of its activities. In the Continental European context, public administration can be described as:

* a sub-field of law and the legal framework of the state;
* the source of which arises from the nature of the work that public servants perform in the development of the states in Europe;

- public servants are to serve the interests of state power, expansion and order in the modern eras; and
- their functions are to carry out the policies of the state within a strict framework of rigid laws and regulations handed down from above.

A good example of the Continental European approach is provided by Germany. In Germany, the approach to public administration and the duties of the administrator are set by a separation of politics and administration and a reference to the legal text for determining its tasks and discretion. Public administration is defined in the German context by the following: "The tasks of public administration and, therefore, the structural premises of the material correctness of the administrative action, are fixed, given the German tradition, in the first instance by the medium of the law" (Konig, 1983). In the German approach, the tasks and duties of public administration arise from the legal statutes. These statutes define the limits of authority from which public administrators undertake their duties.

This leads to an interesting basis for rational decision making in the German approach that is very different from the economic rationality of the American or British ideal where it is assumed that a public and private manager would act on the same economy and efficiency basis. This basis for decision-making is described in the following text:

"The administrator can act differently from a businessman without being guilty of irrationality. Given the rule-of-law tradition of the Federal Republic of Germany, the rationality of public action is primarily assured by bringing together norms and facts and citing precise authority for each act. Administrative decision-making is determined by structures that have developed in the course of a deep-rooted history of methods of European jurisprudence" (Konig, 1983).

Decision-making arises from a legal investigative process that reconciles the particular facts to the authority to undertake such actions from legal statutes. This process is strictly defined within the statutes. According to Becker: "The rationality of all administrative decisions is determined by the general rational criteria laid down in the Federal and Land Constitutions which incorporate strict and binding fundamental decisions referring to: The rationality of the System, The Rationality of the Procedure and The Rationality of Courses of Action" (Becker, 1983).

It is evident from this brief review of the German perspective on public administration that it operates within the constraints of the law and the state. The public administrator's task comes from a thorough and detailed knowledge of the constitution, laws and administrative procedures. The importance to the European public manager of understanding the law and applying it will be more evident as we look at the approaches to teaching public management and administration between the American and European methods. The consequences of this emphasis on the legal basis for decision making has important implications

for managers. David Farnham and others state: "Whilst this legalistic philosophy is perhaps strongest in Germany, it is found in all EU countries and lies at the core of the differences between Britain and the rest of Europe. It imposes limits on managerialism and the power of managers" (Farnham, et al., 1996).

I.D   Conclusion: Defining Public Management

It has been the intent of this introductory section to give to the reader a sense of what public management or administration, whichever name you wish to use, is and how there are important differences of perspective within the international public administration community. Emerging schools of public administration in Central and Eastern Europe have a number of models to choose from as they shed the Marxist-Leninist and communist imposed systems. Fortunately, there is no compulsion to choose exclusively among these models and a new synthesis or at least accommodation among American, British, and Continental European approaches provide a rich opportunity for new public managers in Central and Eastern Europe to study.

II. Conflict or Convergence of Public and Private Management

The issue of whether public and private management is significantly different and whether there is an important difference between public and private organizations is a long running debate in the field. There is no doubt that many of the innovations in the field of public management have had their beginnings in private sector management. In many cases, the public manager seems to follow the lead of the private sector counterpart. Numerous examples exist, such as PPBS (planning-programming-budgeting system), ZBB (zero-based budgeting), MBO (Management by Objectives), and TQM (Total Quality Management), that were first applied in the private sector and introduced into the public sector. These have tended to be fads that last for a few years and then fade out as another new innovation comes into fashion.

This is an area worth examining in our introduction to public management. As observed earlier, much of the New Public Management philosophy, the "Excellence" promoted by Peters and Waterman and the Reinventing Government movement in the USA, have drawn lessons from the private sector as being applicable to public managers and public organizations. We can examine some of the opinions expressed about the issue over the past several decades.

Farnham and Horton writing in 1996 state: "In practice, when it comes to trying to establish a dividing line between the two sectors, the distinction is blurred and it is difficult to determine where private organizations end and public ones begin" (Farnham and Horton, 1996). Other writers, both American and British, suggest that the difference is not that significant and hardly worth the effort to determine (Dunsire, 1982, and Allison, reprinted in Stillman, 1992).

However, there are some contrary views and this indicates the importance of recognizing the private sector organization and manager as being important

influences on public sector management. In 1983, two American writers, Perry and Kraemer, indicated that public management was becoming more a merging of the old public administration with the addition of the new orientation coming from business management (Perry and Kraemer, 1983). This perception is also shared by their British counterparts who observe that the new "managerialism," which began to be practiced there from the 1980s, was prevalent in both the public and private sector (Farnham and Horton, 1996).

II.A Public and Private Organizations

Perhaps the differences between public and private management today are significantly less because there is no sharp distinction between public and private organizations. Over the past fifty years, some public organizations have operated much like private enterprises, albeit, without a particular profit motive or shareholder interest. Today, there is not a sharp distinction between public and private organizations, but more a continuum from purely private to purely public. Tomkins indicates this range of organizational entities proceeding from (1) fully private, (2) private with part state ownership, (3) joint public and private ventures, (4) private regulated, (5) public infrastructure with private operation, (6) Contracted Out, (7) Public with managed competition, and (8) Public without competition (Tomkins, 1987). Private with part state ownership can include such entities as airlines and other transportation systems. Private regulated includes many of the utility services and, particularly, telecommunications. Public infrastructure with private operation might include such organizations as airport facilities, sports stadiums, prisons, bus or subway companies, as well as other areas where there is application of the BOT (build, operate, transfer) approach. Public with managed competition has been particularly used in Britain with health and hospital services and might well find application in the operation of schools that compete to attract students. With this spectrum of organizations, there are obviously areas where the functions and activities of public and private managers would be much alike.

In Central and Eastern Europe these new forms of organization are just developing as the dismantling of the state apparatus continues with privatization and decentralization of public services. One of the major decisions to be made in the privatization process is what services should be privatized and, in many cases, it has been determined that the state should either maintain an ownership position or a heavy regulatory involvement in the activity. The operation of these organizational entities will require their managers to think in new ways about their managerial activities and ultimate responsibilities.

II.B Substantive Differences of Public and Private Management

There are still some differences between public and private management and organizations that need to be highlighted. There are basically three substantive areas in which public and private organizations differ. First, public organizations operate based on politically determined needs rather than market determined

needs. The lack of the profit motive in determining functions of public organizations highlights this difference. While many public organizations charge for services, the implicit charge is for cost recovery rather than profit for maximization of shareholder interests.

Second, the profit motive, inherent in the private sector, provides one basis for performance measurement that is obviously not transferable to the public organization. The long running frustration in public organizations is the lack of a performance measurement system that fully reflects their efficiency and effectiveness.

Thirdly, public and private management operate within different legal environments and constraints. Berkley states: "In private administration, the law generally tells the administrator only what he cannot do; in public administration, the law tells him what he can do" (Berkley, 1975). Where there may be substantial discretion for public managers in the American and British systems, there is very little room for discretion within the legal environment of the Continental European managers.

There are some other differences worth noting as well between public and private managers. Certain values, such as equity and fairness, are an important part of the public managers behavioral system. While these values might influence a private sector manager, they weigh less heavily than the value of profitability and continuation of the firm. A private manager would unlikely be willing to bankrupt the firm if the situation demanded equity in the delivery of services at the expense of achieving a profit.

The decision-making environment is also substantially different for the public manager. Many decisions must be made in open public hearings or, before decisions are made, the public must have an opportunity to express their opinions. Private sector decisions may not be made in such an open forum, although today, many such decisions, such as location of factory, power plant, and other facilities have to be made with citizen input on environmental and quality of life impacts.

A significant influence on the public manager arises from the role of the press and media into the decision making process. The press and media play a watchdog role for the public in uncovering decisions made by public officials. The public manager must be aware of the influence, either positive or negative, from the press and media coverage. The public manager must also be a press relation's officer in many cases.

II.C Conclusion: More Convergence than Conflict

The present trend in the Anglo-American political culture is toward the convergence of public and private management. There are basically two reasons for this. The first is the blurring of the organizational structures today, which are a mix of public and private sector motives. Public-private partnerships, contracting

out, partial state ownership of private ventures and other innovations tend to blur the distinction.

Secondly, management techniques developed in the private sector continue to be transferred to the public manager as well. On this basis, the essential elements of managerial activities will remain very similar between the two sectors. Some writers have indicated that "convergence is demonstrated through the ways resources are being managed; public service organizations becoming more 'customer' centered; and financial and staffing decisions being devolved to managers" (Farnham and Horton, 1996).

The more legalistic approach of the Continental European manager will likely prevent the same level of convergence there. In a later section, we will examine some different public sector models that reflect the cultural influences on public managers that lead to this conclusion.

In Central and Eastern Europe, the dividing line will probably rest on the extent the state privatizes and decentralizes public services. This is a mixed situation, for the most part, in the region. What is needed perhaps is a concerted effort by the new public managers in Central and Eastern Europe to be more assertive in demanding responsibility with accountability for their decisions. This would be a fundamental change from the overly bureaucratic systems inherited from the socialist system. Developing this new responsible attitude, focusing on the citizen as customer, and emphasizing proper financial management requires the education of the public manager in a new framework. We can look at approaches to educating the public manager in the next section.

III. Educating the Public Manager

The different perspectives of what public managers do between the Anglo-American and the Continental European approaches leads to differences in the subject areas and methods of educating public managers for their duties. In this section, we will examine these approaches to educating the public manager and draw some conclusions relevant for the development of public management and public administration curriculums in Central and Eastern Europe.

III.A The Anglo-American Approaches and Methods for Educating Public Managers

In this section, we will examine the content and methods of teaching public managers in the American and British systems. We discuss these together because, as demonstrated above, they seem to have similar perspectives on what public management or public administration is, draw from the private sector many of their methods and techniques, and have a more multi-disciplinary approach to teaching public management. There are obviously many differences rising from the political, economic and social situations in each of these countries, but at the basic level of what public management is they share many of the same values and perspectives.

The diversity of opinion about what public administration or management is in the USA necessarily leads to a multi-disciplinary approach to teaching the subject. This is one of the reasons that public administration has had some difficulty in being accepted in the academic institutions. It is often not clear whether it should be a separate department or faculty, or be within the political science or business administration faculty. In American higher education institutions, you can find situations where public administration can be one of these three alternatives. Public administration is generally felt to be a graduate level program with a Masters Degree. However, there are some institutions that offer this as an undergraduate program for a Bachelors Degree.

Where public administration has its own academic department identity, it generally requires courses taught in the political science, economics, and business administration departments as well. However, there is generally a core curriculum with such courses as public budgeting, public personnel management, and an introductory as well as advanced course focused exclusively on management in the public sector.

Public Administration and Management Curriculum

The curriculum of public administration has been fairly consistent over the years. In 1955, Waldo described the curriculum as follows:

"In colleges and universities in which more than a single general course in public administration is taught, the other courses are most likely to be specialized among one or the other or both of two lines. One type of specialization is geographical and legal: courses on national, state, municipal, local and international administration. The other line of specialization is functional, following subject matter or activity patterns within administration: courses on personnel administration, budgeting or financial administration, planning, administrative law, and so forth" (Waldo, 1955).

The public administration curriculum underwent some changes in the 1970s and 1980s. According to Henry, the core curriculum at the graduate level centered on the environment of public administration, such as public administration and bureaucratic behavior in democratic systems, a continuation of the public budgeting and financial management courses, a quantitative methods course as well as personnel administration (Henry, 1990). Two other subject areas began to become more prevalent in this period as well. The first was the introduction of organizational theory as part of the graduate curriculum. This may have been a consequence of the Minnowbrook Conference activists that tended toward changing organizational structures and the behaviour of individuals within organizations and this new knowledge was needed by public managers to function in a more open and participatory style.

A second subject area that has tended to develop into its own discipline and academic department in some cases is the teaching of public policy analysis.

There are now Schools of Public Policy devoted to researching, teaching and developing the capacity of public managers to deal with the complex issues crossing the political, economic and social systems. This is the final recognition that there is not a separation of politics and administration and that they are intertwined in modern democratic and pluralistic societies. Also, it is the recognition that public managers have an important influence through their access to information, technical skills, and connections to the press and media in influencing what are ultimately political decisions.

The problem with public policy, as with public administration, is that it is rather difficult to define its scope and boundaries. How much of it is pure political science, how much is pure economics, or how much is social science research is difficult to measure. It combines elements of all these disciplines.

Public policy as a subject is worth some discussion at this point. It is one of the two main features of public management training that has had some difficulty in being understood and accepted in the Central and Eastern European transition setting. The other feature is the application of the case study method to teaching and training. We will examine public policy analysis in the next few paragraphs and then proceed to examining the case method of teaching.

Defining public policy is not without its problems. A simple definition offered by Edwards and Sharkansky is that public policy is what governments say and do or do not do (Edwards and Sharkansky, 1978). Peters offers another definition. According to him, public policy is the totality of government activities implemented directly by government or through agents, such as NGOs, private sector delivery or other means, to influence or affect the lives of citizens (Peters, 1993).

Public policy has had many different approaches to constructing a methodology and discipline for its activities. Some have approached it as in economic system with inputs, conversion, and outputs and a feedback mechanism for adjusting the process (Sharkansky, 1972). Another writer in the field sees public policy as a set of processes. John Kingdon, in his text *Agendas, Alternatives, and Public Policies*, sees public policy with the following activities: "(1) the setting of an agenda, (2) the specification of alternatives from which a choice is to be made, (3) an authoritative choice among those specified, as in a legislative vote or a presidential decision, and (4) the implementation of the decision" (Kingdon, 1984). Still another approach defines public policy as coming from a political economy approach based on these assumptions: (1) human behavior is based on people seeking their own interests and goals, (2) this behavior arises from people being subjected to incentives and constraints to achieve their interests, and (3) that people seek creative ways to achieve their interests, either individually or collectively (Bickers and Williams, 2001).

According to Dye, however, there are nine models that attempt to explain the public policy decision-making process. He lists these as the (1) institutional model, (2) process model, (3) group model, (4) elite model, (5) rational model,

(6) incremental model, (7) game theory model, (8) public choice model, and (9) systems model (Dye, 1992). An examination and discussion of each of these models is not necessary for our purposes in this chapter. It is sufficient to say that public policy can be viewed as a rather confusing and ill-defined discipline for study. Perhaps that is the first problem with its transference to the Central and Eastern European transition.

Additional problems in Central and Eastern Europe arise from the historical and geographical situation. Many of the countries of the region have particularly Continental European influences, particularly from France and Germany, which are oriented toward the legalistic approach to administration. Secondly, the legacy of fifty years of socialist rule with an overly centralized decision-making process and a behavioral reluctance ingrained in public servants to minimize risks or make mistakes in their decisions makes it difficult for the new public managers in Central and Eastern Europe to imagine they should become involved in political decisions. A third factor is that public policy analysis requires well developed systems of data and information gathering which is lacking in the region. An additional impediment is the reluctance to share information, even if available, with those outside the organization, which precludes much of the independent research of think tanks or policy institutes.

Teaching by the Case Method

Another important feature of educating public managers in the USA and Britain is the emphasis on teaching practical methods and techniques through the case study method. The teaching method, particularly at the graduate and executive development level, is directed at integrating theory and practice. Classes are often open forums with the teacher facilitating the discussion, asking the questions, and students actively exchanging opinions and ideas. The basis for this approach is the use of case studies. Textbooks, in particular, combine both theory and practice by incorporating theoretical readings followed by case studies designed to bring out the important learning points. This textbook model approach is the basis for the development of this text with introductory sections on various topics followed by case studies.

The relevance or correlation of the case method of teaching and progress toward democratic systems is the subject of an interesting essay by Howard Husock, Director of the Case Program, John F. Kennedy School of Government, at Harvard University. His essay "Democracy and Public Management Cases" was written in the early 1990s at a time when there were worldwide movements toward democratic governments; not only in Central and Eastern Europe, but also in South Africa, Chile and Spain. Husock relates that at this same time, the Kennedy School was receiving an increasing number of requests for public management cases and how to implement the case method of writing and teaching. He relates: "There is good reason to think this is more than coincidental.

This is to suggest that, for schools of public policy and management, democracy is likely to breed interest in 'cases,' and that cases, in turn, help provide the means to sustain and enhance democratic governance" (Husock, 1993).

The case method and traditional lecture method of teaching has been contrasted by Lynn as follows:

"In the traditional approach, the following assumptions are made: (1) the teacher is the source of knowledge, (2) the students are seekers of knowledge, and (3) knowledge flows from the teacher to the student. But the case method applies a different role between teacher and student. The case method assumes (1) the teacher motivates students to contribute their ideas, knowledge and experience, (2) the student must bring enthusiasm, commitment and a sense of responsibility in contributing to learning, and (3) both teacher and student must create a learning environment and allow the students to learn through methods appropriate to their thinking abilities" (Lynn, 1992).

The case method has been widely used as an effective method of teaching management in both business and public administration schools. There are several reasons for this widespread use. First, problems in management do not often fit into neat theories. The changing situations in both the public and private sector bring new problems for managers in which there are not any theories to apply. Theory often lags behind the practice in these fields.

Secondly, the complexity of management often defies the use of theory. As Lynn states: "There is no science of management to learn and apply" (Lynn, 1992). Management training has to be more problem solving oriented to develop the skills needed by managers in their everyday activities.

Thirdly, the case method enables managers to apply their thinking ability, creativity and imagination to problems they will encounter. The case method combined with other interactive learning methods, such as role-playing, group projects, simulations, and seminars form the basis for teaching public management.

Case studies have had some difficulty in being introduced into the curriculum of public administration in Central and Eastern Europe. Much of this difficulty arises from understanding what a case study is and how it should be used in the classroom. Case studies are written narratives of generally actual situations. The cases are designed to apply some theoretical textbook concept. The case is also utilized, however, to provoke class discussion about how the theory can be applied in practice. The case method is highly interactive between the teacher and students, and, more importantly, among the students. Generally, lecturing from the teacher consumes a small part of the class period. This method contrasts sharply with the lecture method that has been traditional in the educational institutions. Teachers have been the source of knowledge and the students are not felt to have either the knowledge or experience to engage the teacher or other students in open discussions. This method requires a new

teaching attitude and approach by the teacher that has often been resisted. Additionally, teaching by the case method requires some amount of training in this method and this has been lacking on a broad basis within the region.

More fully developing the case method in Central and Eastern European public administration curriculum will require both a better understanding of what case studies are, how they are written and how they are to be used by teachers in public management classes. Some progress has been made in this direction and it is hoped that this text, structured along the case method, will improve the potential for making this approach more widely used in educating the public manager in the Central and Eastern European transition.

III.B   European Approaches to Educating the Public Manager

The legalistic approach to public administration in Continental Europe provides the basis for the teaching of public administration in the universities, schools and institutes of the region. Courses that teach the actual application of the laws in various areas of government are the main content of courses. The emphasis is on knowing the law and the procedures to apply the law. More theoretical aspects of public law are taught rather than more generalized theories of public organizations and public management. Budget or finance is taught in the context of the laws to be applied in applying taxation and expenditure decisions.

Germany provides a particular model for public administration training. The Bavarian School of Administration has a curriculum consisting of constitutional law, civil law, social law, environmental protection laws, and then adds some courses on budget, economics, and information technology.

Entrance to these schools is often based on passing examinations demonstrating knowledge of law or political science. For example, the Ecole National d'Administration in France requires competitive examinations for entrance. Preparation can be accomplished through five political science institutes as well as five law schools that offer courses for the entrance examination.

The European teaching method tends to be the very formalized class lecture, but often seminar sessions complement the larger class lecture. The learning method is often based on memorization of specific details of these laws and their application. The importance of understanding the substance and procedures of the laws is felt to be the basis for the future public manager to learn his duties.

This method is appropriate in the environment in which public managers function in Europe. Here, there is still a separation of politics and administration, emphasis is on applying the legal norms and rules to situations, and equity and objectivity of the application of the law is more highly valued than economy or efficiency of its application.

III.C Development of Public Administration Education in Central and Eastern Europe

The application of the European approach is used in the law schools and schools of public administration in Central and Eastern Europe to a great extent. These institutions have a greater tradition and history and in many cases long standing connections with similar institutions in Continental Europe. There is a natural tendency to follow the German, Austrian, or French systems based on historical influences and relations of the past century.

Those schools and institutes more recently founded in Central and Eastern Europe have adopted some of the Anglo-American approaches to teaching public management. This is due to teachers coming to these institutions and teaching the case method and public policy analysis courses. Whether this a long term influence is yet to be seen.

Fortunately, an examination of the development of higher education programs in public administration programs has been accomplished in a joint publication of the Network of Schools and Institutes of Public Administration in Central and Eastern Europe (NISPAcee) and the European Public Administration Network (EPAN). In a volume edited by Tony Verheijen and Juraj Nemec titled *Building Higher Education Programmes in Public Administration in CEE Countries*, Verheijen and Bernadette Connaughton identify three types of public administration programs and the CEE countries where these are developing. These are as follows:

- Economics/Management Orientation: Latvia, Slovakia, and to some extent Bulgaria
- Legal Tradition Orientation: Czech Republic, Hungary, Poland, Romania and to a strong degree in Slovenia
- PA Studies with Range of Social Science Disciplines Orientation: Estonia, Ukraine, and to some extent in Bulgaria and Lithuania (Verheijen and Connaughton, 2000).

There is a need to develop some overall standards for the educational programs being offered by schools and institutes in the region. While there are national standards generally promulgated by the Ministry of Education for each country, these will most likely result in a continuing divergence of approaches and little standardization of the requirements for a European level of public administration education.

In the USA, there is an accreditation organization, the National Association of Schools of Public Affairs and Administration (NASPAA), that provides a standard setting and accreditation function for the many state and private universities. A similar organization, now in its formative years, is being developed as the European Association for Public Administration Accreditation (EAPAA). This association was founded in December 1999 and by May 2000 had issued some standards for undertaking accreditation of public administration programs.

For the first years of the association, the secretariat of the association is being provided by the faculty of the Public Administration and Public Policy at the University of Twente in The Netherlands. This is an encouraging sign that public administration in the European context will fulfill the professional education role for the new European public servants.

III.D Conclusion

In this section we have examined the approaches to teaching public management and described the two major influences on teaching public management in Central and Eastern Europe. The subject and teaching methods in the Anglo-American approach is more multi-disciplinary with open, interactive teaching methods. The intent is to bring practical knowledge along with theory to the student. The ultimate objective is to prepare the manager for decision making in a complex political and economic environment. Good judgment in openly discretionary situations is the test of the manager's abilities.

The European approach relies on teaching the public manager the knowledge of the laws and procedures they will be responsible for implementing. It relies more on rote memorization, applying specific procedures to relevant situation, and maintaining a separation of politics and administration. Managers are prepared to exercise their authority within the context and constraints of the laws and narrowly defined discretionary authority.

Both Anglo-American and European approaches have their place in the Central and Eastern European transition. Both bring strengths as well as weaknesses to this situation. Perhaps, public managers in Central and Eastern Europe are fortunate that they have an opportunity to experience both approaches and take the best from each. In the schools and institutes of public administration, teaching these approaches brings to the students a rich curriculum for learning.

IV. Functions and Role of the Public Manager

In this section we will examine what it is that managers, and particularly public managers, do. In the preceding sections we have looked at defining public management from several perspectives and the different approaches to educating public managers. These are obviously influences on how managers actually behave and perform in their every day functions and duties. But, up to now, we have not actually described or defined what it is managers do.

We will examine what the functions and role of public managers are from three points of view. Beginning with what can be termed the Classical School of managerial functions, we then proceed to a point of view that managers operate differently based on some country specific attributes of their administrative system, and, finally, we come to an individual managerial behavior approach identifying several managerial styles.

A useful guide to our discussion is to define management in its simplest terms. It has been stated that "Management is a process or form of work that involves the guidance or direction of a group of people toward organizational goals or objectives" (Rue and Byars, 1980). This definition describes management as a process or form of work. We can assume from this that it deals with procedures and methods that are applied to some activity. Determining and using these procedures and methods must be the function of management.

Secondly, management involves the guidance and direction of people. From this, we can see that management requires some coordinating and controlling skills directed at the human resources available to the manager.

Thirdly, the definition identifies the setting and achieving of organizational goals and objectives. This gives structure and purpose to the activities of the organization. An organization is created to achieve some purpose and it is the management that has the responsibility of defining the purposes and goals of the organization.

We can now examine from several perspectives how managers perform these functions and activities within an organizational structure.

IV.A   Classical Approach to the Functions of the Manager

The earliest attempts to determine what managers do arose from the efforts to develop Scientific Management and a Science of Administration. This was an effort coming from both American and European writers in the 1920-30s. We might define this as the classical approach or the Principles of Administration approach to defining what a manager does.

The development of administrative principles was based on an analysis of how the formal organization should be organized and function. The principles of administration movement directed its work toward developing the proper formal organizational structure and the elements of management. The principal originators of this approach were Henry Fayol in France and Luther Gulick in the United States.

Fayol, a French industrialist, identified fourteen principles of administration that embodied what a manager should do. These principles were (1) division of labor, (2) authority, (3) discipline, (4) unity of command, (5) unity of management, (6) subordination of individual interests to the common good, (7) remuneration, (8) centralization, (9) the hierarchy, (10) order, (11) equity, (12) stability of staff, (13) initiative and (14) esprit de corps (Harmon and Mayer, 1976). These principles were basic considerations in structuring the organization, coordinating and controlling the human resources within the organization and attempting to create some purpose for the organizations activities. These focus on specialization of effort, a hierarchical chain of command typical of the classical bureaucratic system, and defining the limits of coordination and control within some span of organizational entities, as well as, achieving some economy

and efficiency of purpose by structuring the organization according to (a) purpose, (b) process, (c) clientele, or (d) place. These latter four elements served to define the organizational structure.

Luther Gulick, in the United States, carried the analysis further by defining the elements of managerial functions in his 1937 text *The Papers on the Science of Administration*. To identify the elements of management, Gulick devised the acronym POSDCORB with each letter representing a managerial function. POSDCORB means:

- Planning—determining the things that need to be done
- Organizing—establishing a formal organizational structure and authority
- Staffing—creating a personnel function to recruit and train people
- Directing—making decisions and giving general and specific orders
- Co-ordination—interrelating all parts and activities of the organization
- Reporting—keeping informed those to whom the manager is responsible
- Budgeting—maintaining financial planning, accounting and auditing.

The classical approach provided an important base for the development of managerial activities within an ideal and formalized bureaucratic setting. However, in this same period there was recognition of the informal organization structure that most managers had to deal with. This recognition of the informal organization developed from research conducted by a group of Harvard Business School faculty interested in determining how environmental changes affected worker productivity at the Hawthorne phone manufacturing plant of Western Electric located near Chicago, Illinois. This research led to recognizing the importance of worker motivation and the impact of human relations within the workplace.

The work of Chester Barnard was particularly recognized for the contribution to identifying the work of the manager. In his classic book, *The Functions of the Executive*, Barnard summarized the activities of a manager from a detailed listing into a more coherent identification of what managers must be concerned with in their organizational activities.

He discussed three major functions of a manager. These are:

- Maintenance of Organizational Communication—the executive function is critical to the information flows that are needed to coordinate and give purpose to the workers activities
- Securing of Essential Services from Individuals—the human resource function of recruiting, training and motivating the individual to serve the purposes of the organization
- Formulating Purpose and Objectives—the activity of defining the general direction, purpose and goals of the organization for subordinates to follow (Barnard, 1953).

This classical approach, as we earlier discussed, was heavily criticized in the late 1940s and 50s for being overly simplistic and nothing but proverbs by

which organizations in their formal structure should operate. It lacked relevance to the actual work that managers were doing. It left out several important functions, such as management of financial resources, information resources, and the representation of the organization in a broader political and social environment.

Later writers would add several more dimensions to the activities of managers. John Rehfuss, in his text *The Job of the Public Manager*, identified organizational representation and strategic management as a major time consuming activity of the public manager (Rehfuss, 1989). This organizational representation function occurs when the public manager is meeting with the public, interest groups, professional associations, public hearings, or any gathering of groups or individuals interested in the activities of the organization. This has evolved into the public relations function, which many public managers must deal with in accomplishing the tasks of the organization. They must educate as well as build support with their external environment through the media and press to maintain their organizational identity, purpose and even survivability.

Public managers must also develop a strategic management focus for their work activities. They must see beyond the short-term to the long-term requirements of the organization. They must reorient the goals of the organization to adapt to new challenges and functions placed on it by public demands. This requires giving vision and direction to the organization in a more formalized strategic planning process. The time horizon has to extend out to three, five or even ten years to imagine what demands will be made on the organization. This is a difficult task in the political, social and economic environment in which public managers operate. The demands of day to day management of the organization and the representation of the organization to the broader community often forces the public manager to neglect this strategic management function.

IV.B   Public Manager Models Based on Historical Experiences

In the preceding section we examined an approach to defining the role of the public manager in terms of specific functions and activities. This provided an enumeration of the various tasks that encompass a manager's duties. Another view of what public managers do is based on how they perceive their role within the governmental systems and historical experiences of various countries. This is an interesting view of how public managers are conditioned to behave within their societies. That is, they are more influenced by what their society and culture expects than by the actual tasks they perform in their daily work.

David Farnham, et al., write: "There are a number of models of the 'public service' with different philosophies about the role of civil servants in the modern state. They suggest different ways in which civil servants perceive their roles, reflecting in part the different historical experiences of different countries" (Farnham, et al, New Public Managers in Europe: Public Servants in Transition, 1996).

These writers identify four different models of public servant role behavior conditioned by the particular political and social conditions. The first is referenced as the British Parliamentary model in which civil servants are functionaries of the cabinet ministers they work for and perceive their duties to be to serve the interests of whatever minister, regardless of political party, is presently in power. This reflects the political neutrality of the British civil service and a willingness to subordinate their own personal opinions or views to support the efforts of the government. The civil service in this environment lacks a public or even self-image. However, these civil servants do play an important role in formulating policy as well as in implementation of policy.

A second model, labeled the German model, provides a stricter separation of politics and administration. As discussed above, the German administrative state, based on a legalistic approach, continues a separation of policy making from administration. The functions of the civil servant here is to simply take the laws, rules and administrative procedures and make "decisions that are legal, rational, objective and impartial. This is a formalized activity, where files may be reviewed by an administrative court, and hence, this is an activity independent of politicians" (Farnham, et. al., New Public Managers in Europe, Public Servants in Transition, 1996).

A technocratic view of public managers comes from the French model. This model reflects an independence of the public managers from simply supporting the political interests of the moment. There is a belief that by their expertise they know what should be done, just as well as the political leadership. They have a view of the national interest and a self-image of their role and importance in formulating and implementing policy that may override the present political interests. They tend to take a long-term view of the situation and see these interests as dominating the decision-making process rather than immediate political gains.

A fourth model, identified by Farnham and others, attempts to define the new public manager in the British setting as distinct from the more traditional view. This is largely the "managerialist" approach we examined earlier. There is a merging of political and managerial functions here. The purpose is to take the policy and implement it in the most efficient, effective, and economical manner. The fundamental difference in this approach is that the public manager has more of a self-image based on their accepting more responsibility for management of financial resources, more marketing of their organizations services to the public and being held accountable for their performance.

The above models provide an interesting view of how historical and political developments influence public manager models. Each of these reflects the influence of centuries of tradition, training, and perceived functions and purposes of managers. The cultural influences of these traditions should not be lightly dismissed, particularly where there is an effort to change systems, such as in Central and Eastern Europe.

IV.C   Manager Functions Based on Individual Behavior

Managers often demonstrate a particular behavioral approach to their duties. In this situation, their own personality and perception of management styles dictates how they perform as public managers. The idea of managerial styles has been widely studied in the business sector and personnel decisions are often made based on the type of personality that is most appropriate for the particular situation. The personality of managers are analyzed based on their tendency to be performance or task oriented as opposed to those more oriented toward developing human relations and consensus seeking in making decisions.

There are four types of managerial behavior that we can examine and see how each relates to the type of managerial approach they would take in performing their functions. The first of these is termed "Producers." These are the performance-oriented managers who like to achieve results, objectives and goals. They are generally energetic, some say overly aggressive, and tend toward being workaholics. They are generally very individualistic, less socially oriented, and often do not work well in a team situation. They prefer to be in command situations. Producers tend to try to do everything themselves, micro-manage situations, and do not delegate as they feel that others are not competent to perform the task at the level expected. They are particularly good in start up situations and get bored with routine work.

A second managerial type is termed administrator. They are focused on organizing people and activities into the correct order. The administrator tends to follow instructions and not deviate from these. They like rules and procedures to be followed and leave little to discretion. Routine work is more comfortable for them. Efficiency and economy are prime motivations in guiding their activities.

The entrepreneur is the third type of manager. They tend to like unstructured, chaotic, or crisis situations where there is no set or routine solution. They are visionary and constantly put out new ideas for solving situations or problems. Entrepreneurs are willing to take risks, prefer to have a wide area of discretion in making decisions and enjoy planning new activities. They often fail in the execution of activities, as they get bored with implementing plans. Entrepreneurs do not like meetings or set agendas.

Consensus seekers represent a fourth type of managerial styles. They demonstrate more human relations sensitivity and are more prone to subordinate the goals of the organization to the interests of the individuals. Consensus seekers are good in situations where group effort is required. They tend not to have ideas of their own, but have a way of bringing diverse or conflicting interests together. Political skills, rather than technical skills, are their main advantage. Persuasion is their main way of influencing rather than technical or professional expertise. They are team players rather than star performers.

This section has highlighted personality as a basis for identifying how managers function in their every day activities. It is important to recognize that all managers perform the same basic tasks, as we have examined, but managers cannot be separated from their personalities, how they view situations and people, and this has an influence on what they perceive as their functions and how they decide to perform these. A behavioral view of managers leads to some interesting analysis of how they manage.

IV.D   Conclusion

In this section we have examined what managers do. Several different perspectives have been examined ranging from identifying the tasks of managers, to describing models of public managers based on historical experiences within the political and cultural systems of countries, to identifying certain personality or behavioral approaches of managers and how they function in different situations. The purpose is to demonstrate that there is a wide area of thought, study, and perspectives to bring to bear in determining what managers do.

V. Summary and Conclusion

This chapter has covered a wide area dealing with public management. From defining public management to identifying the role and functions of a public manager we have exposed a great diversity of thought and thinking about these issues. This chapter is intended to lay the basis for the following chapters and case studies. It is intended to give a point of reference for examining what public management is, does, and, ultimately, what it should be in a region in transition. As the reader proceeds on through the text, it is hoped that they will continually examine what they are reading in the context of what this chapter has attempted to explain. They should ask the questions, why is this being done and why is it being done this way? These are always the issues facing the public manager.

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APPENDIX A: Guide to Using Cases in the Classroom

One of the important goals in developing this public management text is to further the use of the case teaching method in the schools of public management and administration in Central and Eastern Europe. Some efforts have been made over the past decade in a number of countries to develop cases specifically relevant to the transition to democracy and the free market system in the region. This is an important development as cases drawn from Western democracies lack the cultural, historical, and institutional character that makes them relevant to the experiences of the students of public management in the CEE. Perhaps, in some instances, the use of these Western based cases has tended to confuse the teacher and student and the lack of relevance to readily understandable public management situations familiar to both the teacher and student in the CEE has negatively impacted the adoption of the case method.

The additional factor that has inhibited the use of cases is the lack of common understanding by both teacher and student of their responsibilities in the classroom when cases are being discussed. There is a fundamental change in the roles of teacher and student when the case method is utilized as a learning method. In this brief appendix, we will discuss some of the methods, techniques, and, first and foremost, the responsibilities of both teacher and student in undertaking to discuss cases in the classroom.

Relationship of Teacher, Student and the Case Materials in the Classroom

John Boehrer succinctly relates the difference between the relationship of the teacher and student from the traditional lecture approach to the case method approach. He writes: "The teacher stands between the material and the students in lecture. In case discussion, the students meet the material more directly, and they interact with each other as well (Boehrer, 1995)."

The use of cases presents a complex relationship between teacher and student. This experience is similar to what students will later encounter in the workplace as they have to deal with many people and co-workers as well as their politically elected leadership in dealing with many different problems. Therefore, the case method is useful to introduce the students to the dynamics of their future or even present work environment.

The key to the successful use of cases in the classroom, like success in the workplace, is careful preparation by everyone involved.

Responsibilities of the Teacher

There are a number of responsibilities placed on the teacher in utilizing cases in the classroom. These have been identified by Boehrer in his previously cited essay and will be discussed briefly here.

Cases in the Context of the Course

The first decision that the teacher has to make is where to put cases within the course schedule and class materials. Of course, cases have to be carefully selected to ensure that they are relevant to the subject of the class and the particular topics to be covered during the course schedule. Cases can either precede or follow the lecture and mixing this approach can be a very stimulating teaching method. Sometimes, it is best to develop the theoretical aspects of the topic in the lecture and let the case further enhance the student learning by applying the theory to the actual case situation. In other cases, and where the students have substantial work experience, it may be more appropriate to first discuss the case, and from the case develop the theoretical learning. In either case, it is the teacher that must accept this responsibility.

Framing the Questions

The case method relies on the interaction of the teacher and students through the construction of a dialogue in the classroom. The technique to accomplish this dialogue is for the teacher to accept the responsibility to begin the dialogue with some opening remarks about the case, but then turn the responsibility over to the students by directing questions concerning the case to them.

The case material may pose some questions at the end of the case in order to guide the teacher-student dialogue. However, the teacher will need to raise other issues than the ones enumerated at the end of the case in order to adequately utilize the case to meet the course objectives.

The teacher might want to pose the following questions:

1. What is the problem or issue in this case? In most cases, the students will see the problems and issues very differently and this will open the dialogue and activate the students to exchanges with each other, while the teacher listens and may intervene with additional questions or request further opinions from those students who have not yet expressed themselves.
2. What information is missing or not known in this case? No case provides all the information required. Sometimes it is useful to ask students what they would like to know about the facts and circumstances that are not evident from the materials. This leads to making some assumptions about the meaning of the facts and the motivations of characters in the case.
3. What decisions or solutions would the students make in this situation? Cases are designed to force decisions that a public manager has to make. Through role playing, students can play the parts of characters in the case situations and formulate their own decisions. It is a good idea to have them present their decision before their classmates and have to defend the decision.

The teacher should consider giving the students some introduction to the case prior to the class session in which it will be discussed and pose questions

for them to consider in reading the case. This should be done with the expectation that the students will fulfill their responsibility and read and be prepared to immediately begin discussion of the case at the beginning of the next class.

Pre-Class Preparation

The teacher needs to have some carefully thought out approaches to developing the classroom discussion of the case. This is often facilitated if there are Teaching Notes prepared by the case writer that are available to the teacher. These will often highlight the issues in the case, provide hints on guiding the discussion and important learning points to be made from the case. In the absence of these Teaching Notes, the teacher is well advised to prepare a similar note in preparation for the class.

The Teaching Note should not be a detailed script for the conduct of the class and force the class discussion into rigid timeframes. It should deal with a number of issues such as (1) what the case is about, (2) how the case fits into the course, (3) how the case relates to the topic of the course and the class schedule, and (4) how the case provides some learning experience. (Austin, 1993)

The Teaching Note or class outline can then contain some of the teachers thoughts on the case, questions posed by the teacher to lead the class discussion, and, importantly, a summarization or conclusion for the end of the class period to bring some closure to the case for the students. This conclusion should reinforce the main points the teacher wants to convey through the use of the case, the relationship of the case to the theoretical or conceptual materials presented in the class or textbook, and the learning points that students should take from the class.

With this preparation, the teacher can effectively use the limited time available in the classroom to enhance the learning of the students and stimulate the students interest in further case discussions.

Managing the Class

While careful preparation is necessary, the actual conduct of the class and case discussion is where the teacher must demonstrate mental adaptability and agility. There is only so much control that a teacher can effectively bring into the case discussion without stifling the learning process for the students. Only experience with teaching cases can bring this wisdom to the teacher, but there are some methods that the teacher can employ.

The first method in maintaining the focus of the class on the case is to pose the questions for the class to consider. A good technique is to have the questions written on the board or other visual means in order for the teacher and students to refer to during the class. This can set the tone for the class and guide the discussions from the beginning.

A second method is for the teacher to actively select the students to contribute to the discussion. Once a student has made a point, the teacher could then call on other students to respond to those remarks. This will keep the students from engaging in direct exchanges and prevent side conversations that will distract the other students. Cautioning the students that only one person can speak at any time and that the teacher is responsible for enforcing this will help maintain order in the case discussion and allow others to participate.

The teacher needs to be sure that the class period is effectively utilized and that the required learning process occurs. In order to do this, the teacher should carefully judge the limits of discussion on each question. It may be necessary to bring a question to closure with a quick summary and then proceed to the next question and ask for other students to respond to this new question.

The summarization or conclusion of the case is very important from the perspective of the students. They need to leave the classroom feeling that they learned something from the case and that the case is relevant to what they want to learn. The teacher needs to be certain that a few moments are left at the end for this summarization. The students will look to the teacher to make sense of what the case is about, how their opinions or decisions fit to the case realities, and what they should have learned from the case. In many cases, students feel frustrated that they are not given the "correct answer" to the case situation. There is often an expectation that there is a solution and that the teacher should provide that. The teacher can highlight that in the case situation, several solutions might be possible and that in many situations the dynamics of the problem and the people involved will determine the outcome.

Responsibilities of the Student

The student must understand that in the case method of learning, the student is not only responsible for his/her own learning, but also responsible for the learning of their classmates as well. To the extent that the student does not assume this dual responsibility, the case method will not achieve its full potential.

In the case method, the student must at times be actively involved in the class and not always sitting passively and listening to the teacher or other students. There are times when the student should be actively listening in order to understand and comment on the case discussion.

Pre-Class Preparation

The student must do an adequate amount of preparation for the class period by accomplishing several tasks.

The first responsibility is to read the case. However, even before reading the case the student should do several things. These include (1) think about the

title of the case as a clue to what it is about and what issues the case addresses, (2) look for any introductory section and read this before proceeding to the main text, (3) examine the discussion questions either at the end of the case or those provided by the teacher in preparation for the case discussion, and (4) make an outline for notes relevant to the questions as the case is being read.

One good technique is to quickly read through the case looking at the major headings, description of the personalities or characters in the case, the factual data presented in tables or graphs, and the conclusion section to see if there is need to develop some alternatives or decision based on reading of the case.

Once this is done, the student should go back and read the case more thoroughly by taking notes and highlighting key points, incidents, facts and assumptions identified in the case narrative. Once this is accomplished, they should make a detailed case note, much like the teachers note, that addresses the main issues or conflicts of the case, the motivations or assumptions underlying the actions described, the potential alternatives or solutions that could be considered, and the learning experience taken from the case.

The student should then rethink all of the analysis and facts of the case to see if they fit into a logical and consistent framework. What is missing that would be helpful in making the decision presented in the case? How valuable was the information presented and was it sufficient given the circumstances for the decision that was made? How acceptable was the decision within the context of the characters and situation of the case? These are issues that the student can reflect on prior to the class and prepare to comment on during the class.

During the Class

If the student follows the above methods, they will be well prepared to engage in the case discussion in the class. The student should avoid embarrassing themselves in front of their classmates by saying I have not read the case or I am not prepared to discuss the case.

The student should be ready to comment at the time and place of their choosing in the class. The teacher will be ready to accept comments from students throughout the class so that the student can contribute when they feel they have something important to say rather than wait to be called on by the teacher.

The student should do the following during the class:

- Be prepared to actively participate by presenting opinions and ideas and adequately support them
- Be prepared to listen to the ideas and opinions of others and comment on them
- Do not foreclose changing your mind based on what others say about the case

- Come to a definite decision about what you would have done in this situation
- Remember that there is not necessarily a "right or correct answer" to the case

The final advice to students provided by Sharon McDade is to "enjoy yourself" while participating in the active learning introduced by the case method. (McDade, 1988)

Conclusion

This appendix is intended to provide both teachers and students with some guidance in approaching the use of the case studies presented in this text. Prior to the case studies, some general notes to the case studies that follow in that chapter are provided. These are intended to assist in identifying how the cases relate to the chapter text, the issues involved in the case, and the learning experience that the reader should take from the case. Some discussion questions are provided at the end of each case that the reader can refer to as well and, hopefully, these will help stimulate case discussion in the class.

The use of the case method is one of the main interactive teaching methods employed in teaching public management. It provides an opportunity for greater experiential learning and stimulation in the classroom where theory and practice must be brought together for students to accomplish the learning required to meet the challenges they will face in delivering public services to their citizens.

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Introduction to Case Studies

In this chapter and the following chapters, a number of case studies are presented which highlight the concepts or methods discussed in the chapter text. These are designed to achieve several goals of this public management text. First, to introduce the case method of studying and teaching into the public management curriculums of the schools of public administration in Central and Eastern Europe. Secondly, to provide the bridge between the concepts learned in the classroom with the realities of the practice of public management that will be faced by those who are now studying this subject. A third purpose is to promote the exchange of learning between teacher and student, as well as among the students, who will use this book.

Preceding each of the case study sections, we present an introduction to the case studies for the teacher and student to review just prior to reading and analyzing the cases. These are intended to assist the reader in examining and analyzing the personalities, situations, information, and developing an assessment and evaluation of the case for classroom discussions. For the teacher, this serves as a teaching note to be used in preparing for the class. For the student, it provides a guide to examining the key events, situations, and outcomes of the case to prepare them for classroom participation.

The introduction is intended to provoke thinking and discussion. It is not to provide an answer or solution to the case situation. This is the responsibility of the student and the teacher as the case is used in the classroom learning. We hope that both teachers and students will take this responsibility seriously and contribute their ideas, opinions, and arguments so that everyone can learn.

Introducing the Case Method in Ukraine: A Success Story?

It is appropriate to begin the case study section with a case about the introduction of a case study program in the actual environment of a Central and Eastern European country, in this case Ukraine. The title of the case reflects the problem to the reader in analyzing and evaluating what occurred and what the results of the program were on the educational institutions in Ukraine. Note that the title is not a statement of fact, but rather a question posing the challenge to the reader. After you read this case, what is your answer to the question of whether this case represents a success story?

There are many aspects that you should consider in reading through the case. Some of these we can highlight here.

You can begin by considering the environment in which the case method was being introduced in Ukraine. This presents some insights into the educational methods and the value of introducing a new approach to teaching and learning in the classroom. How accurate is this description of the situation in other countries of the region and would the same approach be applicable in other countries as well?

The use of foreign teachers and trainers in promoting the case method provides an interesting situation for analysis. There are several comments about how these foreign consultants were used and their value over the course of the case method project. How valuable and important a contribution did these consultants make in getting the case method developed and adopted by the academic institutions in Ukraine?

There are a number of key events or decision points that directly affected how the program was developed and whether it succeeded. Examine the situations relating to the change in the orientation of the participants to the case workshops, the impact of the partnership with sponsoring organizations that provided funding and facilities, and the assessment of the program which looked at what had been accomplished and what changes were necessary to further advance the development of the case method. These events or situations provide key information to the eventual outcome of the case.

Finally, the reader should assess what was done, should have been done, or could have been done to achieve a different outcome. For example, what could have been done to keep the program directed toward public administration training, instead of diverging over into a more business administration directed program? Is the assessment of the differences between the public administration and business administration environment and faculty accurate in determining why the case program developed in the manner that it did? Does this same environment apply in the other countries of the region and in the schools of public administration as well?

Managing a City in a Different Way: A Mayor Transforms a Romanian City

The second case study in this chapter provides an opportunity to analyze the personality and management style of a politically elected public manager. The mayor of a city has to perform many functions, including the political as well as the managerial functions.

The Romanian case presents a situation common to many municipalities in the transition countries. The case presents a city with many problems remaining from the neglect of the socialist period and a situation where there are few, if any, financial resources to overcome these problems. It is in this environment that the force of personality represented by the mayor can make a substantial difference in the life of the community.

The reader should examine the situation of the city as described in the case and reflect on the conditions that they are familiar with in their own communities. The context of the case should then be understood and the relevance of the conditions and actions taken by the mayor can be appreciated.

Much of the first chapter of this text dealt with the ideas of New Public Management and the reader should analyze the actions and initiatives of the

mayor presented in this case in terms of how they match the description of what the New Public Management represents. Are there differences or similarities in the way that the mayor approached the action initiatives that he instituted to what a New Public Manager would be expected to perform.

The reader should also look at the diversity of actions taken by the mayor. The question to be addressed is do all these actions represent a comprehensive and coordinated approach to what needs to be done to solve the problems in the community. More importantly, how did the mayor respond to all the problems described as the situation of the community in the mid-1990's? What elements of leadership and vision did the mayor exhibit and what methods of motivation did the mayor utilize to transform the civic spirit of this community?

After reading this case, the reader should identify some of the personality characteristics that they feel the mayor demonstrated in this case. If you had to describe this person, what words or terms would you use to convey the essence of his character so that others would have a good sense of the mayor's personality? Also, the reader should assess whether this personality and character fit the requirements of the position of the mayor in the circumstances in which he assumed this office.

A number of managerial behaviors were reflected in the chapter section on the role of the public manager. The terms "producer," "administrator," "entrepreneur," and "consensus seeker" were identified and the characteristics of these behaviors identified. The reader should assess the mayor in terms of these personalities and identify which personality best fits the mayor's behavior.

Evolution of Administrative Accountability: The Lithuanian Case

We conclude our case studies with a case situation dealing with organizational and institutional change through administrative reform. Administrative reform has been one of the primary elements in assisting the transition countries of Central and Eastern Europe to develop into democratic systems. The public management principles of accountability and transparency in government activities represent the core values of the administrative reform.

The Lithuanian case is based on developing a comprehensive program of changes to the structure and operation of the state offices. Three main areas are examined: policy implementation, financial management, and administrative discretion. Within each of these areas a careful scrutiny is given to the problems, obstacles, and actions of the administrative reform effort and the resulting consequences.

The reader should pay particular interest to the legitimacy problems described for the Lithuanian public servants. The level of corruption indicates serious problems with the development of a merit based and professional civil service. Is it possible in this environment that the concepts of New Public Management or the economy and efficiency goals of government can be realized? The reader

can reflect on the conditions of the public service in their own countries and the legitimacy and respect accorded to public servants.

The case presents some interesting features in the operation of various state organizations and structures and their capacity to meet the purposes for which they were created. The reader should note the number of committees and commissions formed to study and make recommendations for administrative reform of the state institutions. The reader can evaluate in the case presented whether any of these efforts produced changes that were effective and resulted in long-term improvements in organizational performance.

The case closes with a discussion of the factors affecting the possibility for implementing any administrative reform and accountability measures. The discussion reveals important points about the level of commitment and political will to initiate and enforce these reforms in Lithuania. The reader can compare these circumstances to their own country's efforts to undertake similar reform efforts and the level of success achieved.

The potential for "bottom-up" efforts toward reform reveals an interesting perception of the impact of individual personalities to forge ahead with reforms. The issue raised is whether an organization can reform without the catalyst of a reform-minded leadership. Some comparison can be made with the previous case of the Romanian mayor and the effects of his own personal commitment to change in that community.

Finally, the case reveals the impact of external pressures for reform. The role of the European Union and the accession question has been a driving force in terms of implementation of many of the political, economic, fiscal, and administrative reform efforts. The reader should assess the impact of the EU accession issue and what the pace of reforms might have been if such external pressure was not applied on the countries of Central and Eastern Europe.

Many aspects of this case serve as a useful means for comparing the transition to democratic systems in countries throughout the region. The multi-dimensional aspects of administrative reform are well identified in this case and the case serves as a useful guide for assessing administrative reforms and organizational structural changes.

Organizations and people are the building blocks of civil service systems. The study of public management focuses on how to change and develop them to meet the changing needs of the modern world. This is a continuing challenge that must be met by public managers and the use of case studies provides the insights and experiences needed to face these challenges.

Introducing the Case Method in Ukraine: A Success Story?

*Oleksander Sydorenko**

This case illustrates how the case study method of training was developed in Ukraine. It focuses on the acceptance of the case method by teachers and its subsequent development for teaching. An important feature is how the case study method developed differently in business and public administration institutions. It also illustrates the importance of devising a sustained case study method development program over a period of several years, the importance of financial support and the use of international consultants in getting the case method accepted.

Case Method and the Development of Transition Countries

"We have long believed that the Case Method of teaching is particularly suited to students in countries making a transition to democracy. Case discussions promote independent thinking; they encourage the formulation and defense of personal points of view. They require cooperation and compromise to come to a class consensus. Students are given the opportunity, within the comparative safety of the classroom, to develop habits of individual initiative as well as respect for the views of others, which one hopes, will accompany them into the workplace. For an already well-educated workforce, such as one finds in Central/Eastern Europe and the former Soviet Union, the Case Method could be especially effective in teaching new ways of behavior."

Thus concluded key USA experts Howard Husock, Director, Case Program, and Kirsten O. Lundberg, senior case writer from the John F. Kennedy School of Government, Harvard University. Both worked as trainers in the first Innovation and Development Center (IDC) Case Study Summer School and evaluated the needs for introducing new interactive teaching techniques to post soviet educational institutions.

As a rule, the academic environment of most universities in the former Soviet Union is characterized by a traditional approach to teaching, involving the transfer of information in a passive lecture-format. Hierarchical and predominantly unidirectional information exchange flows from the teacher at the top to the student at the bottom. Class discussions and debates among students themselves are uncommon; critical exchanges between student and teacher are very rare. The "traditional" system in no way fosters the skills widely required by the modern international economy – critical skills such as teamwork, critical reasoning, decision-making and strategic insight.

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*   Director, Innovation and Development Center (IDC), Kyiv, Ukraine

In Western countries, educational professionals and the global business community credit the Case Study Method as not only an effective means for students to gain such key experience, but as a resource for promoting a democratic society. First, the tool allows students to practice the fundamentals of self-expression within the comparative security of the classroom. Essentially, students learn to think for themselves, express opinions, confidently defend those opinions, and, furthermore, take these new habits of behavior and transfer them to the workplace and to society.

The Case Study Method also demonstrates and reflects democracy through the sharing of power between teacher and student and teaches them to respect a variety of perspectives and experiences. Outside the education system, corporation officials and executives provide information for the cases and in doing so, open doors for communication and free information exchange between sectors of society. This increase in the exchange of information and cooperation offers a further purpose to the Case Study Method – it aids transitional democracies and emerging market economies, such as Ukraine, by fostering a populace more skilled in democratic practice. Individuals develop personal initiative, confidence, an appreciation for new ideas and creative approaches, as well as the habits of cooperation and compromise, which provide a basis for consensual decision-making. These factors have encouraged a Ukrainian nongovernmental organization (NGO) to undertake activities to promote the development of the Case Study Method, not just in Ukraine, but also in Central and Eastern Europe.

A successful partnership between an innovative Ukrainian NGO and a project sponsored by USAID developed the Case Study Method from an idea focused towards improving public policy education into a widely used tool in a variety of educational capacities, most prominently in Ukrainian business management education. The Case Study Method is changing the way information and knowledge flows between teachers and students. The tool's astonishingly rapid acceptance across the country has laid the important groundwork for modernizing Ukraine's system of management education.

The Beginnings

The Innovation and Development Center (IDC) was founded in 1996 and is today one of Ukraine's leading NGO's, widely recognized for initiating and sustaining modern methods for improving the management of public and non profit entities. During these initial years, a team of Ukrainian, American and Canadian specialists promoted the use of interactive teaching methods in the public administration curriculum at the Ukrainian Academy of Public Administration. The results from this effort showed interactive methods, specifically the Case Study Method, significantly improved students' decision-making and critical reasoning skills. With this knowledge, the Ukrainian subset of the team brought the knowledge back to the IDC and sought training in the Case Study Method at the Central and Eastern European Case Program, managed by the

Cascade Center of the University of Washington. Armed with a thorough understanding of the Case Study Method and support from the Eurasia Foundation, the IDC concentrated on promoting the usage of the Case Study Method under three initiatives as the basis for improved public and nonprofit educational tools. These initiatives were

• The organization of workshops for "training of trainers", and the provision of teaching support in order to increase the number of faculty well-versed in case-teaching and writing;
• The facilitation of the research, writing and distribution of case studies;
• The promotion of the value of these new teaching materials in graduate and executive-training classes.

To accomplish these goals, the organization decided to follow a series of steps:

• Assess interest in the Case Study Method
• Teach and promote case writing and teaching
• Reinforce this new knowledge through publications, round table discussions and continuing summer schools

Assessing Interest and Teaching the Concept

On October 8, 1997, the IDC conducted an experimental Case Study workshop for teaching professionals drawn from a variety of disciplines at local Ukrainian universities. The workshop for 19 registered participants consisted of professors from the faculties of the Academy of Public Administration in Kyiv, the Institute of Journalism at Kyiv Shevchenko University, and the Sociology and Psychology departments of other major universities. In addition to the officially registered participants, approximately twelve postgraduate students from the Academy of Public Administration expressed an interest and attended various sections of the workshop. At this workshop, Ukrainian instructors who were experienced in using the Case Study Method in the classroom discussed its value in equipping students with key skills for their business careers.

An unexpectedly enthusiastic appreciation for the case study experience from the participants at the workshop convinced the organizers that the Ukrainian academic community felt prepared to bring their instruction to the next level. So they coordinated the first ever Case Study Summer School. The school, entitled "Case Teaching and Case Writing for Teachers of Public and Business Administration and Political Science" was divided into two components. First, participants would attend an intensive two-week seminar in Odessa, Ukraine between 26 June and 5 July 1998 to learn the Case Study Methodology as well as the basics of case teaching and writing. In November 1998, participants would regroup for four days in Kyiv and present the first draft of their own cases.

The participants and the teachers of the first summer school were an international group from a wide variety of backgrounds from Ukraine, Poland,

Belarus and Azerbaijan. The IDC received fifty applications from participants who represented twenty-eight educational institutions from twelve cities and five countries. Ultimately, twenty-eight participants, consisting of twenty who taught at public administration institutions, two who belonged to other disciplines (teaching methodology and journalism), and the remaining six who taught business courses, attended the seminar. Among the participants were fifteen full-time senior faculty members, five junior faculty members, six full-time graduate students, three graduate/teaching students, and one full-time researcher. Most of the graduate students studied at Odessa State University and arrived with the head of the Teaching Methodology Department. The teaching Staff for the 1998 Summer School included trainers from the Kennedy School of Government, Harvard University (USA), Winthrop University (USA), and a Ukrainian business school, the International Management Institute (IMI-Kyiv, Ukraine). The Summer School project received support from the Higher Education Support Program (HESP) of the Open Society Institute (Budapest, Hungary), the International Renaissance Foundation (Kyiv, Ukraine), the United States Information Agency (Washington, USA), and the Eurasia Foundation (Kyiv, Ukraine).

During the June/July session, the teaching team introduced case teaching in detail. They taught sample cases and students were also given an opportunity to teach cases for themselves. In addition, the first session dealt with a case writing component which provided an understanding of how to collect materials, how to prepare interviews, and how to process materials in order to construct a high-quality case study. During the workshop, participants were required to draft a case and present it to the teachers and in doing so receive firsthand, expert feedback. The training session was structured in such a way that, during the first few days, a visiting American professor explained the reasons behind using the case study method and how these techniques are incorporated into the curriculum at American universities. The American experts then led an intensive training program of case teaching and case writing. The summer school concluded by inviting Ukrainian professors to demonstrate the effectiveness of case methods in Ukrainian institutions.

Participants returning in November presented the cases they had drafted in July and perfected over the following months. The workshop followed a very clear structure. First each participant presented his or her case. During presentations, the other participants filled out feedback questionnaires. These commented on the case's substance and rated how effectively the case's issues had been communicated to the audience. After each presentation, participants shared with the author their comments and observations. Finally, to conclude each discussion, one of the Ukrainian case study experts gave a case debriefing. This process of offering constructive criticism and sharing practical teaching experience, not only helped the participants improve the structure and clarity of their cases, but gave them a valuable understanding of the insights and

discussions a well written case study can provoke. Before departing, each participant was given the feedback on their case so that they could further revise and perfect their work.

Reinforcing the Knowledge

To build on the growing cooperation among case writers in Ukraine and other Eastern and Central European countries, the East-East Program of the Open Society Institute funded a roundtable discussion, which was organized by the IDC. This was known as "Strengthening Teaching and Production Capacity for Case Teaching and Writing in Central and Eastern Europe" (January 16-18, 1999). The primary goals of the roundtable were to foster cooperation, encourage exchange, and receive professional critiques of fellow writers' cases.

At this time, the IDC began working to continue the momentum created by the first Summer Institute by publishing two books and producing a Case Study Methodology video. One book was based on materials used by trainers from the Kennedy School of Government at Harvard University. The Kennedy School of Government generously granted permission to IDC to translate these materials into Ukrainian. The other book contains materials prepared by two Ukrainian specialists, Pavlo Sheremeta and Genadiy Kanishchenko, who write and teach case studies applicable to the Ukrainian experience and who continually urge their students to take an active role in their own education. All of the materials were designed to reflect the needs of the upcoming generation of progressive Ukrainian teachers. Lastly, the video presents an overview of the Case Study Method to promote usage of the method across the nation. Books were published with support of the Democracy Fund of the US Embassy in Ukraine. They received excellent feedback from university professors and were run for a second printing.

Teaching the Concept: The Second IDC Case Study Summer School

Since the 1998 Case Study Summer School so effectively demonstrated the value of the tool, the IDC decided to offer a second Summer School in 1999. The experience of the 1998 Summer School and careful analysis of participants' and faculties' evaluation forms helped the coordination team design a new program for the 1999 Summer School.

In 1999, the IDC received fifty-six applications. Of that number, twenty-eight participants from Ukraine and five other countries took part in the school. As participants themselves pointed out, there was an excellent balance regarding age, sex, and work backgrounds. Two public administration participants returned from the first IDC Summer School, one as a student and one as an instructor. These attendees were two public administration representatives from two public administration institutions (only one of which was a Ukrainian institution) at the workshop. In 1998, the course's audience was markedly different from the realm of public administration. Twelve of the participants were instructors in

business-related subjects and six came from the NGO sector where they conduct training for business and a non-profit audience.

That year, instructors came from Harvard and from the University of Washington's Cascade Center. Again the school's proceedings were mainly conducted in English. The second summer school also received an overwhelmingly positive feedback. After the second school, the organizers took a step back and along with their instructors, re-evaluated the program to understand the key information learned, success of the program and how to build sustainability of the methodology.

Strategies to Institutionalize the Methodology

1. Local Instruction

All of the summer schools instructors emphasized the importance of using local experts for several reasons, including language and context. Local experts tended to be able to explain terms in familiar language. They could also facilitate discussions in their native language and help overcome language barriers. Often the author of an excellent case could not participate in a discussion because his or her spoken English was limited.

The second reason for using local instruction is to set an example. Participants were most impressed by the local instructors, Pavlo Sheremeta and Genadiy Kanishchenko. They had successfully adapted the case method to the Ukrainian classroom, thereby demonstrating the Case Study Method to be not simply a theoretical Western idea, but a concrete tool that could be successfully used in Ukraine with very desirable results.

Third, in order to institutionalize the Case Study Method, it is truly important to have local experts. In order to further instill effort and technique into the Central and Eastern European context, local experts should take over the bulk of the case teaching and case writing in summer schools. Foreign experts are very expensive and only a temporary solution. Adoption of the methodology hinges on a consistent internal effort to spread its usage throughout the country.

2. Relevant Cases

A second key factor to institutionalizing the methodology was the actual case content. As both Professor John Brock from University of Washington and Kristen Lundberg from Harvard noted, a key factor in national acceptance of the methodology was to increase the amount of Central and Eastern European cases. "Experience has shown us that cases from the current CEE context are much easier for the participants to relate to and understand the relevance of case use and case writing. Therefore, if we hope to maximize the impact of this method, we have to supply relevant materials. We can then also avoid using so many USA cases or other cases about situations where participants have to plow through unfamiliar cultural or political contexts. Cases can also be presented in

the native language, saving time and making the work somewhat less stressful. (Professor John Brock)"

Lately, Ukrainian University professors have expressed the need for the development of local case studies. Alla Heorgiady, a professor at the Lviv Management Institute, has confirmed this by saying: "Often foreign lecturers who come to Lviv Management Institute to teach their courses use the Case Study Method. From my point of view, foreign cases are different from our every day life. That's why it is necessary to write and disseminate local cases depicting the Ukrainian business experience, which is much closer and clearer for our students to understand." Oleksander Bitter from Lviv Agriculture University informed the IDC about his intention to implement the case study method: "In the near future we are planning to actively use case studies in our teaching. The main factor hindering the accomplishment of this today is an absence of cases describing the local business situation."

This idea of adapting the Case Method to include locally relevant examples broadened into a desire to create an overall Case Library for all of Ukraine. "Creating a Ukrainian Case Study library of various levels of application is extremely important – especially cases that require a broad knowledge base to apply and necessitate combining mathematical and creative approaches. This will be a valuable contribution to applying western standards in preparing the upcoming cadres of students." (Halina Kindratska, Professor of Economics at "Lviska Polytecnika" State University).

3. Inclusion of Business and NGO cases

After the second Summer School, the organizers realized that most of the summer school participants were involved in work related to private or market economies and in NGO work, but not public administration. Accordingly, Professor Brock pointed out the need to bring in more business cases and techniques to complement the selection.

4. Selection of Participants

Attendance at the first Summer Institute was free for participants, funded by Western donor organizations. The second institute required participants to pay a $150 non-refundable fee and comply with some basic criteria (prior case study usage and experience) in order to admit only the most highly motivated faculty. In this case, public administration professors who were not really interested in promoting the new teaching methodology chose not to attend. The long history of conducting free seminars indicates that the same people participate in a variety of training seminars and they do not attract wider audiences. From another point of view, IDC wanted potential candidates to think more seriously about such training. By investing their own money (or institution's money) into training, they will benefit by taking responsibility for themselves and upgrading their teaching skills. Ultimately, they will become better teachers.

Cooperation with the Consortium for the Enhancement of Ukrainian Management Education (CEUME)

From the lessons learned during these summer schools, seminars and participant's feedback, the next steps for 1999 were to find a way to collect a substantial number of cases applicable to the Ukrainian experience and to work to institutionalize the methodology on a broader level throughout Ukraine's educational institutions. Such an opportunity arrived in the form of cooperation with a USAID-funded project.

In 1999, USAID began funding a project called the Consortium for the Enhancement of Ukrainian Management Education (CEUME). This consortium, composed of over forty partner institutions throughout Ukraine, and institutions in Poland and USA, formed with the goal of equipped Ukrainian educational institutions with the tools necessary to bring Ukrainian business management education to an international level. The IDC signed a cooperation agreement with the CEUME. This partnership was the key to the programs eventual widespread acceptance and institutionalization. The idea behind the project was to work with public and private educational institutions in developing their capacity to design and deliver effective programs for undergraduate students of business and management. CEUME also assists many of the institutions in delivering training to working professionals and provide business consulting. The project was focused on building the capacity of Ukrainian educational institutions to prepare an effective work force for the future and provide essential information and skills to the business leaders and entrepreneurs of today.

The goal of the CEUME (international project) and IDC (local NGO) partnership was to use the resources of an international aid organization in an ongoing basis to promote a sustainable program, which would continue after the project's eventual dissolution. From both sides, the two organizations fit strongly together. CEUME's resources and breadth of scope across Ukraine, especially in the realm of business management education, provided an opportunity to institutionalize the concept. The IDC, who had laid the groundwork, built relationships with a variety of universities and faculties, gained valuable experience, and learned lessons in structuring the program and how to work with the universities. The partnership with CEUME, however, directed the case study initiative squarely towards the business education field, where the tool has been most widely appreciated since the initiative was developed with the mission of strengthening business management education. Public administration institutions also participated in this initiative, but only a few became leading partners benefiting from it.

Wider Reach of Case Study Program

By joining forces with CEUME, the Case Study Method was disseminated to a much broader audience than was possible before. Foreign training specialists

(like those at the summer schools) were an expensive option, and restricted the program to professors who were fluent in English, which limited the potential size of the audience. CEUME's events trained professors by using local experts wherever available. Building on the IDC activities, CEUME addressed the Case Study Method at its Weekend Workshops (three-day training seminars held throughout Ukraine) and its Summer Institutes (intensive two-week training events aimed at introducing new topics and concepts to professors). At each of CEUME's Weekend Workshops leading up to the first CEUME Summer Institute in 1999, the IDC conducted workshops on case writing that were attended by more than 250 faculty from Ukrainian universities, economic institutes, and business schools. These workshops had excellent attendance, and demonstrated the continuing interest of faculties in using these methods.

Case Study Competition

In order to build a library of case studies and to promote stronger cases, the first ever case study competition in 1999 was organized and was one of the key components to building success. The competition was planned to stimulate the contagious development of the methodology in Ukraine and further increase the level of preparedness of the business leaders of the next generation.

To prepare professors for the first ever case study competition, the case study program held a series of case teaching and case writing weekend workshops in five cities around Ukraine in addition to a very well attended seminar at the first CEUME Summer School in 1999. Through these workshops, the case study organizers were able to explain the value of the methodology to a much wider group at a significantly lower cost than the narrowly focused Summer Schools of 1997 and 1998. One professor from Odessa, Vera Lubchenko, wrote, "The first time I heard about and became very interested in the Case Study Method was at a CEUME Summer Institute. Next semester I will be teaching a new course and I am planning that a third of our time will be spent using cases. Currently, I am searching for the necessary case studies. The first one, which I personally wrote, is ready to be used in the classroom. By the way, I submitted this case to the CEUME competition."

For the first competition, forty-six cases were received in six different categories: marketing, strategic management, accounting/finance, management information systems, operational and organization management, and human resource management. The geographical representation of universities stretched from the westernmost point of Ukraine to the easternmost point; all of Ukraine was represented. The general level of submitted work showed the high potential of Ukrainian teachers in creating their own case studies. All the conference participants and key members of the participants' universities, for example deans, rectors, and department-chairs, each received a collection of winning case studies.

As a direct result of the first Nationwide Case Study Competition, information about the Case Study Method was distributed to all universities. This had an amazing effect! Each dean, of course, wanted to see professors from their university on the winner's list. Those who attempted to create their own cases and include them in their own courses began to receive support directly from the university heads. Initially, many of the deans treated case studies as a typical western manner of teaching, not applicable to Ukraine. Now the situation has changed.

The positive impact of the competition on education is obvious due to numerous letters received from professors using the winning cases in their courses. "I am very interested in methodological materials that will help me to more effectively utilize case studies in my courses, especially those that I have written. It would be very interesting, of course, to obtain the winning cases of the 1st National Case Study Competition and/or meet with the authors in order to become acquainted with their personal experience of the method". (Tetiana Pyatak, Professor at Kharkiv State Railway Transportation Academy.)

The first Case Study Competition strongly impacted the national educational community. In many universities, the question of utilizing this methodology was raised for the first time as a direct result of information disseminated through this unarguably successful program. One unanticipated side effect was that professors were highly stimulated to create their own works once they saw the quality products created by their colleagues. They also appreciated cases that were relevant to Ukraine.

Four subsequent case study competitions have taken place since the first one in 1999. These competitions have increased the IDC's case study library to sixty-three cases, all applicable to the intricacies of the Ukrainian political, historical and business landscape. Interest in the program, as well as the resulting cases, grows every year as professors realize that cases are not simply theoretical exercises to be taught by an elite group, but are applicable to a variety of local conditions. After four competitions, one hundred fifty teachers have written one hundred forty one cases, including fifty-two general business management cases, forty-one marketing cases, twenty-four financial management cases, nineteen human resource management cases and five international business cases. Case authors have generally been located in Kyiv. Faculties from Kyiv based universities have written fifty-one cases, eighteen have come from Dnipropetrovsk, seventeen from Kharkiv and seventeen from Crimea.

Ongoing Evaluation

From these competitions came a very important discovery - not every professor can write a good, solid case. Indeed, in the United States, most of the case studies widely used in management programs across the nation are only developed in a few schools. For that reason, the disciplines of case writing and case teaching diverged. At CEUME events, most of the Polish and American

presenters used cases. Participants could then see how cases were supposed to be taught and would bring the case from the seminar back to the classroom. CEUME activities focused on the usage of cases in the classroom and evaluation efforts mirrored that goal. On the other hand, through case competition, the IDC strived to promote and develop case writing skills relevant to the Ukrainian experience in those who have the ability to write cases, which generally has turned out to be a very small number of professors. Thus, case writing and case teaching, are two very different aims of the overall program.

Use of the Case Study in classrooms has become institutionalized for a number of reasons. First, the Case Study Method has been successfully introduced to institutions throughout the country. Second, the lessons learned during the first and second Summer Schools allowed the CEUME/IDC partnership to adapt the program to Ukrainian needs. Third, CEUME's ongoing processes keep the use of the Case Study Method fresh in instructors' minds. Since CEUME instructors generally use the case methodology during CEUME seminars, teachers can easily adapt the teaching experience and the materials to their own classroom. Every quarter, each of CEUME's partner institutions is analyzed for progress. The professors are assessed on criteria such as whether they have revised their courses or designed new ones including the case study method or other innovative teaching methods. Whether or not professors have actively developed local case studies is also taken note of. To date, CEUME and IDC have sponsored four case study competitions with a total of one hundred fifty case submissions. The 2001 Summer School took a survey across Ukraine and discovered that one hundred seventy nine out of two hundred twelve people use the case study method in their courses. And the number is rising every year.

Publications

The IDC acts as the key resource for the case study effort and maintains an extensive library of Ukrainian case study material. The organization regularly updates its case offerings catalog and to date owns a collection of sixty-three Ukrainian cases. Of those, ten provide supplemental video material, thirteenten have additional materials on disc or compact disk, and two have supplemental audio materials. The IDC also publishes Synergy, a business magazine that regularly includes award-winning cases from the case competition.

In addition to the books published in 1998, in 2001 the IDC published two recent books. The first, *Case Study: The Ukrainian Experience*, is composed of a series of teaching notes and supplemental materials highlighting various Ukrainian professors' experiences in effectively teaching case studies. The second, *Case Study: Theory and Practice*, is a compilation of the materials explaining how to write cases, teach case usage, and adapt cases to the local business climate. Among the contributors to this book are Ukrainian, American and Polish authors.

The Future Sustainability of the Case Study Program

A study ending in November 2000 across Ukraine sponsored by CEUME and the IDC of case study workshop and seminar participants revealed important, optimistic information about the widespread adaptation of the Case Study Method. From all major geographical areas, one hundred forty three professors responded to the survey. Of these professors, one hundred thirty revealed they use cases during their courses. Of the remaining thirteen professors, four noted they were planning to use them in the near future. Eighty-nine cases, both Ukrainian and foreign, are used in forty eight different management courses, affecting approximately 32,000 students. Instructors received seventy-seven percent of the case studies they used in courses through CEUME events. Interviewers also noted students tended to react very positively to the methodology in the classroom. Professors overwhelmingly found the approach stimulates student participation, enhances creativity, and promotes team and professional skills. Overall, instructors tend to apply the case studies to a wide variety of courses, from marketing to public relations to ecology to joint ventures. The study also pointed to a few difficulties inherent in the Ukrainian educational system that did not always allow for appropriate time devoted to the Case Study Method. For the professors, large class sizes of nearly fifty students, lack of training in the methodology, specific required course content and time in the schedule were frequent complaints.

The future of the case study program within the business management education realm seems assured. Already, the IDC has branched out its competition to include not only case studies, but to develop the teaching tool capabilities of Ukrainian institutions. IDC is rapidly becoming a resource center for business related case studies as many professors who have developed their own case study (independently of the case study competition) are sending them to IDC for distribution to their colleagues. The next step is to build a Ukrainian center to focus on bringing innovative teaching methodologies to the classroom, a step eagerly anticipated by the Ukrainian educational community.

From the public administration perspective, the progress in developing cases in public administration is growing, but at a much slower pace for several reasons. To begin with, CEUME activity in this area is limited to the institutions that have actively sought partnerships and collaboration, the most active of which is the Lviv Regional Institute for Public Administration. On the whole, a different project, the US-Ukraine Project, has been created to address reform in the entire public administration sector, not just in the educational sphere. This project has not focused on the Case Study Method to the extent CEUME has. Therefore, its integration into the system is very much limited.

Issues In Promoting the Acceptance of the Case Method in the Realm of Public Administration (Public Administration versus Business Administration)

In retrospect, the first lesson learned concerns the original target audience. Initially, this methodology was targeted at educators in public administration. But this audience proved to be untenable. To begin with, while the initial audience of these seminars was intended to be teachers of public and business administration and political science, public administration universities greeted invitations to participate with a marked lack of enthusiasm. In the space of one year, the amount of public administration professors attending this event dropped from half to only three participants. This could be attributed to the $150 entry fee, leaving room only for the most interested participants. But, overall, business education establishments more eagerly seized opportunities to learn how to adapt this proven methodology to the Ukrainian classroom. Two noted adapters of the methodology in the public administration realm attributed the failure of their peers to adopt this methodology to several reasons.

Yuriy Navruzov, Associate Dean of the Kyiv-Mohyla Business School, agreed that business schools were interested in the method for several reasons, including:

- The openness of the world of business in general and the many examples of successful management that can be used.
- The high degree of change and innovation in the business environment, which stimulates the search for new methods of training managers to be highly adaptable and responsive to change.
- The high motivation of the participants to use their new skills in their daily activities.
- The growing number of researchers who are interacting with the business community and incorporating their experiences into cases.

Mr. Navruzov contrasted the level of interest in business education with the low level witnessed by large areas of the public administration field. He feels that public administration must contend with the following:

- Traditional conservatism of governmental structures and opposition to implementing change.
- Mentality of government authorities that reject others' experience because of so called uniqueness and peculiarity of management in governmental structures.
- Limited number of specialists able to conduct research and develop cases in order to use them during the training of government officials.

The situation is improving due to international support and interest shown by a few disparate schools. For example, the Dnipropetrovsk Regional Institute of Public Administration has developed a number of subject cases and prepared a collection of mini-cases for publishing. This particular school's interest in the method, however, is most likely attributable to one of the few professors in this

field who valued the methodology. Dr. Yuri Surmin, Professor at the Ukrainian Academy for Public Administration's Dnipropetrovsk Regional Institute of Public Administration, was a participant at the IDC 1998 Summer School, then an instructor at the Second IDC Summer School.

Professor Surmin echoes some of the sentiments shared by Navruzov and gives further insight. According to him, instructors in the field of public administration generally lack the skills and determination required to undertake such a drastic shift from the status quo. He claims that today's 30-35 year old state employed instructor is characterized by a low status in society. He or she is often occupied in searching for additional means of survival, does not have skills of educational/teaching activity, and does not understand overall the teaching methodology. Additionally, the prevailing traditions of the classical lecture-style teaching of students hamper the adoption of the new method. The instructor who uses cases does so in an extremely unfavorable environment. His or her colleagues, who do not understand the methodology, consider him or her to be strange. Students frequently complain to the dean who, in response, places public and administrative pressure on the instructor because he or she does not clearly formulate the assignments for students. The students in turn do not clearly understand what knowledge is required to pass their exams. On the whole, students are more interested in passing exams than in acquiring knowledge. The institution, as a whole, does not support the instructor in new teaching approaches. Finally, the difficulty of creating cases within the realm of public administration is made more difficult by the lack of transparency in the government system.

Questions for Discussion

1. How would you compare the development of the Case Study Method in Ukraine with developments in your own country and educational institutions?
2. Has the development of the case method been more widely adopted in business administration than in public administration in your educational institutions?
3. What do you think were the key factors in developing the use of the case method in Ukraine?
4. How would you rate the value of the donor support and Western experts in the early development of the case method in Ukraine?
5. Would you agree with the comments on the importance of basing the case method on locally generated cases and locally trained teachers?
6. Do you agree with the comments made concerning the reasons for the lack of acceptance by public administration teachers in adopting the case method?
7. What features in the development of the case method program do you think could be replicated in your educational institutions?

Managing a City in a Different Way: A Mayor Transforms a Romanian City

*Irina Balta**

This case study examines how a mayor, following his election, began to implement his vision for the city and bring management reforms to the City Hall. The city faced many of the problems common to other cities in the post-communist situation. The mayor presented in this case began efforts to change and revitalize all aspects of the community and create a new sense of what the community should be. These changes reflected a belief in many elements of local governance reflected in the New Public Management and Reinventing Government movements. The reader can look at the transformation made in this city within one election cycle and see the impact the mayor had on the development of the city. The actions and initiatives of the mayor represent the multi-faceted approach required to solve the problems in the city. Throughout the narrative of the case study, the leadership and management skills of the mayor are evident. In reading the case, particular attention should be drawn to the force of character and personality of the mayor and how this is reflected in his management style and decision-making. The case presents the combination of skills, knowledge, vision, and abilities required for public managers to be successful.

Background

The City: Mangalia

Mangalia is a city on the Black Sea coast with approximately 50,000 inhabitants. It has a very old history that can still be seen in the ruins that are considered the cultural treasury of the city. Mangalia, whose present day name derives from Byzantine Greek origin (Pangolin – "the most beautiful" – mentioned in the 12th century on a map from Pisa) was built on a site where in ancient times there was the flourishing Greek city of Callatis that was founded in the 4th century BC.

Mangalia, the southernmost resort of the Romanian Black Sea shore, is the only place in the country where in winter the temperature remains above 0 C. It has a mild climate, similar to the Mediterranean climate, with early springs and late autumns. Mangalia is the only seaside resort with mineral water springs (sculpture, exothermal and radioactive) and has been used since the Roman era.

Here one can go riding on the nearby purebred Arabian stud farm, visit the Museum of Archaeology, the Shaman Sultan Mosque (Moor style, 1590), see the

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vestiges of the Roman-Byzantine Church (5th - 6th century), and see the Mercury Collection (pipes and curiosities).

Eight kilometers north of the town are the new summer resorts that are administered by the town of Mangalia and in summer double or even triple the population of Mangalia.

Before 1996, when our story starts, Mangalia was a small unattractive place where people were happy that they were at least on the beach by the sea. The little business activity looked like scattered weeds, instead of flowers, in a forgotten garden. People were unhappy with the poor infrastructure, the potholed streets and the stray dogs that roamed throughout the city creating a dangerous health situation. In summer, tourists wandered aimlessly from one part of the city to another. The hotels looked shabby and dirty. The businesses did not show any interest in improving their condition.

The Mayor: Zamfir Iorgus

Zamfir Iorgus was born in a community in the county of Galati and grew up in a family of farmers. His parents and he, when he was big enough, produced and sold agricultural goods. He learned early on that one who sells watermelons should sell them quickly while the product is still good, and to do this he should know how to sell his product and negotiate with the customer. His parents taught him to be fair and to treat his customers with respect.

Trained as an engineer, he graduated from the Engineering Department, Shipbuilding Section and was sent to work at the Mangalia Port. During his ten years of experience there he went up the career ladder. First, he was appointed as a simple division head and later he was promoted up to level of Production Director. He assumed responsibilities for planning, organizing and controlling the production of his department.

With the changes in the political system of the country, the port, as with many other big state owned companies, was declining in work, and Zamfir Iorgus decided to leave and start his own business with a small shop that started growing quickly.

He also got actively involved in the political life of the city and became well known to the citizens of Mangalia. He realized: "This city is dying. How can I make it look differently? Only if I am given the chance to manage it." In 1996, his party supported him to be the candidate for Mayor of Mangalia. In the first round of elections there were 19 candidates, but only two would go into the second round. One of the two was Zamfir Iorgus, and he won the second round election with around 60% of the vote.

First term: 1996-2000

Mayor Iorgus entered his first term with a number of goals in mind to accomplish. Among these were better relations with the citizens and building

the confidence of the people in their local government. Secondly, he felt that the management and structure of the city departments needed to be improved. In the first days of his term, he decided to accomplish these goals.

Contract with the Citizens:

After Zamfir Iorgus was elected the Mayor of Mangalia for his first term in 1996, he came with a vision of reforming City Hall.

The most important starting point was his "contract" with the citizens. Upon entering his office, one would immediately see hanging on the wall this "contract" presented as a list of main directions for Mangalia development, including activities that would be checked after they were accomplished. The following box identifies the contract items.

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1. Modernization of the potable water and heating systems.
2. Modernization of all the streets and roads within the city and the summer resorts.
3. Rehabilitate the classic tourism and the development of the health resort and agro-tourism.
4. Building a port for tourism and entertainment.
5. Emphasize the value of the ruins of the Callatis old fortress and Movilei Cave for the tourism including them in the international tourism itinerary.
6. Make permanent the organization of the Music Festival in Mangalia that will turn the city into a seashore center.
7. Develop the services and small and medium enterprises that will serve the purposes of Shipbuilding, tourism, and agriculture in the neighboring fields. Mangalia Commercial Port can become a center for wheat export.
8. Prepare the future generation by supporting the education, culture, health, religion and sports services.
9. Assure social welfare services for the low-income families and continue the house-building program for them.
10. Continue the economic and cultural exchange with the cities from developed countries, especially from Europe.

"God Bless Us!"

City Hall Reforms: Two Steps

Mayor Iorgus knew that in order to accomplish these promises and fulfill his contract with the citizens, he needed to get better performance from his staff and the organization of the City Hall.

Restructure the City Hall Organization

He started by asking the question: "How can I better accomplish my promises? First I need to straighten out the City Hall offices from top to bottom. Where should I start?" He started with the assessment of his staff. He analyzed each employee's time and responsibilities and reassigned some of the tasks they were doing in order to make them more efficient and easily fulfill the established goals and objectives.

Assess City Services

Then he assessed the public services that the City should provide. Mangalia was among the few municipalities that were not in charge of the water distribution system that was provided by the county. Electricity was a nation wide service provided by Connel. Also, the museums, though within the city boundaries, were the responsibility of the county.

Additionally, Mangalia was among the few municipalities that had an old heating system that was using the most expensive fuel: crude oil. Also, being a tourist attraction in summer, there was an increased demand for street cleaning, repairing and lighting. Though police and fire services were provided by the state, public order should also be in the City's scope of interest. Due to its location, Mangalia City had the responsibility to keep the ruins and the sea-walls/cliffs in good shape. And not the least responsibilities were social welfare, housing, education and cultural services.

Actions Taken

The Mayor was sure that, even with sharing the responsibilities with the Deputy Mayor, to manage such a large range of services was not going to be easy, and he decided to devolve his responsibilities. He divided the city into four districts and assigned a manager to each of them; calling them District Mayors. By letting them be responsible for the running of the public service, he kept his duty of establishing overall goals and objectives and observing their work and results. Among the responsibilities of the district mayors were to plan the development of their district, to develop the budget proposal and compete for funds and capital improvement projects, to supervise the personnel, to manage the allocated resources, to meet with the citizens and learn their needs and complaints.

Considering the citizens his main customers and pursuing his staff work efficiency, the Mayor was very receptive to the idea of creating a Citizen Information Center within the City Hall that was suggested within the USAID Public Administration Assistance Program. The Center allowed both the personnel and the citizens to gain a more organized and better-managed work and time schedule.

Mangalia was the first and the only city in Romania to ask for and receive the Certificate of Quality System according to SR EN ISO 9002/1995, ISO 9002/1994. This initiative meant an external audit of the public services provided by the City, which among other requirements was the development and compliance with the internal procedure manual.

Having assessed what he had and what he needed, the Mayor started seeking financing alternatives. He asked: "How shall I keep the citizens happy and raise enough funds to provide services? I cannot break my principles that helped me until now: not to make compromises, that is, treat everyone equally, and not to play with people's dignity."

Mangalia's financial policy was developed to support his principles and it meant property taxes lower for physical persons and higher for legal persons. There was also a tax relief program adopted for people who lived in low-income housing within the legislative limits, and increased funds were considered from the rental and lease contracts with some initial facilities offered to the investors.

Also, an increased effort was made to bring funds from outside. One of the most important priorities was the improvement of the heating system that consisted of 17 district steam-generating stations. Negotiations that resulted in a contract were held with firms from the United Kingdom, Italy and France. It was agreed they would supply the City with new equipment.

The possibility of contracting out some public services was also considered. It was found more appropriate to contract out solid waste collection, so that citizens would have individual contracts with the companies that won the bidding.

To make his City more attractive to tourists and to develop the city center, the Mayor had a building facade program developed to repair and paint the facade of the houses. To find the needed resources for the program, the Mayor turned to the citizens and businesses and convinced them of the importance of the program and gained their acceptance to pay a special fee.

The Mayor of Mangalia made sure that his "contract" with citizens was accomplished by the end of his first term. He had a brochure published where one could see all the new units inaugurated by the City Hall being represented by the Mayor. One could see the genuine interest of the City to help low-income and seniors. A new soup kitchen and a new nursing home for the elderly were opened. seven hundred poor families got better living conditions in freshly repaired hostels. The first school for gypsies, a minority ethnic group, was opened. Within a joint program of Romanian and Swiss Government, and the City of Mangalia, a Mother's and Reconciliation Center was opened.

When asked how he evaluated and motivated his staff, he mentioned that one of the internal procedure manual pages contains a training program being observed for the City employees. Also, the employees are periodically offered trips to places like Sibiu, Vatra Dornei, Campulung Muscel, Bistrita where they both learn from their colleagues and enjoy the health resort facilities. The Mayor stated: " And as far as the evaluation is concerned, I am interested in result-based performance, and my employees know this."

What the Mayor regretted not having been able to accomplish from his initial contract with the citizens included a total repair of the local hospital and the creation of a grain market /exchange. The latter was not possible because of legislation deficiencies.

Second Term: 2000-2004

The 2000 local elections were expected to bring big changes at the national level as the preliminary polls showed the party in opposition (the Democrat Socialist Romanian Party) was gaining overwhelming support. In Mangalia, despite the expected changes, the Mayor, who was a member of one of the present ruling parties (the National Peasant Christian Democratic Party), was almost certain that he would be elected for the second term. The day of the elections came and his expectations were confirmed even before the end of the voting hours. He was ready to celebrate. He was elected to a second term in the first round of voting with 67% against all the other 21 candidates, and he was not from the party that was leading the national polls. When the Mayor was asked what was the explanation for his success, he said: "At the beginning of my first term I 'signed' a contract with my citizens and I fulfilled it. This is, I think, the reason and the explanation".

On the very day of his victory in the local elections, the Mayor met one of his old friends who asked him: "You managed to do a lot of things in the first term. What do you think you want to do in this next term?" The Mayor's eyes sparkled with delight. At that moment, one could tell that he was looking far into the future.

He said: "I want to see this city a place where people come not only to lie on the beach in the sun. I want to show the tourists all the beauty and treasure that this city is still hiding. I want to create for them conditions for good entertainment. I want to continue bringing investors. I want this city to be known all over the whole world, not only in Greenport (USA), or Lavrio (Greece) the twin cities of Mangalia. Mangalia will become a pearl attracting everyone."

In two months after this discussion, the streets and the seashore of Mangalia were a continuous floating river of people who came not just for the sea, but to be present at the very entertaining event: "Callatis 2000" Festival. Every evening during the month-long festival, the floating stage on the water fronting the beach hosted many well-known Romanian singers and actors. This event was not being held for the first time in Mangalia, but none of the previous festivals had been of such grandeur.

Also, the Mayor pursued his idea of developing a Port for Tourism inviting representatives of Turkey, Belgium and Spain to discuss the ways his plan could be implemented, as well as how to prevent the sea-walls from eroding.

It was estimated that the cost to consolidate the sea walls would be about 10 billion lei. One of the possibilities considered to finance this was to issue municipal bonds. No city in the country had used this source, but the Mayor is not afraid of being first. He would like to bring consultants from Poland where he had the chance to learn about bond issuing while on a study tour.

The Mayor continues to see as priorities the modernization of the whole heating system that still has thirteen old steam-generating stations, the opening of a commercial port through which to export grains (the City of Mangalia has 40,000 hectares of arable land), and housing.

The Mayor believes "The city of Mangalia is developing and growing. It needs young people with higher education specialized in different domains. How can I attract them? By building houses for them."

One Friday afternoon, when usually all the staff have left the office around 1 PM, the Mayor was still in a full meeting with an investor who came to present his offer for building the new block of flats. In the office of the secretary to the Mayor, other groups of people were waiting for their turn to talk to the Mayor.

When asked how he managed to deal with so many people, he said: "This is what people expect a mayor to do: to meet and listen to them. Even if someone else can solve their problem, they still want to see the Mayor. He is like their father." Even though it would be enough just to listen to them, the Mayor often personally helps poor and old people with food and clothes.

Questions for Discussion

1. What do you think are the key factors that enabled the Mayor to be successful? What were the important political and managerial skills this Mayor demonstrated?
2. What do you consider to be the positive actions taken by the Mayor? How would you have approached this situation in the city if you had been elected Mayor?
3. Would you agree with the statement: "This is what people expect a mayor to do: to meet and listen to them. Even if someone else can solve their problem, they still want to see the Mayor. He is like their father"?
4. What character or personality traits would you use to describe the Mayor and how important were they to the outcome of the transformation in the city?
5. How would you assess the actions of the Mayor in dealing with both the problems of the city and the organization of the city hall staff? Do you think these were creative and innovative approaches that could be replicated in other cities in Central and Eastern Europe?

Evolution of Administrative Accountability: The Lithuanian Case

*Vitalis Nakrosis**

The process of developing administrative accountability is the focus of this case. Accountability is defined as the process in which public agencies and civil servants operating inside the public administration answer to the public, directly or through the parliament, for public policy, financial management and administrative discretion. Accountability is understood as both 'an end in itself – representing democratic values – and a means towards the development of more efficient and effective organisations'[1].

The following case analyzes the problem of a mismatch between the present situation and the need to ensure that the Lithuanian civil service becomes accountable to the public for its actions. Three case situations on accountability for policy, financial management and administrative discretion are presented. The case then outlines the main measures of public administration reform in Lithuania and their effects on administrative accountability, while a concluding section examines the process of implementation.

Background to the Problem: Low Legitimacy of the Public Administration

Surveys demonstrate that after almost ten years of transformation, the legitimacy of the Lithuanian public administration among the public is low. Recent opinion polls show relatively low levels of public support for the government (27%) and the parliament (21%) compared to the media (76%) or the church (63%).[2]

The legitimacy problem has many causes. First, limited legitimacy of the public administration can be explained by a shortage of effective public policies, in particular redistributive policies, and the ineffective delivery of public services. Several studies have shown that post-communist governments have limited institutional capacities to formulate and implement public policies, in particular in the field of economic policy.[3]

Second, the intelligence of bureaucratic decision-making and, in turn, bureaucratic legitimacy, suffers from the covert channels of interest representation

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[1] J. Martin, 'Changing Accountability Relations: Politics, Consumers and the Market', Public Management Service, OECD, 1997, pp. 1-2.

[2] Data supplied by the Lithuanian and British Joint Stock Company 'Baltijos tyrimai', see http://www.5ci.net/ratings/lit/frameset.htm.

[3] See EBRD, Transition Report 1997, London: EBRD, 1997; F. Thedick and G. Bertucci (eds) The Role of Public Administration in Promoting Economic Reform, Berlin: Berlin-Verlag A Spitz, 1997; World Bank, World Development Report 1997, Washington, DC: World Bank, 1997.

and the absence of open competition of interests within the public administration. As a result, partisan groups enjoying privileged access to the government can prosper at the expense of other groups or the public as a whole.

Finally, the legitimacy problem stems from insufficient accountability of the Lithuanian public administration to the public, directly or through the legislature. Incidences of administrative corruption within the public administration, including bribes to overlook breaches of existing regulations, to smooth customs procedures or to win public procurement contracts, indicate that public agencies and civil servants do not always act in accordance with the rule of law. The recent World Bank's study on corruption in the post-communist countries revealed a high level of administrative corruption in Lithuania compared to other countries in Central and Eastern Europe.[4]

Lithuanian system of accountability after communism

In the first years of transition, institutional and policy changes in Lithuania, as in other Central and Eastern European countries, were driven primarily by a rejection of the post-communist legacy rather than comprehensive reform programs. This destructive (rather than constructive) approach retarded the development of new accountability instruments. Although more than a decade has passed since democratic reforms were first introduced in Lithuania, the post-communist administrative legacy is still reflected in the Lithuanian system of accountability.

The Lithuanian system of administrative accountability is still heavily biased towards the doctrine of ministerial responsibility. The thrust of this doctrine is that ministers are accountable to the public, through the parliaments, for their own performance as well as that of their ministries, whereas civil servants are internally accountable to their political masters by explaining and justifying their actions through the institutional hierarchy of positions.

The persistence of this doctrine is partially attributable to the emphasis laid on hierarchical accountability structures under communism. The communist party, the only real decision-making power at that time, approved appointments and controlled the performance of officials employed in both central and local authorities. The doctrine of ministerial accountability mostly assigns blame for administrative failures rather than plays a more constructive role of ensuring democratic accountability.

The doctrine of ministerial responsibility is deeply entrenched in the main legal documents of Lithuanian government, including the Constitution, the Statute of the Parliament and the Act on the Government. One of the most important and frequently used instruments of ministerial responsibility is

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[4]   In this study, administrative corruption was measured in terms of corporate payments for administrative corruption. See Word Bank, Anticorruption in Transition: A Contribution to the Policy Debate, Washington, DC: World Bank, 2000.

'government hours' in the Parliament (i.e., questions to the Government). During the parliament sessions, members of the cabinet are invited every Tuesday and Thursday to the plenary to respond to questions from MPs. However, this instrument is not very effective as the parliamentary review of a particular ministry is limited to discussing burning issues [5] and receiving 'an account' from the Government about the implementation of certain policy.

Case Situations Assessing Accountability for Policy, Financial Management and Administrative Discretion

Specific aspects of administrative accountability are presented in three case situations on accountability for policy, financial management and administrative discretion, respectively, in the context of the Lithuanian situation.

Case Situation 1: Implementation and non-implementation of policy commitments

Governmental policy commitments are specified in numerous official documents. The most significant are the Government Program and strategic priorities of the Government, the Government Action Plan, the National Program for the Adoption of the Acquis (European Union Accession Strategy) and ministries' strategic action plans.

A recent study found that about 85% of all policy commitments in Lithuania are respected, indicating that systems of monitoring and accountability for policy commitments inside the public administration are relatively proficient.[6] The apparently high rate of implementation success may be explained by the fact that implementation in Lithuania is often defined solely in terms of the formal meeting of a policy commitment rather than the quality or outputs resulting from the implementation of policy commitments.

This perception of implementation can, at least partially, be attributed to the hierarchical and legalistic nature of the communist administrative heritage. Under communism, public officials were primarily concerned with carrying out formal orders rather than implementing their substantive provisions in practice.[7] When priority is assigned to formal implementation, policy-makers tend to respond to demands for higher quality of public services with promises of new policy commitments rather than specific outputs. Frequently problems are solved in an overtly legalistic way, e.g., by setting up new institutions, adopting laws or even entire policies.

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[5] The author gratefully thanks A. Andrulis for this point.

[6] A. Evans and G. Evans, Lithuania's Policy Development and Decision-Making Process, Paper for the First Dusseldorf Seminar on the Centre of Government: Ministerial Reliability and Responsiveness, 2000. (manuscript)

[7] N. Barr (ed.) Labor Markets and Social Policy in Central and Eastern Europe: The Transition and Beyond, Oxford University Press, 1994, p. 105.

Very often, though, government advisors in the Prime Minister's Office identify factors internal to the state institutions (in particular, inadequate structures of management) as the main reasons for implementation failures. However, non-implementation of policy commitments can also be related to factors external to the state institutions. Interviewed line ministries identified insufficient budgets as the most common reason for non-implementation.[8] This is not surprising when the policy process is disconnected from the budget process. In order to ensure that policy commitments are met, 'it is imperative that the Government finds the necessary time on the Cabinet agenda, provides a slot on the legislative program, realistically assesses parliamentary capacity, and flows the necessary funding'[9].

Case Situation 2: Financial management

Although there are only thirteen ministries in the central government, the Ministry of Finance has to deal with one hundred fifty managers of budgetary appropriations. They are entitled to submit requests to the budget and, after their approval by the Parliament, to draw on budget money from their individual accounts in the Treasury's system within the limits of earmarked allocations.

Although an effective payment system has been set up in the Treasury, the reporting and monitoring system is still underdeveloped. A recent institutional review of the Ministry of Finance revealed a concentration on inputs with insufficient attention being paid to output-based management of budgetary appropriations.[10] This situation is partly inherited from the Soviet past when the role of the Ministry of Finance in the management of budget expenditure primarily concerned accounting. The SIGMA report indicated that the management of budget expenditures in most line ministries and other state institutions 'appears to be essentially a bookkeeping function'.[11]

Until recently, the role of the State Controller's Office in the exercise of external control over the management of budget expenditure was limited to conducting financial and compliance audits. Although the State Controller's Office is now empowered by law to carry out performance audits, its capacity is very limited.

The combination of ineffective control and management of budget expenditures undermines the efficiency and effectiveness of financial management systems in the public sector. The implementation of policy commitments, which

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[8]   A. Evans and G. Evans, op. cit.

[9]   Ibid.

[10]   Special Preparatory Program for Structural Funds, Institutional Review of the Ministry of Finance, Vilnius, 2001 (manuscript).

[11]   SIGMA, Public Expenditure Management System, SIGMA Assessment, Lithuania, OECD: Paris, 1999, p. 3.

are set out in various governmental documents, still remains the main indicator of public institution performance.

In this situation, internal audit has a high potential for enhancing effectiveness and, in particular, efficiency of financial management inside the public service. The establishment of an internal audit system is described in the following section.

Case Situation 3: Administrative discretion: case study of inspection and supervision [12]

There are many inspection and supervision institutions entitled to supervise the operation of private companies and, if violations are discovered, to impose fines. Although all investors interviewed by the Foreign Investment Advisory Service (FIAS) agreed that many inspections are required for perfectly valid reasons, most investors asserted that many inspections are duplicative or redundant. In order to solve this problem, in 2000, the Government reorganized five market supervision institutions with overlapping functions.

First, the State Veterinary Service, the State Hygiene Inspectorate and the State Quality Inspectorate were reorganized into inspectorates for food and non-food products. Second, the State Seed Inspectorate and the State Grain Inspectorate were merged into one State Seed and Grain Service. Besides eliminating duplication of inspection activities, this reform allowed the central government to reduce the number of staff employed in all institutions by 537 with annual savings expected to be about 8-10 million LTL.[13]

Moreover, inspections are significant sources of administrative corruption. On the one hand, some private businesses attempt to bribe inspectors to hide infractions of existing regulations. On the other hand, some inspectors try to extort bribes from private businesses by even threatening certain actions against them.

To mitigate these problems, the FIAS study proposed to insert greater transparency and accountability in inspection and supervision systems. More specifically, it was recommended that the relevant legislation and regulations should be readily available to the public and that inspectors should follow clear guidelines regarding their activities.

Finally, the performance of inspectors and inspection institutions are not closely monitored. The FIAS study suggested that inspectors' reports should be reviewed regularly within each inspectorate and somewhat less frequently by

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[12] This section draws on a study of "Administrative Barriers to Investment" prepared by the Foreign Investment Advisory Service (FIAS) of the World Bank during its mission to Lithuania in 1999.

[13] The Sunset Commission, Report, Vilnius, 2000 (http://www.lrvk.lt/saulelydis/ataskaita-rugsejis.html).

the central government to check for evidence of inconsistent action, unusual patterns and unnecessary inspections.

Reform of administrative accountability

Introduction

The above analysis of accountability for policy commitments, financial management and administrative discretion revealed a relatively proficient system of monitoring policy commitments on the one hand and very deficient systems of accountability for financial management and administrative discretion on the other. This situation was caused by the dominance of the doctrine of ministerial responsibility, favoring accountability for policy at the expense of accountability for financial management and administrative discretion.

A combination of increasing demands from the public, accelerating accession to the EU and growing complexity of public administration institutions render the almost exclusive reliance on the doctrine of ministerial responsibility insufficient. For instance, the objective of ensuring the effective accountability of complex and large ministries is almost unattainable under the doctrine of ministerial responsibility without the introduction of 'bottom-up' accountability instruments.

Although the introduction of market and citizen-oriented forms of administrative accountability can be beneficial both from the standpoint of democracy as well as effective and efficient management, their development has gained little priority in Lithuania. To explain this, the following section discusses the dynamics of administrative accountability in the past few years. Since there was no comprehensive reform of administrative accountability, the analysis focuses on the implications of different public administration reforms on administrative accountability.

Measures of public administration reform and their effects on administrative accountability

The accelerating public administration reforms in the past few years have generated significant effects on administrative accountability. Since this case does not allow for an assessment of all public administration reforms, only the most important measures of public administration reform with current and future effects on administrative accountability will be examined.

However, it should be emphasized that there have been no attempts to co-ordinate the introduction of new accountability instruments, nor have there been any attempts to comprehensively reform the system of administrative accountability. In the 1999 National Program for the Adoption of the Acquis (NPAA), the Government recognised the need to design tailored accountability regimes for institutions carrying out policy implementation functions, regulatory functions, inspection and supervision functions as well as licensing and

certification functions. Although the Government committed itself to this objective in the period of 1999-2002 [14], no progress was achieved by 2001.

Internal audit

Preparations to establish an internal financial control system were launched as early as in December 1997 when the Government decided to create a commission to prepare an Internal Control System Implementation Program and to draft necessary legal acts. Since 1997, the Government has taken a number of legal steps to enhance internal audit, culminating in the adoption of the Government Resolution of February 2001 on the internal audit of state enterprises and institutions. Under the Resolution, internal financial control units should be set up (or reorganised) in all ministries, regional administrations and other public institutions or state enterprises employing more than 500 staff.

Despite the adoption of numerous legal and institutional measures, their implementation and application proved to be very difficult in practice. Bringing financial control into line with EU requirements requires a mobilization of effort from officials employed in the central government and large amounts of external support. However, due to the fiscal crisis, the Government could not allocate the sufficient amount of resources required for the establishment of internal audit units.

Even if legal provisions can be adopted and responsible institutions can be designated within a reasonable timescale, the recruitment and training of competent staff as well as the full development and implementation of internal audit standards can take much longer. For instance, in order to ensure the functional independence of internal audit units inside spending institutions, the mere adoption of relevant legislative provisions is not sufficient – politicians and senior officials should recognize the power of internal audit units to control their financial decisions in practice.

Finally, the establishment of an internal audit system suffered from ineffective coordination. It was initially envisaged that the Ministry of Public Administration Reforms and Local Authorities would organize training for the internal audit unit staff, while the Ministry of Finance would coordinate the performance of these units, including the provision of necessary methodological guidance. For several months, neither ministry wanted to take a coordinating role, but the Ministry of Finance finally conceded. In its report on Lithuania, the Commission urged Lithuanian authorities to reconsider the relationship between the two ministries.[15]

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[14] Governmental European Integration Commission, Lithuania's EU Accession Programme (National Programme for the Adoption of the Acquis), Vilnius 1999, p. 393. (manuscript)

[15] Commission of the European Communities, Progress Report from the Commission on Lithuania's Progress Towards Accession, 2000. (http://europa.eu.int/comm/enlargement/lithuania/index.htm).

Performance management

In the NPAA, the Government proposed to move towards a more managerial system of accountability based on performance management. It was noted that 'effective control of responsible institutions and their effective accountability requires laying down performance standards, their improvement and ongoing collection of information concerning the implementation of the performance standards'.[16]

In order to coordinate and facilitate the introduction and development of performance standards, the Government initially proposed to prepare a public administration evaluation and monitoring methodology in 2001. However, since no efforts were taken to carry out this measure, its implementation has been delayed until 2003. Again, ineffective coordination between the Ministry of the Interior (responsible for the introduction of performance management) and the Ministry of Finance (responsible for the introduction of a reporting and monitoring system for budget programs) prevented synergy effects from the introduction of these two measures.

Strategic planning

The Government has achieved more progress in introducing the system of strategic planning in the central government. To coordinate and facilitate the introduction of strategic planning systems, the Government set up the Strategic Planning Committee of the Cabinet (in 1999), the Strategic Planning Division under the Government Office (in 2000) and adopted the strategic planning methodology.

The introduction of strategic planning during the 2000 budget process allowed the Government to bring strategic priorities of the government, fiscal resources and ministerial programs into a single framework. Strategic priorities of the Government and budget ceilings guided all appropriation managers in the preparation of strategic action plans and budgetary programs. The strategic action plans, which included the description of objectives, programs, activities and outputs, were made available to the public.

The introduction of strategic management increased performance orientation and accountability of appropriation managers for strategic objectives of the government and fiscal resources. However, the strategic planning system is not perfect. For instance, a monitoring and reporting system, which is a fundamental part of any planning system, is not yet in place.

Scrutiny of functions and efficiency

When the 1999 economic crisis materialised into severe budget constraints, the Government was forced to accelerate the implementation of public

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[16] Governmental European Integration Commission, Lithuania's EU Accession Programme, op. cit., p. 393

management reforms. In order to achieve cuts in public expenditures in the short term, the Government resorted, at the outset of the reform, to such measures as forced vacations or reduced salaries in the civil service. Although they proved to be effective in achieving cuts of public expenditure, the negative side-effects of these measures (e.g., difficulties in attracting and keeping qualified personnel in the civil service) soon forced the Government to give them up.

In 1999, at the request of Lithuania's Prime Minister, a working group carried out an audit of the Lithuanian public administration.[17] To implement the audit's conclusions, the Government adopted a Resolution on further structural reform of the public administration and set up a 'Sunset' Commission. One of its first tasks was to check the need for various public agencies and their functions.

For instance, the Commission recommended a reorganisation of two institutions with overlapping responsibilities for fisheries – the Department of Fishery Resources in the Ministry of the Environment and the Fisheries Department in the Ministry of Agriculture – into one Fisheries Department under the Ministry of Agriculture. It is expected that this decision, which was carried out in 2000, will bring an annual savings of LTL 0.5 million.[18]

Accountability to the citizens

To enhance the accountability of individual public administration institutions to the citizens and to introduce the principles of openness and transparency in the decision-making process, the Parliament adopted the Public Administration Act in 1999. The significance of the Act lies in the establishment of 'administrative procedure' defining the relationship between the citizens and public administration institutions.

Despite good intentions, the implementation and enforcement of the Act proved problematic. After the adoption of the Act, the Government passed only a few resolutions implementing its provisions, one example being the procedure for providing public services to the citizens in public administration institutions.

Following the adoption of the procedure, public institutions reviewed their internal procedures and made them more favourable to the citizens. Thus, the introduction of this procedure increased citizen orientation in public administration and service delivery. However, in the absence of a monitoring system at the central level, the enforcement of the procedure is problematic.

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[17] See Valdymo reformř ir savivaldybiř reikalř ministerija, Valstybës valdymo sistemos audito ataskaita, Vilnius, 1999 (http://www.vrsrm.lt/p_pransp.htm).

[18] The Sunset Commission, Report, op. cit.

Ethics in public office

The Act on Compatibility of Public and Private Interests in Public Office was passed in 1997 in order to establish the superiority of public interests vis-à-vis private interests during the decision-making process. The Governmental High Commission on Ethics in Public Office, which was set up to monitor the implementation of the Act, is authorized to scrutinize all cases allegedly violating the provisions of the Act.

The Act itself and the Commission's performance contributed to increasing the transparency of public decisions. Under this legislation, public officials are required to reveal conflicts of interest. For instance, its conclusions about unethical behavior in public office forced several senior officials (including cabinet ministers) to leave public office. For example, in 1998, after the Commission confirmed the media's announcement that the Minister for Agriculture used a public plane for private purposes, the Prime Minister forced him to resign from the cabinet.

However, the effectiveness of Commission's activities suffers from the non-binding nature of its decisions as well as the unwillingness of public and private institutions to supply the Commission with relevant financial and other information. Although the Commission brought an action against two mayors to revoke allegedly illegal municipal decisions, court proceedings are being repeatedly delayed.[19] Recently, one mayor, who provided municipal assistance to his private business that was damaged by a storm, was dismissed by the municipal council. Moreover, ruling parties are reluctant to accept Commission's decisions. Recently, one cabinet minister even sued the Commission for the damages caused by the Commission's unfavorable decision.

Personal responsibility of officials

The government has made efforts to enhance the personal responsibility of civil servants. The Civil Service Act, which was adopted by the Parliament in 2000, provides for disciplinary and financial penalties for unlawful activities committed by civil servants. For instance, civil servants are required to reimburse any damage arising from their unlawful activities.

Further, under recent amendments to the Criminal Code, a bribe is treated as a criminal action from the moment a civil servant promises to accept or solicit a bribe. However, the former provisions are rarely applied in practice, whereas the latter provisions suffer from ineffective practices of investigation and prosecution.

Many policy failures, in particular in the privatization area, were attributed to the problem of collective decision-making – 'when everyone is responsible,

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[19] Veidas, 'Politikř skaistykla', 1 February 2001, pp. 22-23.

no one is responsible'. [20] Therefore, a wider application of personal responsibility was proposed to enhance the transparency of decision-making in the civil service.

Factors affecting the evolution of administrative accountability

Despite the introduction of new accountability instruments over the course of public administration reforms in Lithuania, the development of an administrative accountability system has been too slow to reduce the mismatch between the present situation and the need for effective accountability of the public administration to the public. The main reason is the low status that has been given to accountability in the hierarchy of reform objectives. Until the economic downturn in 1999, public administration reform was driven primarily by the objective of Lithuania's accession to the EU, when it was complemented with measures aimed at reducing budgetary expenditures.

Limited capacity to reform

The capacity to reform has been low in Lithuania. With the exception of the two last governments headed by Prime Ministers Kubilius and Paksas, respectively, most Lithuanian governments have lacked a strong commitment to administrative reform, including that of accountability arrangements.

A high degree of politicization during the transition, stemming in part from the existence of two competing political parties (the Lithuanian Democratic Labor Party and the Lithuanian Conservatives), has led to two large waves of partisan replacement of career officials and political appointees following changes in parliamentary majorities. Consequently, due to its short life span and the lack of institutional memory, the political leadership in Lithuania has been unable to advance administrative reform by asserting legitimate control over the bureaucracy.

The ability of the political executive to exert control over the bureaucracy is further limited by the absence of governing ideologies with clear positions regarding administrative reform. Platforms upon which Lithuanian political parties center their political campaigns, in most cases, leave out public administration reform. The single exception is a recent political platform of the ruling Liberal party.

Also, the ability of civil servants to advise the political executive about public administration reform is limited. The Ministry of Public Administration Reforms and Local Authorities, which was set up in 1994 and merged with the Ministry of the Interior in the beginning of 2000, did not have sufficient expertise and, more importantly, authority to draw up and carry out a comprehensive administrative reform program.

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[20] The interview with the State Controller in Lietuvos Rytas, 'Pigi valdininkř auklë – be proto ir dirţo', 7 May 2001, p. 1-2.

Most versions of the Public Administration Reform Strategy only set out broad directions of reforms without giving sufficient details on necessary public administration reform measures. Thus, public administration changes, which are implemented in the absence of a consistent and coherent reform framework, are uncoordinated and contingent.

Little interest in accountability

Transformation of administrative accountability is also impeded by a lack of interest among elected politicians or political appointees in accountability. The ability of Lithuania's legislature to monitor the performance of public organizations is still limited due to lack of expertise, inadequate flow of information and heavy legislative burden in the transition process.

Also, ruling majority parties in the legislature were reluctant to scrutinize the activities of governments appointed with their consent. They started to exercise a more extensive scrutiny of governmental activities only after the appointment of the first coalition government in the end of 2000.

A recent study indicates severe 'demand' problems in the Lithuanian system of accountability - elected politicians are unwilling to devote more time for the activities of legislative oversight. [21] For instance, ruling parties have been reluctant to strengthen the authority of the Governmental High Commission on Ethics in Public Office or the independence of the State Controller's Office.

The slow introduction and especially practical application of new accountability methods can be partially explained by the limited interest of elected politicians and political appointees in more effective accountability.

'Bottom-up' efforts of reform

The previous sections have demonstrated that the transformation to a democratic system of accountability has been impeded by weaknesses of 'top-down' reform efforts. The evolution of accountability arrangements has depended considerably on three main factors:

- the willingness of individual public institutions to recognize and eliminate the discrepancy between old instruments of accountability and new challenges;
- the receptiveness of the institutional environment to new reform efforts; as well as
- reform pressure stemming from the civil society, regulated communities and particularly external institutions.

In the absence of 'top-down' guidance, these factors have affected public institutions at varying degrees. The fact that public institutions have a great deal

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[21] A. Andrulis, Lithuanian Administrative Adaptation to the EU: Control of Policy Implementation, Master's Thesis, Vilnius University, Institute of International Relations and Political Science, Vilnius, 2000. (Unpublished paper)

of discretion in determining their own accountability systems has contributed to the emergence of an inconsistent accountability system.

The ability of individual organizations to recognize the inadequacy of old accountability instruments and to adjust to new challenges has been limited and uneven. 'Bottom-up' adjustments were crucially dependent on the impact of individual personalities. If in some public offices reform-minded personalities introduced practices of consultation with concerned groups, other public offices have retained an 'elitist' character based on old working habits and unwillingness to open up their proceedings to the public.

External and internal pressures for reform

Reform pressure, stemming from the civil society and regulated communities, has not been very significant in the first few years of transformation. This can be partly explained by the inherited culture of citizen passivity as well as the weak organization of non-governmental institutions.

In the absence of strong domestic reform guidance, most changes in the system of accountability are clearly attributable to external pressures. The introduction of several significant accountability instruments were clearly linked to external pressures with the EU playing a dominant role.

The EU impact on administrative accountability extends beyond the internal audit discussed in the previous section. As a result of EU pressure, the Government made several important decisions with favorable implications for administrative accountability, including the reorganization of the Lithuanian Standardization Board from a state institution into a non-profit association allowing for better involvement of the industry or the adoption of a National Anti-Corruption Strategy to fight against corruption.

Conclusion

Despite the introduction of several accountability instruments, the system of administrative accountability remains biased towards the doctrine of ministerial responsibility. The dominance and persistence of ministerial responsibility favors accountability for policy at the expense of accountability for financial management or administrative discretion. Present deficiencies in the system of administrative accountability mean that the potential of administrative accountability to enhance the legitimacy of Lithuania's public administration has not been properly utilized.

There is a strong case for introducing market and citizen-oriented accountability instruments of a 'bottom-up' nature. For instance, since individual ministers can no longer ensure all aspects of accountability, financial management and administrative discretion could be brought into the officials' sphere of direct accountability. [22] However, despite the public administration reform in Lithuania,

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[22] P. Barberis, 'The New Public Management and A New Accountability', Public Administration, 1998, No. 76, p. 467.

the development of an administrative accountability system is too slow to reduce the mismatch between the present situation and the need for more effective accountability of public administration to the public.

The reform of administrative accountability is constrained by a combination of limited capacity for reform and insufficient interest in accountability. In the absence of strong domestic reform guidance, most changes in the system of accountability are clearly attributable to external pressures, in particular the EU.

Since many public agencies are unwilling to introduce new instruments of 'bottom-up' accountability, 'top-down' reforms are critical. Fortunately, such domestic reforms as the scrutiny of functions and efficiency or the 'administrative procedure' illustrate the increasingly 'top-down' nature of public administration reform, driven not only by external reform pressures, but also by domestic considerations.

In the future, public administration will come under increasing attack from the public concerned with the quality of public services and the lack of accountability and transparency of administrative decisions. In addition, Lithuania's accession to the EU will generate further challenges for the system of administrative accountability.

For Lithuanian decision-makers, this means that significant institutional and policy reform efforts aimed at reforming existing accountability structures need to be carried out urgently. Recent public administration reforms have a high potential for transforming the present tradition of accountability into a more effective and democratic system of accountability, only if they are fully implemented and enforced.

Questions for Discussion

- What are the main causes of low legitimacy of the public administration in Lithuania? How is public administration perceived by the citizens in your country?
- What are the main strengths and weaknesses of the doctrine of ministerial responsibility?
- What are the main measures of public administration reform in Lithuania? What is their effect on accountability? Can you identify any reform measures enhancing the accountability of civil servants in your country?
- What are the main factors affecting the evolution of administrative accountability in Lithuania? How does Lithuania's accession to the EU influence accountability?
- Are you familiar with any situation in your country where senior officials violated the rule of law and public trust? How was this discovered and resolved?

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CHAPTER TWO
Strategic Public Management: Principles and Applications

Strategic Public Management: Principles and Applications

Jacek Prokop* and Glen Wright**

1. Introduction

This chapter brings together the concepts and techniques that public managers in the CEE countries are developing and practicing as they meet the constantly changing challenges of the democratic and market oriented systems implemented over the past decade. These challenges are twofold. First, to bring into the decision-making process the input of the citizens, which are most directly affected by the new system of government. Secondly, the public manager now faces a myriad of decision-making situations in daily managing the delivery of public services. No longer can the bureaucratic manager of the former system wait for or rely on instructions to come from above. The public manager in the CEE countries now has the authority in many cases to propose solutions, make decisions, and implement programs based on their own judgments and managerial skills.

1.A Method and Techniques Presented

This chapter describes and illustrates several methods of obtaining citizen input into the decision-making process and techniques the public manager can use to succeed in fulfilling the wishes of the citizens they now serve.

The chapter is divided into four methods and techniques sections. First, a discussion of strategic public management including definitions and elements to provide an understanding of the scope and activities of strategic public management is presented.

Secondly, the strategic public management process, with a focus on its application to local governments, is provided with examination of the process of developing a strategic vision and developing vision, goals, and objectives statements. This serves as an introduction to the sections that follow dealing with strategic planning, strategic financial management and strategic human resource techniques.

The third section more directly addresses the process of developing and implementing a strategic plan for local governments. The emphasis will be on involving citizens in the decision-making process and the use of a strategic planning method to develop a community vision to guide the development of local budget and service delivery systems. The method outlined is termed a Strength, Weaknesses, Opportunities and Threats (SWOT) analysis. SWOT analysis

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involves a high level of citizen participation and has been widely used by many local governments of the CEE to implement economic and social development programs. We will examine this method in some detail in this chapter and it is illustrated through the cases at the end of the chapter.

The fourth section presents some coordination methods that are designed to assist the public manager in dealing with the visions, goals and objectives developed in the citizen based strategic planning process. These methods are directed toward strategic financial management and strategic human resource management the public manager can use to realize the strategic plans. The strategic financial management portion is directed toward budgeting methods that help the public manager realize the visions, goals, and objectives developed in the strategic planning process. These budgeting methods are program budgeting and performance based budgeting. The examination of these methods will demonstrate in some detail the elements of these budgeting techniques.

Finally, the methods of Management by Objectives (MBO) and Quality Circles are presented as approaches to strategic human resource management. The process of utilizing these, as well as the managerial perspectives required for their application, is discussed.

1.B Public Management under Two Systems: Communist and Democratic

The citizens in local governments in Central and Eastern European (CEE) countries are not accustomed to actively participate in the process of managing their towns and regions. The historical practice of public management in the former Soviet block, or socialist countries, didn't encourage the average citizens to become involved in the planning and management process. All planning was conducted at the central government level with virtually no involvement of the larger public. The central directives were transferred down the political and administrative ladder for execution. The lower levels of administration didn't have much freedom for deviations from the plan, and any deviations were subject to severe punishment. Thus, the governments at the regional, town, or village levels are used to being a passive recipient of orders coming from the top.

The political and economic transformation, which started in the CEE countries, changed the situation in a very significant way. Now, the local governments have to understand that they can greatly influence the future course of the economic and social conditions in their regions. They now must also learn how to plan and execute their rights and responsibilities as local governments under a new system of laws.

Decentralization in Public Management

Decentralization of decision-making in public management and strengthening of local democracy has been the key goal in the reform of the political and

administrative system of Central and Eastern European countries in the 1990s. The main achievement of the reform was abolishment of the central government monopoly in many areas directly affecting local communities. Currently, the local governments elected by the local people are empowered to decide about many issues vital to the local community, e.g., urban planning, economic development, and infrastructure improvements. They are also formally responsible for providing a high quality level of certain public services. This transfer of decision-making, as well as the responsibilities, downward in the political and bureaucratic hierarchy of administration creates a greater opportunity and environment for more efficient, responsive, and accountable government. However, the decentralization, by itself, is no guarantee of a better government. In order to achieve the necessary improvements, the new local government must learn how to act in a completely different political, social, and economic environment.

Changes in Managerial Mentality

Despite all the changes that have occurred in the Central and Eastern European countries over the last decade, the local governments still face a number of challenges. In many cases the most important barrier is the old mentality, old habits, aversion to taking risks and making changes, as well as unwillingness to learn new methods and techniques by the public management decision makers. These old mentalities need to be replaced with new attitudes and with new knowledge, particularly in strategic public management. But that takes time and requires resources, which will not create instantaneous results. In addition, it is still generally much easier to change the law than the economic and administrative structures. Therefore, it will take at least several additional years for the structures to be adjusted to the new needs of the people.

Public Management at the Local Government Level

We need to emphasize the specific nature of public management at the local government level in CEE countries. First, it is important to remember that the local government in the CEE region is still quite new, and even though the observed progress has been impressive, the citizens have much to learn about local governance. Many decades of central management made the local governments passive recipients of higher-level external decisions. It will take time to change the mindset of local people.

Second, the situation in CEE countries is extremely complex due to the process of transition that has not been completed even in the most advanced countries of the region, like Poland, or Hungary. Changes that have occurred do not make the learning process easier. The political, economic, and social rules are continually changing, and the local governments must function in this dynamic and quite uncertain environment. Once the political, legal and regulatory environment becomes more stable, it should also be somewhat easier for the local governments to achieve better results.

Impact of Economic Situation

Finally, the level of development of the CEE economies is still much lower than in Western Europe. The low level of per capita income makes it much harder for the local government to focus on the long-term issues, when there are so many day-to-day problems to be resolved. Pressed by these everyday necessities, the citizens as well as the public managers, have difficulty thinking with a strategic vision. They are often greatly divided on the fundamental goals and objectives for their community.

1.C Strategic Public Management in the Transition Process

In the transition process, the application of strategic public management methods plays an indispensable role in solving the problems and challenges identified above. A "Strategic" approach to public management in developed countries started after successful implementation of more "strategic" thinking in the management of large business corporations. The development of a "Strategic" paradigm helped corporate as well as public officers anticipate and cope with a variety of external and internal forces beyond their operating control. This strategic thinking helped to develop a new mental attitude toward the purposes of the organization. The experience in strategic management gained so far shows that this approach to public management allows the achievement of increased efficiency of public institutions, their responsiveness to local needs, and better accountability. These are necessary changes in the transformation process of local government in the Central and Eastern European countries.

Greater Significance of Strategic Public Management

The significance of strategic management in the region becomes even greater today because of the need for attracting external financing of national and local governments. In order to obtain funds from the European Union, as well as from other governmental or private sources, the local governments in Central and Eastern Europe must credibly demonstrate that the money will be properly and efficiently used. Such credibility can be achieved through the implementation of the strategic management process at the local government level. An important element of this process is, for example, the development of strategic plans for a community, and the preparation of operating budgets and capital improvement plans for financing the local community service needs and local infrastructure requirements.

II. Strategic Public Management – Basic Definitions

In this section we will look at some of the basic terminology and concepts associated with the development of strategic public management. It will briefly differentiate strategic planning perspectives between public and private managers, the character of strategic public management, and explain the differences between strategic and operational management. The differences between strategic

and operation management is an important element in understanding what constitutes the different levels of planning from the policy level to the execution level and within the organizational structure.

II.A What is Strategic Management?

The meaning of "strategic management" is not unique. There are many definitions promoted by different schools of thought.[1] In the 1960s and 1970s, strategic management was basically identical with strategic planning. The growth of strategic planning during that time was tremendous, but in the 1980s many organizations reduced their strategic planning staffs creating the appearance of a decline in the field.[2] The message, however, was not that strategic planning had died, but that certain approaches to strategy building are ineffective. Mintzberg (1994) points out that analytically oriented strategic planning is ineffective, but strategic thinking is essential. Strategic thinking requires not only analysis, but also synthesis, which involves intuition and creativity. The role of analysis is to provide input into strategy development and to assess the results. Thus, a strategic planning process devoid of synthesis and strategic thinking has been heavily criticised.

The above discussion reflects the changing role of strategic management. It becomes clear that strategic decision-making and planning are only parts of strategic management. A much more complete definition can be found in David (1999) who defines strategic management as the art [3] and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. This definition implies that strategic management focuses on integrating management, marketing, finance/accounting, production/operations, and computer information systems to achieve organizational success.

II.B Differences between Public and Private Managers

Public sector managers confront different issues from those in commercial organizations. Most public sector organizations do not have to face the problems of attracting customers, building sales and market share, or of developing new products. The goals, objectives and purposes of public organizations are much more complex and difficult to achieve than for private organizations that are largely concerned with the bottom line profit and continuation of their operations. The accountability of the private sector organization and manager is more toward the shareholders than toward social concerns. Public organizations and public managers face a difficult problem in responding to the demands of a variety of stakeholders that are determined through the political process. It is

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[1] For a comparative overview, see, for example, Mintzberg, Ahlstrand, and Lampel (1998).

[2] See, for example, Mintzberg (1994).

[3] Some authors, for example Haberberg and Rieple (2001), claim that strategic management is only the art, and they doubt that it may ever be a science.

very difficult for the public organization to define precisely their stakeholder/ customers. They must respond to the political and democratic procedures that define and constrain what they do. The results of the national and local elections throughout the CEE countries in recent years demonstrate the very changeable political forces that drive public organizations in different directions.

II.C The Character of Strategic Public Management

Differences in the approach to strategic management naturally lead to various interpretations of the concept of "strategic public management".[4]

In order to put together a definition of 'strategic public management', it is not enough to say that it is the management of the process of strategic decision-making. This fails to take into account a number of points important for public management. We should stress that the nature of strategic management is different from other aspects of management, in particular from operational management, a point we will come back to later.

Nor is strategic management concerned only with taking decisions about major issues facing the local government. It is also concerned with ensuring that the strategy is put into effect. A strategic approach to management in local government requires knowledge from a variety of disciplines as well as practical experience in dealing with social, political, and economic issues. A good practical example of a strategic approach to management is the case study by Hajnal in this volume. Hajnal presents an application of a strategic management framework to urban planning in a Hungarian local government.

II.D Strategic and Operational Management

Strategic decisions affect operational decisions. The major decisions made by a local government have to be followed by a whole sequence of operational decisions.[5] Figure 1 summarizes some of these linkages.

The connection between strategic and operational management is at the heart of the problems for the public manager to solve. Strategic management is often based on the vision and imagination of the top-level political and community leadership who can think in terms of concepts. Transforming those visions and concepts becomes the problem for the public manager to translate into specific programs and functions to be developed in the budget process and implemented by the public organization. This is why such techniques as program and performance based budgeting along with strategic human resource management techniques are essential for the public manager to understand and utilize.

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[4]   For an overview, see for example, Bryson and Einsweiler (1988), and Kaufman and Jacobs (1997).

[5]   Hickson, D. J., R.J. Butler, D. Cray, G. R. Mallory, and D. C. Wilson, (1986), p. 28.

Figure 1
Strategic versus operational management

Category	Strategic management	Operational management
Problem types	- Ambiguity - Complexity - Non-routine/Proactive	- Routinized/Reactive
Focus	- Organization-wide - Fundamental - Future operations and outcomes	- Operationally specific - Present operations and outcomes
Leadership	- Visionary	- Operational
Dynamics	- Significant change - Environment or expectation driven	- Small change - Resource driven

II.E The Complexity of Strategic Decisions

The nature of strategic decisions is often very complex, and this distinguishes strategic management from other aspects of management. The complexity results from at least three sources.[6] First, strategic decisions are usually associated with a high level of uncertainty. The decisions are often taken on the basis of views about the future, which it is impossible to be certain about. Second, strategic decisions are likely to demand an integrated approach to managing in local government. Unlike functional problems, there is no area of expertise, or one perspective that can define or resolve the problems. Therefore, the local government managers have to cross functional and operational boundaries to deal with strategic problems and come to agreements with others who inevitably have different interests and perhaps different priorities. Third, strategic decisions are likely to involve major changes in the structure and functioning of the local government. It is difficult to plan and implement these changes. Thus, strategic management is much more complex than operational tasks.

II.F Summary: Strategic Public Management

This section has addressed the basic elements of strategic public management including defining strategic public management, how it differs from private sector management and the consequences for the public manager. Finally, it addressed the relationship of strategic and operational management and understanding the importance of the strategic and operational management linkages.

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[6] See, e.g., Johnson (1987), pp. 5-6.

III.Strategic Public Management Decisions in Local Government

Strategic public management decisions in local government must respond to functions and responsibilities assigned to these units, to the unique local needs and problems, and take into account the capability of the people and the availability of resources. Several factors must be considered that relate to the situation of local governments in developing their strategic public management approaches.

The Scope of Local Government

Strategic decisions are concerned with the scope of local government activities. What should be the range of activities performed by the local government? First, there are a set of issues for which the local government is responsible by law. For example, in many countries the district governments are obliged to provide security, schools, transportation, and/or trash collection in their area. However, the local government could often decide whether the provision will be done directly, or there will be a private subcontractor acting on its behalf. For example, trash collection is often subcontracted to private companies, or public transportation is privatized. Second, the local government can get involved in a broad range of issues not specifically required by law, but still important for the community. For example, a town government might be interested in founding a local university, even though it is not directly responsible for higher level education in the district. Thus, there is a large margin of freedom in deciding about the scope of activities performed by the local government.

Matching the Strategy to the Environment

A good strategy must match the activities performed by the local government to the environment in which it operates. The local government in a primarily agricultural region might face a somewhat different set of problems to deal with than a government in an industrial area. Also, the government in the regions characterized by high level of unemployment could have different priorities from the one operating in an economically booming area with constant shortages of labor. A good strategy should help counter environmental threats, and take advantage of environmental opportunities.

Matching activities with resources

Strategy is also concerned with the matching of the local government activities to its resource capability. There would be little point in trying to take advantage of some new opportunity if the resources needed were not available or could not be made available, or if the strategy was rooted in an inadequate resource base. Therefore, strategic decisions often have major resource implications for the local government. This is a key area where the methods of strategic financial management and strategic human resource management are

invaluable to the public manager. Activities related to strategic requirements can only be accomplished if there are the necessary financial and human resources available to implement these strategic goals and objectives.

Matching Strategy with Values and Expectations

The strategy of a particular local government will be affected not only by environmental forces and resource availability, but also by the values and expectations of those who have power in and around that local government. In some respects, strategy can be thought of as a reflection of the attitudes and beliefs of those who have most influence on the local government – the stakeholders. The case study by Hajnal provides an example of stakeholder attitudes. Local politicians were primarily interested in 'buying votes' by initiating a large-scale project, the local population wanted to minimize the financial burdens, entrepreneurs supported the investment project, but were concerned about a potential increase of criminal activities in the area, and professional groups had a substantial stake in the project.

Strategic decisions affect the long-run direction of a local community. Local economic development requires a sequence of consistent actions over the long term. Strategic decisions are crucial for accomplishing practical and realistic local government policies and implementation of service delivery.

III.A Definition of Local Government Strategy

Overall, the above characteristics can provide a basis for a definition of a local government's strategy. Strategy is the direction and scope of the local government over the long term, which matches its resources to its changing environment in order to meet stakeholder expectations. While this definition provides the basis for higher level strategy development that reflects the broader community based vision, there is a need to develop strategies at every level of the public organization that is congruent and consistent with the higher level strategy definition.

As in every organization, including a local government, strategies will exist at a number of different levels. Individual employees may have their own strategy, such as a strategy related to their personal and professional life. Another set of strategies exists at the level of sections or departments of local government. The lower and intermediate level strategies should be in compliance with the top-level strategy, i.e., the strategy undertaken by the mayor. Only a consistent set of strategies at different levels of local government may enable an efficient functioning and development of the town or region.

III.B Key Principles of Local Government Strategic Public Management

In building a strategy for a local government, it is important to remember the key principles: start with setting the vision, followed by goals and objectives,

Figure 2
The vocabulary of strategy

Term	Definition	An example
Vision	Overriding premise in line with values and expectations of local community	Be a world-class soccer team
Goal	General description of overall target	Be the best national team
Objectives	More specific statement of the goal	Win national championship next year
Strategies	Broad categories of activities	Improve training and caliber of players
Actions/tasks	Steps to implement strategies	Hire new coach Mr. X, acquire a new forward Mr. Y
Control	Performance control and modification of strategies	Analyze the performance – any effect?
Rewards	A payoff for success	Bonus

identifying and choosing strategies, defining activities and tasks, performing control and modifying strategies, and finally rewarding. Figure 2 summarizes some of the terms that are used in strategic management.

Strategic Visioning

First, it is necessary to have a coherent vision of the future situation in the region. This situation should facilitate interests and needs of citizens, local businesses and employees. The vision should attract everybody to cooperate and generate support in the local community.

Vision development calls for governments to solicit input from the citizens as to what they want their community to be like ten or fifteen years from now. It is important that more than one broad alternative vision be developed and debated. Each vision will carry some promise as well as risk.

Kotler, Haider and Rein (1993) present an example of setting the vision for the city of San Diego, the sixth largest city in the United States. Like San Diego in the U.S., Lublin is one of the biggest cities in Poland. It is located 100 miles east of Warsaw, near the Ukrainian border. Following Kotler, Haider and Rein (1993, p. 91), we could suggest three potential visions for the city of Lublin:

1. Uncurbed growth. Lublin continues to permit and encourage free and open growth. It grows in power and wealth but suffers from urban sprawl, traffic snarl, and inadequate public services.
2. Managed growth. Lublin establishes growth guidelines so that there is a healthy balance between population growth and infrastructure growth. Lublin continues to grow in size but along a disciplined growth trajectory.

3. Zero growth. Lublin decides to limit further growth to protect its current character and amenities. Lublin takes steps to discourage certain groups and industries from migrating in order to preserve its "good life".

Kotler, Haider, and Rein (1993) point out that developing alternative visions should go much further than simply distinguishing among potential growth paths. A vision should take a stand on such issues as:

1. Which mix of industries makes sense for the community? Should a community base its future on one or two industries or develop a diversified industrial base? Should a community focus on manufacturing or service industries? If manufacturing industries, should the community try to attract heavy or light industry?
2. What land use and housing patterns make sense for the community? Should industry be concentrated in industrial parks? Should the community encourage high-rise construction or home ownership?
3. Which public services should be provided by local government and which should be let out to private contract?
4. How should public services be financed? How much financing should come from general taxes versus user taxes?

Given that a community can prepare different visions, the local government members debate and decide which one to choose. Various interest groups and citizens may present their views at public hearings. Less frequently, the community might be surveyed for its views. Such surveys can influence the course of the debate among the members of the local government.

The choice of a vision is mostly influenced by the values that citizens and government officials hold. If they highly value preserving a way of life, they lean toward managed or restrained growth.

Illustrative Example 1. Vision for Mikolajki 2010.

Here is an outcome of a discussion regarding the vision for Mikolajki, a small town in north-eastern Poland known for beautiful lakes surrounded by forests:

"The tourist friendly region, effectively preserving natural environment, active most of the year, and allowing local citizens to fulfill their aspirations and desires."

The case by Szymanowicz discusses the preparation of the vision for a municipality in Poland. It shows that, especially in the countries undergoing major economic, political, and social changes, it may take a lot of effort for the vision to be agreed upon. The case makes a distinction between the vision and the mission. Formulation of the vision and the mission are shown to be very important in the strategic planning and management process. An example of that process is presented in the case.

Setting Goals and Objectives

Once the members of the community agree on a vision, they need to set specific goals and objectives. Goals are statements about what a place wants to achieve; objectives add specific magnitudes and timing to these goals. For example, Lublin might adopt the "managed growth" vision and decide on the following goals:

1. To attract high-tech industry while discouraging heavy industry.
2. To discourage the immigration of low-income residents by ceasing the construction of low-cost housing.
3. To improve business zoning standards and enforcement to prevent unsightly commercial strips from developing.

Goals are directional only. They must be turned into objectives to make them measurable and motivating to those who are responsible. For example, the first goal can be turned into the following objective statement:

"Attract two more high-tech companies to move their headquarters to Lublin with the aim of creating 300 new jobs by December 2002."

This statement provides clear direction to those in Lublin's economic development office as to the expected achievement. It also becomes the basis for allocating the resources needed to accomplish this objective. If only a goal had been stated, there would be no way to know whether it was accomplished because the magnitude and time frame had not been specified.

Identifying and Choosing Strategies

Once the visions, goals and objectives have been defined, we can move into identifying and choosing strategies for accomplishing the objectives. Strategies are likely to be fairly broad statements of intent, which show the types of action required to achieve the objectives. To be effective, strategies need to translate into actions and tasks, which link broad direction to specific operational issues and individuals.

It is then important to exercise some degree of control so as to monitor the extent to which the action achieves the objectives and goals. Finally, everybody involved in the strategic management process and affected by the strategy clearly should see the rewards.

Illustrative Example 2. Formulating and Implementing Strategy

• Vision:

"Our primary goal is to provide public services and excellent leadership for the local community in the most efficient, just and democratic way"

• Goal: - clean town/region

• Objective: - cleaning the local river

• Strategy: - reducing inflow and clean of sewage

- Activities/tasks: - building the purification plant
- Control: - regular testing of water
- Reward: - swimming in the river, fishing, tourism

III.C Summary: Key Concepts of Strategic Public Management in Local Governments

In this section, we have examined in some detail the conceptual elements of strategic public management at the local government level and outlined the definitions and key principles in this field. Examples drawn from actual experiences and situations have been used to further clarify some of the terms and concepts discussed. In the next sections, we deal with more specific methods, particularly with strategic planning methods, and with techniques in budget and financial managements, as well as human resource management techniques that contribute to successful strategic public management.

IV. Strategic Planning in Local Governments

Strategic planning in the local government context represents a mental vision coupled with a methodology to present to local officials and citizens their capabilities, options and choices for the future of their community. Ultimately, a strategic planning process is the mechanism to translate citizen values into political decisions by local councils and program actions by government organizations.

According to an International City Management Association (ICMA) Report, strategic planning decisions can assist local governments in the following ways:

- Identify trends and issues affecting the form and health of the community;
- Continue the physical characteristics within the community and neighborhood values while political, economic and social changes are occurring;
- Prepare capital infrastructure improvements, regulatory policies and economic incentives to attract new economic development;
- Improve conditions to attract new business for jobs and economic growth. (ICMA Special Report).

IV.A Strategic Planning Process

A strategic planning process consists of three main elements. First, there is strategic analysis, in which the strategist seeks to understand the strategic position of the city, town, or the whole region. Second, there is strategic choice, which deals with the formulation of possible courses of action, their evaluation and the choice among them. And, finally, there is strategy implementation, which is concerned with planning how the choice of strategy can be put into effect, and managing the changes required.

Figure 3
A model of the strategic planning process
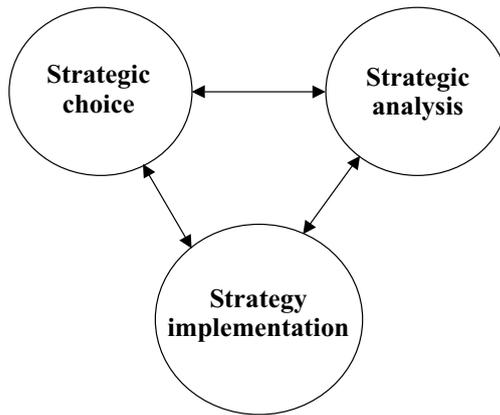
Figure 3 shows how these three elements relate to each other. It is important to observe that the relationship is not presented in a linear form – strategic analysis preceding strategic choice, which in turn precedes strategy implementation. Indeed, such an approach seems quite logical. However, in practice, the stages do not take this linear form. It is very likely that the elements are interlinked, e.g., it is possible that the best way of evaluating some strategies would be to begin to implement it, so strategic choice and strategy implementation may overlap. It is also likely that strategic analysis will be an on-going activity and so will overlap with the implementation of strategy. Now, we will discuss each of the elements in more detail.

Strategic Analysis

Strategic analysis is concerned with understanding the situation in a given city, town, village, or region. What is it that the people who live here aspire to? What are their goals and objectives? What is the resource strength of the region and its government? What changes are going on in the environment? Careful analysis of these issues will help the existing resources to be managed more efficiently in order to achieve the set objectives.

The aim of strategic analysis is, then, to form a view of the key influences on the present and future well being of the local community and, therefore, on the choice of strategy. Information gathering and its analysis is a good starting point of any strategy formulation. The strategists must possess broad knowledge of the local economy and all major factors that could affect the situation in the short, medium, and long-run.

It is also important to gather information related to any strategies, which are being implemented in the area, such as national, or regional programs. In addition, information about firms and organizations, which play an important

Figure 4
The Elements of Strategic Analysis.

| The environment | | Strategic capability |

| Strategic analysis |
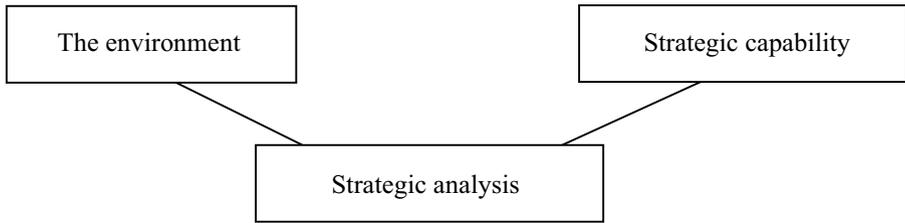
role in the local economy, should be collected. Moreover, the analysis should cover the natural conditions, culture, real estate, and infrastructure. The next important issue to consider is the local labor market, the structure of employment, the ability of each sector to create new jobs, and the educational needs of local labor. The strategists have to review the declining and emerging industries, and decide to what extent the local government should help these sectors.

All collected information should be included in a database. This database will enable the analysis of the strengths and weaknesses of the local economy, and allow for the identification of the opportunities and threats for the local development. This constitutes the basis for the SWOT analysis.

The Environment

The environment of the local community consists of a complex commercial, economic, political, technological, cultural, and social world. The environment is not stable over time. The historical and present effects of the environment on the community must be considered, as well as the expected changes in environmental variables. This is a major task because the range of environmental variables is so great. Many of those variables will give rise to opportunities of some sort, and many will exert threats upon the community's well being.

The Strategic Capability, or Resources of the Local Community

Just as there are outside influences on the situation in a given local community, so there are internal influences. One way to think about the strategic capability of an organization is to consider its strengths and weaknesses.

The SWOT analysis is fundamental in every strategic management process. The case by Jaworski provides a practical application of this type of analysis. Another example of this important strategic management tool is presented below.

Illustrative Example 3. The SWOT Analysis for Gmina[7] of Lipnica Wielka.

Lipnica Wielka is a small mountain village in southern Poland.

Strengths of the gmina:

- natural resources: Babiogorski National Park – forest preserve with rich fauna and flora, clean air, lowest average temperatures in the country, snow stays on the ground for a long time, deposits of mineral and geothermal waters;
- pro-tourist local government;
- hospitality of local people (kind hosts, open to visitors, offering much more than just food and lodging;
- preservation of old tradition and culture;
- good and expanding technical infrastructure (telephones, water, sewage) in part of the gmina;
- good educational infrastructure (schools), and healthcare provision throughout entire gmina;
- safe gmina (boarder guards, local police, 5 fire squads on duty).

Weaknesses of the gmina:

- lack of tourist and recreational infrastructure (swimming pools, tennis courts, stadium, etc.);
- weak network of access roads;
- weak ecological and tourist awareness;
- lack of possibilities for local sales of agricultural products;
- no local food processing industry;
- no civic center or amphitheater;
- no communal water infrastructure in some parts of the gmina;
- weak promotion (economic, tourist) of gmina;
- not completed process of compounding dispersed fields.

Opportunities for gmina:

- opening of the full national boarder crossing (for international traffic, not just local use);
- creation of an artificial lake, and opening existing Orawskie Lake for boats, raising fish in the local creeks;
- building a station for winter sports competitive to Zakopane and Bukowina (the most popular places in the region);
- increasing availability of financing with the help of assistance programs;
- increasing demand for eco and agro tourist services.

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[7]   "Gmina" is the lowest level of local government in Poland.

Threats for gmina:

- competition from neighboring tourist centers;
- low technical quality and narrow access road outside of the gmina jurisdiction;
- emigration of educated and entrepreneurial citizens;
- lack of clear property rights to the ground;
- worsening of the condition of forest (extensive cutting of trees, and diseases);
- lack of budgetary sources of financing of technical infrastructure.

Strategic Choice

Now, we turn to the second element of the strategic management process. The strategic choice will be done on the basis of the strategic analysis. First, we generate a list of strategic options. There are usually several possible courses of action. In developing strategies, a potential danger is that people tend to not consider any but the most obvious course of action, which is not necessarily the best. Therefore, the generation of strategic options should be as creative as possible.

Second, we evaluate the options in the context of the strategic analysis to assess their relative merits. In deciding any of the options that they face, the local government might ask a series of questions. Which of these options built upon strengths, overcame weaknesses and take advantage of opportunities, while minimizing or circumventing the threats the community faced? This is called the search for strategic fit or sustainability of the strategy. However, a second set of questions is important. To what extent could a chosen strategy be made available at the right time and in the right place? These are the questions of feasibility. Even if these criteria could be met, would the choice be acceptable to the stakeholders?

And finally, we select the strategy. The choice process is a complex problem, especially for the new local governments. There is usually no clear-cut 'right' or 'wrong' choice because any strategy will inevitably have some dangers or disadvantages. So in the end, choice is most probably a matter of judgment. It is necessary to remember that the selection process cannot always be viewed as a purely objective and technical act. It is strongly influenced by public managers and other interest groups.

Benchmarking

Benchmarking is a modern method applied in formulating and choosing strategies. The fundamental idea of this tool is to identify the best practices that allow for achievement of goals and objectives. It assumes improved performance through substantial learning from others. Benchmarking is a continuous process, which consists of a search for good examples of successful strategies selected

by other managers. On the one hand, the identified strategies serve as an example to be followed, and on the other hand, they constitute a point of reference for monitoring and evaluation purposes.

The new technologies make the search for good strategic solutions in public management much easier than it was even a few years ago. Many cities, towns, and even villages around the world and in the CEE countries have set up Internet sites where they present their successful solutions to a variety of common public management problems. There is also a wide body of literature published in the form of books and newsletters describing best practices. For example, there is a large collection of best practices published (in a traditional way as well as on the Internet) by the Local Government Partnership Program in Poland.[8] These practices could serve as an excellent benchmark for many public managers in the CEE countries.

Another source of best practices in Poland has been the competition "The Ideal Gmina". In this competition, gminas present their strategic achievements, and those with the most interesting results are rewarded and, subsequently, included in the databank of best practices. Such competition constitutes an excellent forum for exchange of experience for public managers and contributes to creation of benchmarks.

Illustrative Example 4. The Development Strategy for Poznan. [9]

Poznan is the fifth largest city in Poland located 300 km west of Warsaw. The SWOT analysis for Poznan identified:

- strengths. Poznan is the capitol of the Wielkopolska region with a population of 600,000 people. Its geographical and communicational location is excellent; it has a well-developed railway system and road network as well as air transport. In addition, the city is known as the international fair center, important industrial area, and a significant academic center with a well-developed informational infrastructure. Poznan serves as an important trans-regional center, especially in trade, finance, science, culture, health and tourism.

- weaknesses include:
  - inefficient public transport;
  - being on the category III list of areas, i.e., areas of ecological danger;
  - the crises in the construction business.

- opportunities. The most important opportunities for the city are:
  - the process of European unification;
  - the transformation of the Polish economy;
  - the development of international communication routes;
  - Poznan participation in European and worldwide associations of cities and economic organizations.

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[8]   See, for example, Wagner (1999).

[9]   Based on Strategie Rozwoju Gospodarczego Miast i Gmin, Daniel C. Wagner, ed., LGPP, Warsaw 1999, pp.50-51.

• threats include:

  - insufficient financial resources;
  - still unstable legal and financial regulations;
  - low share of new technologies and weak cooperation between academic and business circles.

An internal and external analysis of the city provided a basis for the strategy formulation. The Strategic Development Plan for the City of Poznan is based on four presumptions:

• cooperation of different social groups, economic organizations, institutions and their networks with the local government;

• the choice of the areas of activity and focus on actions creating new development opportunities;

• support for local initiatives as a valuable input of local citizens;

• regional perspective of city development as the service center.

The Poznan City Council approved the final version of the vision/mission:

"Creation of conditions for balanced development of Poznan through efficient use of local resources, stimulation of entrepreneurship and improvement of city attractiveness. Cooperation of local government with the community will create conditions for higher quality of life, self-fulfillment for citizens and people-friendly city of opportunities; Poznan sees its social and economic duties as the capital of Wielkopolska region in Poland as well as in integrated Europe."

The most important strategic goals for economic and social progress of Poznan have been selected:

• the improvement of the natural environment, of living conditions and of public security;

• the improvement of the functioning and development of the city;

• creating conditions for balanced and modern economy and for the city open to investors, economic partners and tourists;

• stimulating the development of Poznan as an international center through integration of scientific, economic, and cultural potentials;

• strengthening of the Poznan's position as a center of trans-regional status.

Strategy Implementation

Strategy implementation, the last element of the strategic management process, is concerned with the translation of strategy into action. Implementation can be thought of as having three parts. First, it involves planning and allocating resources. The key tasks needing to be carried out have to be specified. Changes needed to be made in the resource mix of the local government and the community must be made explicit. The timetable has to be stipulated. Those responsible for the change must be designated.

Second, changes in organizational structure and systems used to manage the local government activities will be needed. What will the different departments of the local government have accountability and responsibility for? What sort of information system is needed to monitor the progress of the strategy? Is there a need to retrain the local government employees? These represent some basic issues that need to be dealt with concerning strategic human and organizational resource management.

And finally, the implementation of strategy requires the managing of strategic change. This needs action on the part of local government officers in terms of the way they manage change processes, and the mechanisms they use for it. These mechanisms are likely to be concerned not only with organizational redesign, but also with changing day-to-day routines and cultural aspects of local government, and overcoming political blockages to change.

Since the market economy changes at a fast pace, local government officials are responsible for maintenance of the chosen direction of development. Institutional support could be provided not only by the structures within the local government, but also by established public-private partnerships and organizations.

Organizations and institutions participating in the implementation of strategies will change their roles during the entire process. The ability of participants to react to these changes and to undertake appropriate actions is a key to success. It is especially important to select the right participants from the private sector most interested in cooperation. The local government must make an effort to attract such interests.

We have to remember that the private sector in CEE countries is relatively weak and especially small and medium size companies fight for survival. For this reason, it may be more difficult to expect the extent of private business involvement observed in more developed countries of Western world. At the same time, and exactly for the same reason, the role of the local government becomes even larger in poorer countries. The local governments of CEE countries should stimulate and facilitate the potential which exists in the private sector.

Monitoring

A successful strategic management program requires monitoring of achievements and comparing them with the plan. First, an appropriate monitoring organization should be created, for example, a Committee for Strategy Implementation.

One of the benefits of the strategic management process is the engagement of local leaders and the resulting transparency. It is important for the Committee for Strategy Implementation to include representatives of the local government as well as the private sector, and the latter should dominate. It will help stress

the role of public-private partnership. In addition, the Committee should include experts from particular disciplines.

The monitoring process must cover the following elements: [10]

- the progress in implementation of each strategy in comparison with the plan;
- the time and financial outlay in comparison with the allocated budget;
- replacement of people and institutions affecting the ability to complete assigned tasks;
- changes in external environment requiring adjustment in the strategic plan;
- assessment of results obtained by implementation of the strategy.

Since a strategic plan consists of many elements, the monitoring function may turn out to be quite complete. It tries constantly to answer three questions:

1. Have the goals been achieved?
2. Are the tasks still appropriate?
3. What are the benefits of the plan under implementation?

Monitoring is a difficult task, because it is often not easy to be sure that the undertaken actions were successful. Even though a good plan stipulates measurable objectives, it is not always possible to measure how much a particular activity contributed to a given target. The assessment of success can be done only when efficiency measures have been agreed upon in advance.

Monitoring is necessary because it enables the local government to adjust to internal and external changes. When the external environment changes significantly, e.g., a key company in the area closes, suddenly part of the basic infrastructure is destroyed, or if a new large employer moves in, the Committee for Strategy Implementation could call a meeting to analyze new or alternative strategies.

During the first year of plan implementation, a formal review process should be conducted under the supervision of the mayor. It will allow the plans of action to be updated and to further confirm the validity of the presumptions used in the strategic management process. Such a review also serves the purpose of keeping the group of community leaders interested in strategy implementation.

Illustrative Example 5. Strategy Implementation in Poznan. [11]

For the implementation of strategy discussed in the previous Illustrative Example, four task groups have been created. The first group, "Environment for People," focused on activities aimed at improvement of living conditions in the city both materially and culturally. It included:

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[10] Based on Strategiczne Planowanie Rozwoju Gospodarczego, Norton Berman, ed., Local Government Partnership Program, Warsaw 2000, pp. 43-44.

[11] Based on Strategie Rozwoju Gospodarczego Miast i Gmin, Daniel C. Wagner, ed., LGPP, Warsaw 1999, pp. 51-54.

- natural environment - reduction of gas emission and noise, cleanup of creeks and lakes in the city boundaries, public lawn care, improvement of the quality of water supply and heating, improvement of transportation;
- space and buildings – better utilization of space in the city, development of information systems about availability of space, more efficient public housing construction and management;
- healthcare – changes in the public healthcare system, participation in the WHO project "Healthy City";
- public safety – more preventive activities in order to reduce crime rate;
- education – securing adequate resources for kindergarten and primary education;
- culture – sponsoring new cultural events, and activities improving equal access;
- recreation and tourism – promotion sports and tourism in order to increase the role of the city as a center of sporting events;
- social assistance – initiatives aimed at helping the needy in material and nonmaterial ways.

The second set of activities, named the "Economic Environment," grouped the tasks stimulating economic development in the city. The city creates and accumulates resources for development and to attract investors. It encourages research on quantitative and qualitative aspects of economic development in Poznan, builds systems of economic information, encourages cooperation with local government in the development of the infrastructure, e.g., International Poznan Fair, the local airport, A-2 highway, telecommunication network. The city generates entrepreneurship, but does not forget about the consumers by providing protection of consumer interests.

The third task group is concerned with the external image of Poznan. The main activities include: promotion, expansion of international contacts, cooperation with international and national organizations and associations of local governments, hosting of conferences and meetings, generating investments in hotels, increasing recreational attractiveness, as well as strengthening Poznan's role as an academic center.

The fourth group, called "Key Areas," focuses on various activities in selected parts of the city in order to better utilize the available space. Three key areas have been identified:

- city center within the planned "Ring"
- fast tram network area
- Malta Lake area

On the basis of set directions for strategy implementation, a list of operational plans has been produced as follows:

- projects for immediate implementation (continued);
- projects for implementation in the short run (under three years);
- long-term projects (three to five years and above).

In the implementation phase an important role is played by individual departments of the city government, which are responsible especially for the first task group. Independent institutions and organizations became primary actors in the case of

activities going beyond the direct competence of local government. Joint ventures between local government and the representatives of local community are viewed as the most important source of synergies.

For each activity, there is an assigned set of participants, designated resources, and an operational plan with specific targets. The progress on the strategy implementation is presented in yearly reports.

IV.B Summary: Strategic Planning in Local Government

We can summarize here the main features of a successful strategic planning process in local governments. These have been clearly identified in a ICMA report cited earlier as the following:

- Creating a vision: Citizens have ideas about what they want their community to look like. It is creating a method of allowing these citizens to articulate and share their vision that is the key feature of strategic planning.
- Opening the process to public discussion: This vision can only be developed by providing opportunities for public discussion. This opportunity for public participation does not mean that every citizen participates or that only public hearings provide the means for open public discussion. There is opportunity for public discussion through the media, such as newspapers, radio, and television and many community-based organizations, such as service clubs, business or civic organizations. The local government can promote public discussion through information programs and establishing citizen based committees or task forces to examine public issues.
- Sharing power/forming partnerships: Sharing power and forming partnerships produces the atmosphere for building community consensus rather than community conflict. This effort must be based on cooperation and compromise; the essence of the democratic political process.
- Planning the strategic planning process: The planning process must be carefully managed. The leadership formed in the planning process must ensure that the plan activities continue to move forward. Establishing meeting schedules, agendas, and report deadlines can keep the process from being stalled by continuous discussions.
- Rethinking public policy: Existing laws, regulations, or policy may be based on certain political, economic, and social interests that are resistant to change. Consequently, in order that changes can occur in laws, regulations, or policies there must be an openness to new thinking and building support from all interests to examine or reexamine these issues.
- Thinking strategically: Thinking strategically requires that participants take a broad view of issues and problems. Visualize what the future should be and identify the major changes needed to achieve the future. The details of this change can be addressed by the professionals in local government who translate the policy decisions of local councils into action plans, regulations, and programs to provide the services envisioned in the strategic plan.

The most critical aspect of the strategic planning process is the concept of strategy. A local government's strategy is the direction and scope of the local government over the long term, which matches its resources to its changing environment in order to meet stakeholder expectations. In building a strategy, we start with setting the vision, followed by goals and objectives, identifying and choosing strategies, defining activities and tasks, performing control and modifying strategies, and, finally, rewarding.

The strategic planning process consists of three main elements: strategic analysis, strategic choice, and strategy implementation. In strategic analysis, the strategist seeks to understand the strategic position of the city, town, or the whole region. Strategic choice deals with the formulation of possible courses of action, their evaluation and the choice among them. And finally, strategy implementation is concerned with planning how the choice of strategy can be put into effect, and managing the changes required.

V. Coordinating Methods in Strategic Public Management

It is, however, important to remember that strategic decision-making and planning are only parts of strategic public management. Strategic public management is the art and science of formulating, implementing, and evaluating cross-functional decisions that enable a local government to achieve its objectives. This definition implies that strategic public management focuses on integrating management methods, human resources, budgeting/finance/accounting systems, service delivery options and operations, and computer information systems to achieve organizational success. These areas form the other core chapters of this text. In the following sections, we highlight some of the financial and human resource management techniques that can be utilized to provide a coordinated management approach to strategic public management.

Need for Coordinated Approaches to Service Delivery

The lack of a coordinated approach to service delivery management by local government managers represents one of the main problems in developing the efficiency, economy, and effectiveness that underpins the concepts and techniques that are the substance of public management training. The requirements for meeting this public management problem are described as follows: "Managing for service delivery boils down to balancing the three classic concerns of public administration—getting the right things done (effectiveness), accomplishing them in the right way (efficiency), and limiting the use of scarce resources (economy). Balancing these concerns requires coordinated policy analysis and management systems...." (Anderson, et al, 1983)

Differences between public and private managers

Many of the ideas and concepts developed regarding strategic management originated in the private sector and then were transferred to the public sector

manager. However, the differences in perspectives of managers in the two sectors should be considered in terms of how relevant and applicable these methods are to the public management environment. The differences in approaches between public and private managers is amply described by Banovetz and Hetrick as follows:

"Local government managers often think in terms of available money and then adapt service levels accordingly; business managers determine the desired sales or products and then adapt money accordingly. Local government managers tend to plan in terms of available people and then adapt work accordingly, business managers are more likely to plan the work needed to achieve desired sales or products and then establish employment levels accordingly. The differences are subtle; the relationships are not always so sequential; and there are trade-offs based on needs and limitations. However, that money orientation of local government as contrasted with the results orientation of business is the real basis for differing attitudes—and one that local government managers are well advised to consider." (Banovetz and Hetrick, 1984)

Some methods and techniques of managing financial and human resources to the strategic plans are now examined.

V.A Managing Financial Resources to Meet Strategic Plans

We can examine two approaches widely utilized in the Western democracies and increasingly being used by the national and local governments throughout the CEE region to more effectively manage scarce financial resources that are available. Our intention here is not to provide a detailed description of the methods of performance based and program based budgeting, but to highlight how these methods have a high level of relationship with the implementation of the strategic plans developed through the community based process outlined above. It is making this connection from a vision to actual implementation that requires the politically elected leaders and the appointed public managers to adopt these methods to meet the demands for services from their citizens.

Defining Performance and Program Based Budgets

Performance and program based budgeting often gets confused in its implementation. The two budgeting systems are basically different and require different approaches to their implementation. Mikesell has described both approaches and defines them as follows:

"Performance budgets emphasize agency performance objectives and accomplishments, not the purchase of resources used by the agency. Budgets present the cost of performing measured accomplishment units during the year. The program budget format organizes proposed expenditure according to output or contribution to governmental objectives. Programs are constructed on the basis of contribution to those objectives." (Mikesell, 1986)
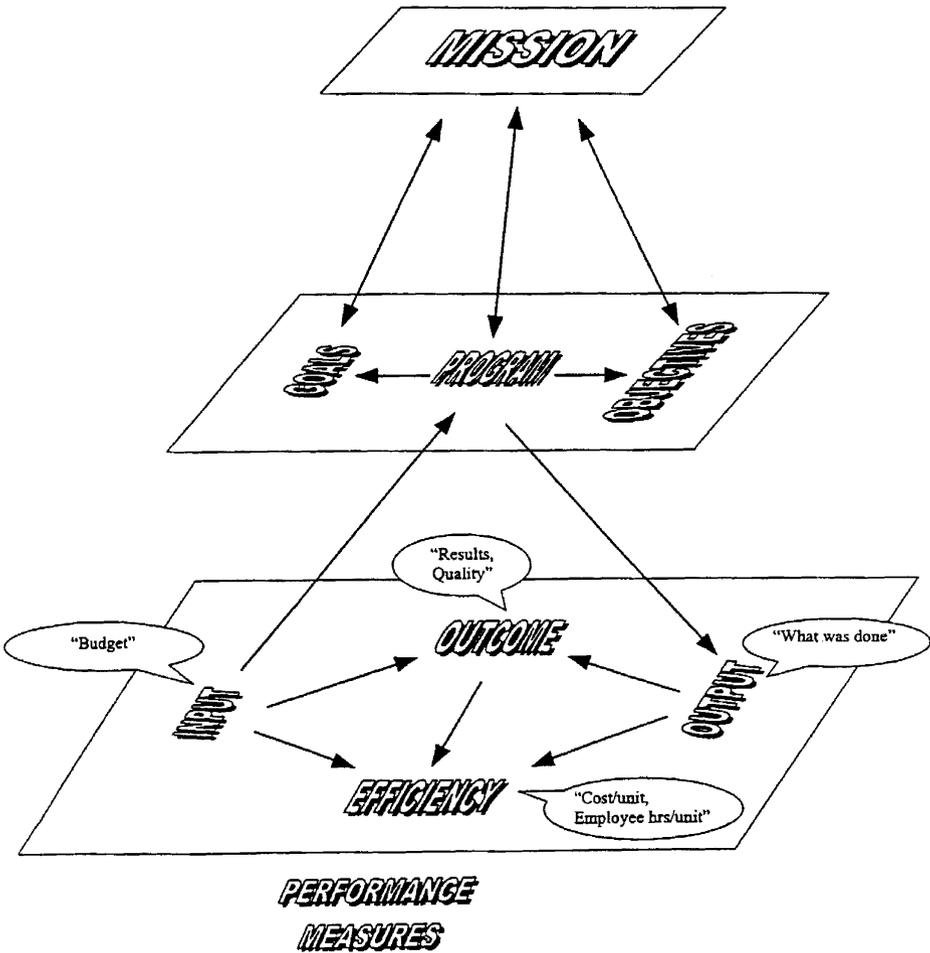
Both of these budget methods have very strong points in favor of their use in public organizations. But they also have very difficult obstacles to overcome in utilizing them to their full potential. Performance based budgets have difficulty in terms of identifying and measuring the performance units for which resources are applied. Program budgets have difficulty in defining appropriate goal and objectives statements that are clear and meaningful to those who are making public finance decisions. Neither technique is easily applied and requires a long-term commitment to implement either of these approaches by public managers.

V.B Program Budgeting

Implementation of program budgeting requires an organization wide effort to define the mission, goals and purposes of each organizational unit. Each department must identify the larger mission or purpose for which it is organized and for the functions it performs that relate to the broader civic needs of the community as they have been defined in a strategic plan. Understanding mission statements, goals and objectives is essential to understanding how to construct a programbased budget.

The following diagram attempts to provide a larger overview of what constitutes program based budgeting. In this diagram, we can visualize the relationship of program and performance based budgeting to the strategic objectives of the community.

The hierarchical levels of program budgeting are clearly detailed here from the top level of policy making incorporating the community based strategic plans visions that are reflected in the mission and objectives statements of the individual organizational units that are responsible for implementing the specific actions based on the strategic visions. At the bottom of the hierarchy are the specific outcomes and performance measures that are expected based on the purposes and goals reflected in the programs that are to be executed by the organizational unit through its program structure.

Developing Mission, Goal and Objective Statements

As indicated above, developing mission statements, goals and objectives are often the most difficult part of developing a program budget format. Managers know very well what they do, but defining this in some larger context of a mission or purpose served by their activities requires a different orientation in their thinking. This is much like that illustrated at the beginning of this section in comparing the public manager and business manager approaches to meeting their purposes.

Mission statements have the following characteristics:

- Provide motivation and spirit to employees in the conduct of their work
- Define why a public organization or program exists
- Define what the public organization or program does
- Define for whom the public agency or program exists.

Mission statements, therefore, identify and describe the larger purposes of the organization and the services that it provides and, thereby, establishes the basis for determining program goals and objectives.

A sampling of mission statements might be the following:

- The mission of the public safety department is to provide citizens with protection from the hazards and dangers of fires and criminal activity against their person or property and provide assistance in the event of such

occurrences to safeguard public and community health and safety by providing emergency fire, police and medical services as needed.
- The mission of the public works department is to provide high quality and safe utility services, such as water, electricity, heating, and waste removal in order that citizens can be provided a high quality of life.

From these mission statements we might construct some sample goal statements such as the following:

- Goal Statement for public safety department and police function: Prevent acts of criminal violence against citizens of the community.
- Goal Statement for the public works department and the water supply function: Provide safe drinking water to the citizens of the community.

OVERVIEW OF PROCESS

PROGRAM
Street Paving

GOAL
To Ensure a Safe, Acceptable Riding Surface on All City Streets

OBJECTIVE
To Reduce the Number of Unpaved Streets in the City by 10%

PERFORMANCE
Input Measures—Resources Used
Output Measures—Workload Accomplished
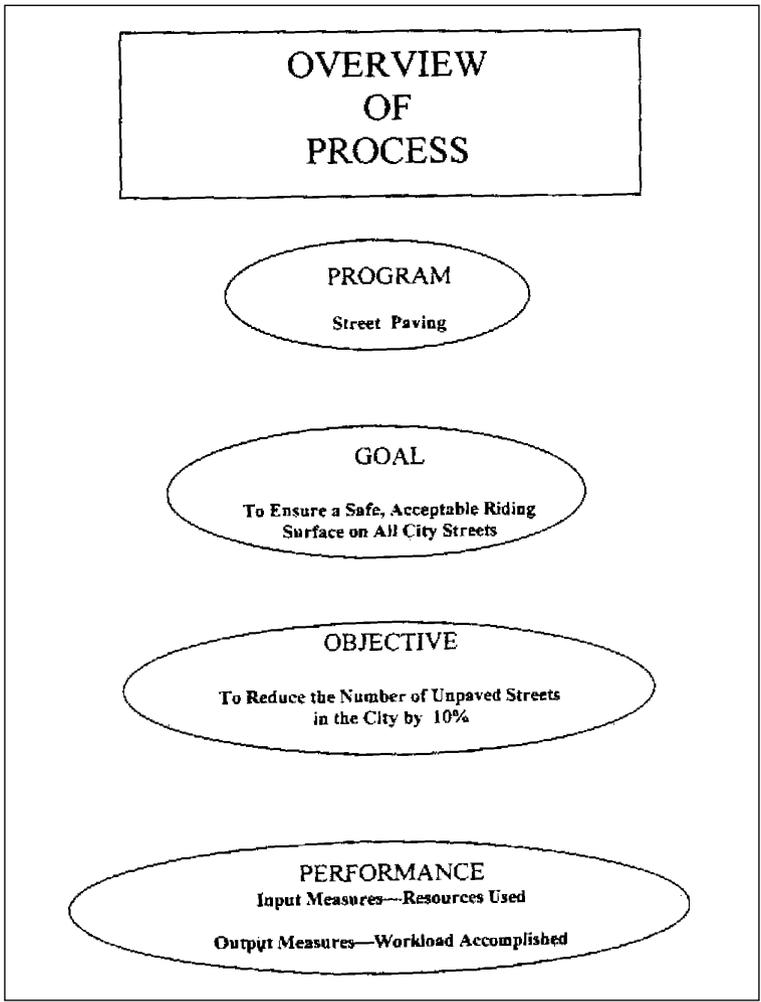
EXAMPLE of a TYPICAL PROGRAM BUDGET
for a SELECTED DIVISION/ DEPARTMENT

DIVISION: Urban Planning and Zoning Division

MISSION STATEMENT:

To provide citywide coordination of City planning, land use and building permitting in order to promote commercial and residential development in such a manner that is aesthetically pleasing to our citizens and preserves the architectural and historic features of our city.

DEPARTMENT: Planning and Development Department:

MISSION STATEMENT:

To propose planning rules and regulations, maintain an updated Master Plan, review and make recommendations on development proposals.

Program: In order to reduce the number of development proposals rejected due to inappropriate site selection, we must **Review and update the Master Plan**.

Goal: To up date the Master Plan, in order to **clearly identify specific areas within the City suitable for residential, commercial and industrial development.**

Objective: Reduce by 50% the number of development plans rejected due to inappropriate site selection.

Page 2-- Example of a Typical Program Budget

PERFORMANCE MEASURES:

Input Measure: Personnel   2000 man hours   4,000,000(L)
                  Printing   200 copies   1,000,000(L)
                  Supplies   Misc.   500,000(L)

Output Measure: Master Plan completely revised and prepared for
                 distribution to citizens and developers

Once the Program is completed we can identify the following:

Outcomes Measures: Customers(citizens) are better informed about the
                    use of City land. Rejected proposals have been
                    reduced by 40%.

Efficiency Measure   A 40% reduction in rejected proposals required
                     1500 man hours for a total program cost of
                     4,500,000(L)

Objective statements based on the above goals might define more precisely the level of services to be provided to the citizens. These could be constructed as follows:

- Objective Statement for police function: respond within five minutes to calls from citizens needing assistance from criminal violence
- Objective Statement for water supply function: provide safe drinking water through maintenance of water supply system and chemical treatment of the water supply to prevent contamination

We can take this one step further by defining some performance measures that relate to these objective statements. This could be as follows:

- Performance Measure for police function: reduce the level of criminal violence against citizens by 10% from previous year
- Performance Measure for water supply function: provide safe drinking water without interruption on 24-hour basis and no contamination of the water supply

The diagram provides an example of how one program activity can be structured from a program through goal statement to quantifiable objective and, finally, a set of performance measures that can be utilized to evaluate the accomplishment of the program's purposes.

This diagram is followed by an example of a typical program based budget format with required mission statement and well developed performance measures that can be used to evaluate the program's accomplishments. Following this budget format should lead to a well developed program budgeting structure for all departments of a local government and greatly facilitate the decision-making process for local councils and greater citizen understanding of what the local government is spending money for and what is being accomplished. A summarized version of the program budget is a useful document to have for conducting a public hearing to allow citizens to have input into the budget decision process.

V.C Performance Based Budgeting

This section will provide a brief examination of the elements of performance based budgeting to highlight the difficulties of its implementation as well as the possibilities it provides for managing more effectively scarce financial resources.

Tasks of Public Manager in Performance Based Budgeting

Developing performance based budgeting is a formidable task for any public manager. There are many activities that a public manager must perform in order that implementation of a performance based budgeting system can be successful. Among these are the following:

1. Train employees in establishing performance measures and measurement systems. Identifying and defining performance measures is one of the major barriers in implementing a performance based budget. The public manager must have a clear idea of what performance measures are meaningful and can be captured by the management reporting system.
2. Train top-level management and the politically elected leaders in the use of the performance measurement systems so that appropriate budget decisions can be made.
3. Evaluate the performance measurement systems to see that they provide precise measurements that are verifiable and can be audited for comparison with past and future years.
4. Review the structure of the organization and the programs to ensure that the structure is relevant to the performance measurements and there is no duplication of measurements across the organization.
5. Incorporate the performance measures into the budget formulation and execution phases of the budget cycle to reconcile estimates with actuals and make corrections as required.

Deciding What to Measure

There are several problems associated with determining what activities make for realistic performance measurements. There is often a tendency to count things, such as applications received, number of inspections accomplished,

reports completed on time or other such activities. These often reflect demand for services, but not the quality of the service provided. It is not so much the number of applications received for building permits that is the measure of performance. Rather it is the number of applications which are processed to completion within a certain time period that is a measure of performance. For administrative type functions, there is a tendency to measure the process rather than the performance. This is often true of inspection type services. The performance measure might be more useful if it related the number of violations per inspection rather than the number of inspections accomplished within a specific time period. All of these issues make development of performance based budgeting a difficult task for the public manager.

An additional type of performance indicator might be based on societal conditions such as the number of people with certain diseases that need treatment, the level of drug addiction among the youth of a community that requires action, or the level of day care services provided to working mothers. Indications of the needs of these people and the levels of performance from programs designed to assist them can provide performance-based measures for budget decisions.

A more recent development in terms of performance based measures is the level of citizen satisfaction with delivered services. Many local governments are now developing service questionnaires to provide to citizens. It asks them how they felt about the services that were delivered to them. This is similar to the customer service questionnaires used by private firms to develop more effective methods of maintaining customers who will continue to buy their services and products. Another method beginning to be widely used in the CEE region is the use of citizen surveys to ask citizens how they feel about local government services, what additional services they need, and their willingness to pay for these services. Citizen surveys taken over several years can provide a good basis for measuring the performance of local government services.

As is evident from the above discussion, performance based budgeting presents some substantial obstacles. As Mikesell writes: "The performance budget hinges on the quality of the measures and construction of such a budget is not inexpensive. Some performance measures may be misleading or irrelevant: audit quality, for instance, may be more important than audit volume. Furthermore, the performance budget does not ask whether the performance being measured is the service the public actually wants. And, of course, there is no necessary consideration of alternative ways of doing a particular task." (Mikesell, 1986)

Implementing Performance Based Budgeting

Even though there are formidable challenges to implementing a performance based budgeting system, the development of performance based budgeting requires some level of effort to achieve. There are nine steps that are required to implement a performance based budgeting system.

Step 1: Understand the mission of the organization or the program: This is the starting point and relates directly to the strategic planning that comes from community-based activities. The mission should relate to the needs and desires expressed by the citizens for certain services and levels of service in the community for which they want their tax money to finance.

Step 2: Identify Strategic Goals: Goal statements should follow from the definition of the mission of the organization or programs as we outlined above. They should be more precise in defining what is specifically desired or to be achieved.

Step 3: Specify Outcomes: The outcomes represent the conditions or levels of service satisfaction that are to be achieved.

Step 4: Develop Activities (Programs, subprograms, units): The goals and outcomes must relate to specific functions or activities that the organization will undertake to meet these requirements. At this level, the activities must be identified in specific programs or services that are separate, discrete, and can be related to the financial and human resources that are needed to accomplish the activities.

Step 5: Identify Objectives for Activities: The activities must be translated into objective statements that indicate how much, for whom, and when the activities will be provided. These objective statements should be as precise and as measurable as they can possibly be in order that clear performance measurements can be derived.

Step 6: Identify Outputs and Measures: This follows from step 5 in realizing a set of performance measures that specify the outputs or outcomes expected. These can be expressed in quantifiable terms, such as number of inspections, or levels of satisfaction, such as citizen complaints received and answered appropriately.

Step 7: Identify the Inputs: The inputs to providing a given level of services can be expressed in the levels of human and financial resources that are needed to provide the level of service required. This represents the situation where the public manager and the business manager described above take two different approaches. The public manager would feel constrained to keep the inputs within the levels of presently available resources while the business manager would derive the level of outputs or production and then determine the level of resources needed. The performance based system tends to force the public manager to follow the method of the business manager and adjust the inputs the required outputs.

Step 8: Cost out the Inputs: The levels of human resources, direct and indirect costs, as well as capital investments, need to be estimated in order to make relevant comparisons to the expected levels of desired outputs. This provides the basis for comparison, to the extent possible, across activities and enables

the manager and publicly elected leaders to determine the levels of service performance they can give to citizen preferences.

Step 9: Execute and Measure: Once the budget decisions have been made and the performance levels defined within the budget, the public manager then has the responsibility to execute the budget to meet these levels of performance and to continually measure actual performance against the estimated or expected levels of performance. This becomes the feedback mechanism with which adjustments in levels of inputs, both human and financial, can be monitored and adjusted during the budget year as circumstances change and new requirements are determined.

V.D Summary: Financial Management Methods for Strategic Public Management

In this section, we have examined two approaches to managing financial resources to meet strategic public management requirements. Both program and performance based budgeting are becoming more widely used in the CEE countries, particularly at the local level. They effectively link the strategic plans developed by community based citizen input into the budget decision process that will ultimately bring the citizens vision of the community to a reality. They are powerful and effective tools for measuring the performance of elected and appointed public officials, enable citizens to clearly determine what their tax money is being spent for, ensure more public transparency in the budget process, and hold public officials accountable and responsible for their financial decisions. The use of these budget techniques should become more widespread in the years to come as additional improvements are made in the financial and accounting systems for government organizations.

V.E Strategic Approaches to Managing the Human Resources of the Public Organization

The existing managerial mentality is often a major barrier to the implementation of strategic public management methods. This is a common problem that is reflected in many of the case studies presented in this chapter and other chapters of this text. This resistance to change and adopting new approaches is one of the major impediments to the creative process that is required in order for local governments to adapt to the new conditions.

In this section, we briefly describe some Western based approaches for developing a more performance oriented and productive approach to obtaining better performance from the human resources available in local governments. A later chapter providing more details on the human resources management process will further illuminate the problems and potential solutions to this critical problem.

We begin this section with a review of two perspectives that managers often bring to their relationships with their employees and then describe two opposing methods of how to achieve greater results from the responsible staff resources.

V.F Human Perspective of Managers

Some years ago, Douglas McGregor categorized two approaches to managing organizations by describing values associated with people. He termed these two approaches Theory X and Theory Y. McGregor felt managers looked at the people in their organizations from two perspectives.

Under Theory X, he identified the more traditional approaches to management. Under Theory X, we have the following assumptions:

1. The average human being has an inherent dislike of work and will avoid it if he can.
2. Because of man's dislike of work, he must be coerced, controlled, directed or threatened with punishment to get him to put forth adequate effort toward the achievement of organizational objectives.
3. The average human being prefers to be directed, wishes to avoid responsibility, has relatively little ambition and wants security above all.

Under Theory Y, McGregor identified these assumptions:

1. The expenditure of physical and mental effort in work is as natural as play or rest.
2. External control and the threat of punishment are not the only means of getting people to work toward the organization's objectives. People will exercise self-direction and self-control toward achieving objectives to which they are committed.
3. Commitment to objectives is a function of the rewards associated with their achievement.
4. Average human beings learn, under proper conditions, not only to accept, but, also to seek responsibility.
5. Most people are capable of a relatively high degree of imagination, ingenuity, and creativity in solving organizational problems.
6. Under the conditions of contemporary life, the average person's intellectual potentialities are being utilized only partially.

These Theory X and Theory Y assumptions provide a core set of values from which approaches to professional systems can be introduced into public service organizations. It really defines managerial approaches and methods to defining organizational goals, behaviors and rules.

There are two opposing approaches that can be utilized in organizations to develop a more results oriented and productive strategic management of human resources. These approaches have been used in many different organizational environments. They represent methods that reflect the Theory X and Theory Y

values to some extent. So depending on your own values as a manager and the values of your organization, you may use one of these approaches.

V.G Management by Objectives

The first approach we have is termed Management by Objectives or MBO. This represents a top down approach to managing an organization.

MBO has been defined as "a system of periodic meetings between superior and subordinate in which the latter commits himself/herself to the achievement of certain objectives. In the next meeting this achievement is assessed and new objectives for the coming period are agreed upon." (Hofstede, 1994)

Setting Objectives

There are a number of considerations that should be considered in establishing the objectives. The following details some aspects for setting objectives.

Guidelines for Setting Objectives

An objective should be consistent with authoritative goals such as legislative, regulatory or other legal provisions.

An objective should be stated in behavioral terms, as a guide to action.

An objective should have intermediate targets and a specific completion date—in terms of the budget year or other time schedule.

An objective should include specific performance criteria, such as how many, what percent, which site, personnel levels, and costs.

An objective should be both challenging and attainable.

Source: Anderson, et al, The Effective Local Government Manager, Washington, D.C. ICMA, 1983

Top management begins with defining its goals and objectives for the organization. These may be broad policy statements at the top, but will be translated into specific goals at each lower level in the hierarchy.

The organizational objectives must have several qualities. These should be:

1. Specific in terms of what is to be accomplished.
2. Reality oriented in that there must be a reasonable basis for accomplishing the objective.
3. The achievement of the objectives can be verified.
4. A specific time frame in which to be achieved.

In theory MBO should work as follows:

1. The supervisor provides subordinates with a framework of objectives reflecting their own purposes and goals.
2. Subordinates propose objectives for themselves from this framework.

3. Supervisors and subordinates discuss, modify and eventually agree upon a set of objectives for the subordinate.
4. Subordinates review their progress and report periodically to the supervisor.
5. The sequence is repeated as necessary.

This is a highly task oriented and directed approach leaving little room for changes. It is utilized to tightly control activities and as a method to appraise individuals for their achievements. Consequently, it requires control and reporting mechanisms and a great amount of discipline.

Advantages and Disadvantages of MBO

The following briefly identifies some advantages and disadvantages of this approach.

For advantages, it does provide a means of directing and focusing the efforts of all personnel toward top management goals. It forces organizations to plan, provides standards for control, improves motivation and reduces conflicts within the organization over responsibility and accomplishing some goals.

Some disadvantages or problems with MBO are that it is a very burdensome and time-consuming procedure. There is often a lack of management support to rigorously enforce the process. It is often administered in an authoritarian manner with the illusion of participation. It overemphasizes results that are easily achievable rather than important activities.

MBO does require a significant amount of management attention and continual support to maintain the effort. (Hofstede, 1994) Similarly, MBO also may encounter difficulties if it is used more for performance appraisal rather than as a general management system designed to focus on achievement of organizational objectives. (Anderson, et al, 1983)

If you are a Theory X oriented person this approach might be very appealing to you. But if you are more of a Theory Y person, perhaps you will be interested in an approach called quality circles.

V.H Quality Circles

This is what we term a participative management approach. It is a bottom-up approach in managing organizations.

Quality circles was introduced in Japan by an American named Alfred Deming. His ideas had been rejected by American corporate managers, but found a very willing audience in Japan.

Quality circles are teams of workers who meet several times a month to discuss problems. Their goal is to improve the work process and also the quality of work life.

The quality circles are composed of the non-managerial staff. Management level participation is limited to ratifying changes suggested by the quality

circles. In a quality circles meeting, participants are first encouraged to present their ideas on work improvements. No idea is criticized and no person is made to feel embarrassed by their suggestion. Every member is encouraged to make any suggestions even if it is unrealistic at the moment. The atmosphere of the group must be positive and supportive.

Based on ideas presented, quality circles teams discuss the ideas and decide which suggestions are worth further consideration. After additional information and review, the quality circles team makes a final recommendation on the suggestion.

So quality circles rely on development of a team approach to solving managerial problems. A very open and free atmosphere must be part of the organizational environment. This approach works best in a non-competitive environment where group incentives for performance are rewarded rather than individual performance.

V.I   Summary: Strategic Approaches to Managing Human Resources

In this section, we have examined the final dimension of developing a comprehensive and coordinated approach to strategic public management by addressing the requirements for changing managerial mentalities. These attitudes often pose the greatest obstacles to thinking and acting in a strategic manner and opening up the organization to new methods and techniques of modern public management. Several approaches are available to managers from a highly structured relationship between manager and employee, such as MBO, and a more highly participative and open approach of the quality circles technique. Both have proven to be effective methods for achieving greater performance and changing the way in which people work in public organizations.

Under any of these approaches or others, the task of the public manager in accomplishing the strategic management objectives involves the following activities:

1. Assign responsibilities, delegate authority, and allocate resources
2. Use functionally oriented management systems to coordinate organizational resources and performance
3. Involve people in productive activity through shared performance targets and work processes and through training and reinforcement of positive job-related behaviors
4. Track intermediate productivity indicators and progress toward end results. (Anderson, et al, 1983)

VI.   Conclusion: Strategic Public Management in a New Public Management Era

This chapter has provided the basic elements of strategic public management and identified the methods, process and possibilities for implementing some new approaches to effective public management. It has been broad in its scope

and detailed in its description of the several techniques and methods presented. Where possible, a detailed outline of the methods and techniques has been provided to give the reader a full understanding of the concepts. This chapter brings out some of the important elements of public management that will be addressed in the following chapters as well, particularly with respect to budget and financial management and human resources management.

The case studies in this chapter deal specifically with aspects of implementing a strategic planning process in three different local government units. These three units present the diversity and complexity of undertaking this process and completing it successfully. A thorough reading and understanding of these cases will provide the reader with a good understanding of the strategic planning process as it has been practiced in local governments in the CEE region.

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Introduction to Case Studies

The cases following this chapter focus on the strategic planning concepts covered in the chapter. Later chapters of this public management text contain cases relating to budgeting and human resources, which amplify the concepts presented in this chapter.

Strategic planning has been and still is a major focus of local government management concerns. In the USA in the late 1980s and into the 1990s, many communities underwent a Vision 2000 process for their cities as a way of visualizing what they would like their communities to look like in the new millenium. This was really a strategic planning process, which was highly citizen participation oriented and involved all political, economic and social sectors of these cities.

Many local governments in CEE have undergone a similar process in response to the difficult economic conditions that they have faced after the fall of the socialist systems and the economic decline faced by many of these areas. A need to change their economic circumstances led many to undertake a community based effort to revitalize their cities and create a new economic base to sustain the local population.

The cases in this chapter reflect the efforts in three diverse communities, but they have the same goals in mind. To revitalize and rehabilitate their community, whether a rural area or the center of a large capital city. The reader should pay particular attention to the similarities of the process and the methods presented in the three cases.

We present here as an introduction to these cases more specific information about the purpose of the strategic plan and the requirements for completing a strategic planning process that will lead to a successful conclusion.

Strategic planning involves more than just developing a document. It requires the careful nuturing of a consensus that the community has problems, strengths, and weaknesses and can mobilize resources to build a community that all citizens feel can provide them with their needs.

The early stages in the strategic planning process are critical in achieving success. A common mistake is to oversell the strategic plan as being the solution to all of the community's problems. This situation can be avoided by being realistic about what the strategic plan can do. It provides a process and ultimately a guide to what community leaders and citizens can accomplish. It is not the plan that does this, but the consensus achieved in the process that must be emphasized in selling the plan. The plan is the tool and not the ultimate product. A better community is the ultimate product.

One caution that communities must be aware of is to not duplicate another community's plan or process. Each community is different in many respects; economic, political, social and cultural. A strategic planning process must be based on the characteristics of the community, but much can be learned from

other communities as to how they developed and implemented their plans to avoid the same mistakes and gain new ideas.

Finally, the plan must deal with practical realities and solutions. Attempting to incorporate grand plans and designs in the plan will be recognized by the citizens. Plans which require costly community improvements may not be acceptable. Identifying low cost or community volunteer projects will be more easily accepted and achieve even greater community spirit. Projects promoting community advantages, such as historic sites, recreation facilities, scenic views, can lead to opportunities for attracting outside interest in the community at a very low cost. The strategic plan can address the options of low cost versus high cost projects and provide community opportunities to attract outside economic development to finance the high cost options.

There are a number of lessons that have been learned about what factors will make for a successful strategic planning process and development of a strategic plan for a community. (Wheeland, 1993) The following summarizes some of the key lessons learned about developing a strategic plan that will lead to results.

Lesson 1: Rely on Strong, Stable Public Leadership

One of the critical ingredients is the quality of the public leadership that comes from both the political, social and economic sectors of the community. Leadership from the political sector is very important to begin the development of the community interest, but this must be followed with strong input from the leadership of other sectors as well. This leadership has to remain in place for a sufficient amount of time in order that the interest and the commitment will not be lost by the citizens to becoming involved in the process and participate in the strategic plan development.

Lesson 2: Use Sufficient Public Resources

The local government must be prepared to provide some of the financial and technical resources needed to support the community based strategic planning development. This may include paying for consultants and providing facilities and office services to support the volunteer activities of the citizens involved in the plan development. This will reflect the level of commitment of the political and managerial leadership of the local government and demonstrate the priority that they place on completing the strategic plan.

Lesson 3: Involve Key Institutions

Identifying community based organizations, such as business associations, school associations, cultural and religious based organizations, is a key factor in building the broad base of support and involvement in developing the strategic plan and winning its acceptance by the community. Another key institution is the local media, radio and newspapers, which can play a very important role in publicizing and building interest in the project.

Lesson 4: Find Strong Process Champions

This key factor relates to having a project coordinator and team leaders that will be able to maintain the schedule for development of the plan and see that interest is not lost, and disagreements are resolved before they destroy the strong consensus that must be maintained. The greater the number of organizations and participation required, the more important it is to have people who can organize and motivate the participants to achieve their objectives.

Lesson 5: Use Consultants as Educators

Most communities will not have the people with the skills, knowledge and expertise to provide the broad perspectives, ideas and experiences needed to develop a strategic plan. Consultants can make a valuable contribution to the effort, but need to be used for their special expertise. They can serve to educate the citizens on many of the technical aspects of the plan, particularly in areas of changing community physical features and determining the options and costs associated with these changes.

Lesson 6: Use a Creative Work Process in a Highly Symbolic Setting

Some techniques, such as brainstorming, can be highly effective in developing creative ideas for consideration in the plan. These interactive and participative methods can open many new possibilities that might not otherwise be given any thought. The surroundings of where the meetings take place is often very helpful in promoting these methods. Meeting in places such as local council chambers or other significant community locations, gives importance to the work of the group and creates even more incentives for the planning groups to work together.

Lesson 7: Visualize Changes

Visualizing changes relates to making graphic or model presentations, rather than just reports, to help people understand what is being proposed. If an area is to be revitalized with new shops, malls, and traffic flows, it helps to see models or sketches of what the new area will look like in order for people to get their own visual image of the changes. This can help to build consensus and agreement for the project prior to actual construction.

Lesson 8: Secure Broad-Based Citizen Participation

Providing an opportunity for all segments of the community to participate in developing the plan is vital for success. Only through participation can many ideas be generated, consensus achieved and commitment by the community to realizing the plan. The opportunity for people to participate in working groups on community issues, to attend public hearings, and to respond to citizen surveys are methods to build a broad base of support that will be needed to implement the plan.

Lesson 9: Use a Living Plan

This is the recognition that a plan is never complete, but requires continual review and adjustment over time. This does not mean that the participants

continue their same level of effort, but that smaller groups continue to monitor and revise the plan as the plan timeframe unfolds. New problems and issues will arise and new approaches and ideas will need citizen attention and plan development. Consequently, the plan is never complete, but continually updated.

This concludes a summarization of the lessons learned from undertaking strategic planning and community visioning projects to guide a community's future growth and development. The case studies that follow should be examined to see what lessons learned were applied in the particular cases and what ones where ignored. The reader can use these lessons learned to critique the success or failure of the situations presented in the case and what could or should have been done.

Strategic Planning in a Polish Gmina

This case presents a common situation in many rural areas of the CEE countries. The reader can compare the economic conditions presented here with what they are familiar with in their own areas.

The reader should focus on the activities of the Head of the Gmina and the strategy specialist presented in this case. How do they meet some of the requirements of the lessons learned presented above?

Other aspects of this case the reader should particularly note is the whole process of developing the plan and how citizens where enabled to become involved in the process.

Other interesting aspects are how working groups were created and the activity undertaken to learn from other communities throughout Poland that had undertaken similar projects.

The reader should carefully review the results of the SWOT analysis and determine if the problems were adequately identified and realistic solutions proposed to solve these problems. Finally, the reader should review the case in terms of what elements were presented in this case that relate to the lessons learned for making a successful strategic planning process presented in this introduction to case studies. What lessons learned factors are evident from the case and what ones are missing?

Strategic Planning of Economic Development

The second case presented relates to a more developed urban area that has experienced a sudden and dramatic decline in its economic situation. This is a familiar situation with many large municipalities in the CEE countries. The uniqueness of this situation was that the city was largely affected by an administrative reform, which took away much of the basis for its importance as a political, economic and social center for that area.

The reader should particuarly examine the scope and scale of the strategic planning process as it was conducted in this municipality. It presents a very complicated economic situation that required substantial social and economic analysis to develop the basis for formulating the strategic plan.

Additionally, the reader should pay attention to the use of consultants in this case and how they performed their work. The reader should examine the nature of the contribution that the consultant team made in formulating the plan document and assisting the local leadership in developing the vision of the community.

One interesting aspect for the reader to examine is the impression provided of the political leadership at the early stages of the process and how this could potentially affect the whole outcome of the case. The case writer presents some evidence regarding the perspectives of the local council concerning the whole concept of the plan and what was meant by the terms being used in developing the strategic plan.

Finally, the reader should make a comparison of this case with the previous case of the Polish gmina with respect to the levels of political leadership shown, the approach to using consultants, the means of involving citizens and community organizations and eliciting their opinions and points of view into the process.

Strategic Planning in a Hungarian Local Government: The Case of the Budapest Broadway Project

The final case study presents the complex situation facing a district within a very large city that is also the capital of the country. The area needs to undergo a renewal and revitalization or face serious consequences for the residents of the area.

The interesting aspect of this case for the reader to note is the extensive level of stakeholder analysis presented, which reflects the diverse levels of interest and opinions on what should be done in the area. The magnitude of complexity in reaching some consensus with these diverse stakeholder groups is one of the main features of this case for the reader to carefully consider.

Another important feature is the level of policy and budget analysis presented in this case representing again the great complexity of the case situation presented. A rather detailed listing of the major problems and obstacles to realizing the implementation of the project is presented. These should be carefully analyzed by the reader in examining the case.

Finally, the reader should compare this case with the previous two cases with respect to the source of leadership for the development of the Budapest Broadway Project, the use of the consultants in these cases, and the overall methods utilized to ultimately complete the strategic planning process. The reader should be able to discern the similarities or differences in perspectives on the planning process, the techniques of managing the strategic planning process, and the goals and objectives of the strategic planning effort in each of the cases.

References

Wheeland, Craig, "Citywide Strategic Planning: An Evaluation of Rock Hill's Empowering the Vision" in Public Administration Review, January-February, 1993, Vol. 53. No. 1.

Strategic Management in a Polish Gmina

Michał Jaworski *

This case presents the problem of a rural local government in Poland seeking to revitalize its local economic situation. The case illustrates several aspects of the process of developing a strategic plan for the economic growth of a depressed area. It describes the process the local officials and community developed to identify problem areas, seek innovative solutions and implement them based on well-developed program involving the support of the citizens of the community.

Geographic Description

The local government, or gmina, that serves as the basis for this case study is located five km from the geographic center of Poland. The nearest large city is Łódź, a large industrial town, which is famous for its light industry. The gmina has an area of twenty thousand hectares, of which six thousand is forest. The area consists mainly of villages and a small town. Agriculture and small industry used to be the sources of household income for most of the population.

The gmina has ten thousand inhabitants; however, during the summer months, the number of people in the gmina is several times larger.

Forests, many of which are old and rare enough to be sanctuaries, cover much of the large area within the boundaries of the gmina. Three rivers run through the gmina and as there is no heavy industry to pollute the rivers, they are very clean.

Agriculture

Ten thousand hectares in the gmina are covered by individual and family owned farms. Almost every family has a small farm with a few cattle. The low quality of the soil makes for a labor intensive and low efficient type of agriculture production. These households consume most of the production. Agriculture, therefore, could not be the only source of income for these residents of the gmina.

Industry

In the past, most families had at least one member working in local industry, which consisted mainly of small companies usually affiliated with large factories in Łódź. In fact, the large town was the only client for the gmina. More skilled workers had a chance to find a job in Łódź and commuted there every day using PeKaS bus transportation system.

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The situation changed when the slow down of economic growth of the country forced most companies to cut operating costs. For the gmina, this meant closing most of the local workshops and companies. Demand for workers in Łódź decreased, so many of the inhabitants of the gmina lost their jobs. Finally, the PeKaS bus service was cancelled due to the low return for the carrier. This meant that even those who were able to keep their job in Łódź now had no way to commute there. Their remuneration was too low to rent apartments in the town and the distance was too large to get there by bicycle or on foot.

The Head of the Gmina

The Head of the Gmina administration never planned a career in the public sector. After graduating from high school, he took a job in the local industry. Soon he realized he didn't wish to belong to poorly managed companies that barely existed and that had no vision, goal or strategic plans. He could see his and other company products in shops just occupying space on the shelf. They couldn't attract the interest of clients as their design, color and quality was below expectations. He decided to start his own business, which was a small shop offering kitchen and bathroom appliances and plastic containers for storing various items. As warehouses offered a wide variety of containers and his budget was small, he decided to limit himself to products most sought after by his clients. He ordered, therefore, a small amount of goods and every time he had the chance, he discussed the usefulness of these products. Soon, he realized that he could divide his clients into two groups: those who came before 3 p.m. and those that came after 3. The first group had more time than the other group and he used this time to ask for opinions. He tested them on the second group, people who rushed back home after work and were grateful for help and useful comments.

After some time his shop became a meeting place for people who would drop in just to chat on their way to go shopping. He realized that instead of selling equipment for kitchens and bathrooms, he had started to advise people on how to organize space in their homes in the most efficient way. His business was running well and soon he could afford to open a second shop.

At the same time, with a few friends from the small business community, he started a project of organizing an association of local businessmen. They managed to attract the interest of other entrepreneurs and to organize a few meetings. During one of these meetings, they found out that due to heavy rainfall some of the local, generally small and calm rivers, had flooded some fields and villages. Our future head of the gmina decided to take control and transformed the meeting into a crisis management center. He persuaded his fellows to help those who suffered from the disaster. Although the flood was not as serious as in other regions of Poland, his actions made him widely recognized in the gmina. The next step was taking the position of the head of the gmina administration.

The Problem

Low income from agricultural production and unemployment caused a sudden deterioration in the economic status of the gmina. The situation worried the head of the gmina very much. He knew that he had to take some action and he had to do it fast. Although he lacked the education or experience with large reforms and changes, he felt that if the situation would last much longer people would eventually give up looking for jobs and suffer from "discouraged worker syndrome". This would be just another step to more crime and alcoholism. He saw this happening in other regions of Poland and he believed that the same changes would take place in the gmina. Although he was a good, honest and hard working person, he quickly realized he lacked the skills and education to lead such a huge reform by himself. Besides, such a project would take all of his time leaving no time for current, more "operational" duties. He thought that he should limit his role to offering objective and honest judgment of the situation and strongly and clearly support the changes. However, the main duties, he thought, should be directed by one individual who could devote all his time to this work. He decided to take actions and appointed one person as the head (Strategy Specialist) of the project of developing a strategic plan for the gmina. The plan had to deal with the new situation, but also include the problems the gmina faced, such as low quality roads, poor condition of the building where the school was located, and the flight of young people to large towns.

Finding a way out of the current situation was the most important problem, however, and the head of the gmina had a few more goals for the strategic plan. He hoped that the strategic plan would be a major document, the direction pointer for the development of the gmina and a set of common targets that could unify the community. He knew that the gmina had valuable but unused resources in skills and knowledge of the people. He wanted to unlock them and use them for social and economical development of the gmina. By involving inhabitants in the process of execution of the plan, the head of the gmina hoped to gain social and political support for his decisions and actions. The strategic plan was not only to point the opportunities and direction for the development, but, also, to identify barriers and the most important problems ahead of the local society, organize priorities for action, increase the efficiency of the management of the gmina and, finally, to start a communication process with local business.

He wanted a high level of involvement of citizens in writing and completing the plan, and so he created some requirements on the Strategy Specialist position. As the strategy would rather emerge as a result of group work, the Specialist would have to possess the skills to organize such work. He would need to be able to initiate the process, hand over the control and moderate the work. So the primary skill needed in this position was sound sociological

experience in organizing group work. The specialist would also have to possess the management knowledge and experience in planning.

The Head of the gmina started his search with local citizens, but, with no luck. Then he found a young person who was born and raised up in the gmina, but who had moved to Łódź. He was specializing in psychology of the management process and already consulted for a few companies. Although he had no experience in the public sector, with strong support of gmina officials, he would be able to quickly fill the gap. Luckily, the potential Strategy Specialist agreed to participate in the project and moved back to the gmina.

First Actions

The Strategy Specialist was given the position of Head of Gmina Development. Although quite bureaucratic at first glance, creating a new position proved that the local government treated the plan seriously. According to the Specialist, in order to meet the social goals of the plan (social support and involvement), representatives of the community had to be included in the team that would work on the strategy. Including them just in the last stage of work execution would not give the expected results. Representatives of the local community, working in cooperation with management professionals, should design the strategy; according to the Strategy Specialist. Relying on outside consultants and letting them create the strategic plan could result in receiving a document full of professional expressions that would not fully consider local conditions. Consultants could also have problems in communicating and convincing citizens of their solutions. On the other hand, a plan prepared by the gmina on its own could ignore lessons learned by other gmina's while realizing their projects as well as ignore available modern management tools. It could also lack the structure, form and construction of a professionally prepared document. In short, a good strategic plan could be a result of joining the experience of consultants with knowledge of representatives of the community.

Another important part of the process would be actually involving and informing the community about the progress of the work. From the very start, once a month a local newspaper would print a special insert (2 pages) informing people about the project, about actions taken and about actions still in the planning stage. The insert would provide detailed data about people involved in the project, address and telephone numbers, so that anyone could contact the group. The paper would also provide a special form for sending comments and suggestions and this came with an addressed envelope and postage paid by the gmina.

The Strategy Specialist suggested the plan of action, which was divided into steps:

1. "Well begun is half done"- organizing the work

A well-crafted strategy should focus on issues critical to the development of the gmina. However, it should not neglect other problems important for citizens. In order to consider the entire range of issues, the strategy should be designed and supervised by a Strategy Council. The Council should be diversified in order to represent different groups of citizens and to present the full range of problems and issues. Each of the members of the Council could bring to attention other matters that are important from his/ her point of view (or rather the group that he/she would represent). The course of action could be set as a result of the consensus of all members of the Strategy Council. It was crucial that the council was made responsible for the process of creating the strategy and later for the supervision of its execution. The responsibilities of the Council would include: setting the schedule of work, reviewing and preparing necessary documents, ordering research, designing and accepting plans of action, inviting specialists from different fields, dealing with conflicts, and presenting the strategic plan to the Council of the gmina.

2. Environment scan

The strategic plan should be based on solid information about the current situation of the gmina. It was necessary to research the state of the economy, social situation and map the gmina against surrounding towns. However, research should be guided by strategic goals; otherwise, it would be too complicated and take too much time and resources. Research should provide the sociological profile of citizens and perspectives for development of local business. The strategy could be suited to local needs and capabilities. The environment scan should include:

- Demographic trends, education levels
- Structure of local business
- Situation on the local labor market
- Structure of employment
- Infrastructure
- Environment

Equally important was an opinion poll among entrepreneurs, the people who certainly had information and ideas for development of their business.

The council would use any available information (statistical data and public information from tax office). Missing data would be gathered using questionnaires and other research tools.

3. Identification of critical problems

Each community faces many problems. However, trying to solve them all at once is a solid guarantee for failure. Out of the data gathered, some key issues had to be chosen; issues that were crucial for development and should be dealt with immediately. At this point, the Strategy Council should agree on the mission statement that would guide their work. Based on the mission statement,

the Council would set the criteria that would be used to evaluate goals and actions.

4. SWOT analysis

The environment of the gmina was complicated and complex so SWOT had to be focused and guided by critical areas that were identified at the beginning of the work. The section on opportunities and threats should cover future changes in law, economic situation, and demographic trends, social and political issues. Strengths and weakneses should include education levels and professional qualifications, quality of living, the real estate market situation, the infrastructure, and institutions supporting business development.

5. Setting goals, targets and plans of action

Based on the results of the environment scan, the SWOT analysis and the mission statement, a separate plan of action for each critical field could be designed. The Strategy Council should be divided into groups- with each group working on one critical field. Each group should come out with the plan consisting of strategic goals and projects that had to be completed in order to achieve the goals. Each project should be made based on a list of actions. At this stage, the description should be very detailed of needed resources (including funds and people), people responsible for completing the project, the time frame, and the impact of actions on the development of the gmina. Careful analysis of the description would allow eliminating projects that, although needed, could not be realized with current capabilities. At this stage, the Council might use the help of outside consultants and experts from specific fields.

The results of the work of each group should be presented to the Strategic Council and discussed. Selected targets and projects would be included in the overall strategic plan of the gmina.

6. Strategic plan

Taking into consideration the criteria that were set in the previous stages and current capabilities, the Strategic Council would select the projects that should be included in the strategic plan. Projects should compete for a place in the strategic plan but the Council should agree on each of them. The Strategic Plan would then be presented for comments and discussion.

7. Introduction of the plan

Introduction of the plan would require the cooperation of many institutions in the gmina. Although their tasks would be defined in the action plans, the Strategic Council should coordinate their work. This would be quite a heavy load of work on members. The tasks would be divided, so that each member of the Council would not have to devote all their time to this work. However, with this solution, each person should have clearly defined tasks and expected results.

8. Monitoring and updating the plan

Monitoring should include progress of work and the impact that taken actions had on the situation in the gmina. Variables that would need constant tracking include keeping the schedule and staying within the budget. Also, outside conditions that could change the assumptions of the plan should be under constant watch.

Depending on the scope of work to be done, the Council should set the deadline for evaluation of the actions and of the plan itself.

Actions

The Strategy Specialist realized that the majority of citizens were rather conservative and use to their current style of living. They could not be encouraged to support revolutionary changes. He decided that the new strategy had to promote evolution based on current resources and skills. The first step was to conduct a scan of the gmina. In order to do that, a large database of the gmina was created. The database pulled information from different offices such as the statistical office and the tax office, but, also, from questionnaires sent to the people. His main interest was to spot those assets and resources around which the strategy could be built. The crucial strengths he found were: close location to large industrial town, nice landscape, clean rivers running through the gmina, openness and rather friendly attitude of inhabitants towards strangers and the fact that they were accustomed to a city style and standard of living. This, he thought, could be used to transfer the gmina into an agriculture/tourist area. This, in turn, could trigger the development of local production and services. So, the general draft of the strategy was created.

The questionnaire that was distributed had an important advantage; it showed who was active and could be included in the process of creating the strategy. Out of those respondents, he managed to choose twenty-five that would form the Strategy Council. They had different background, and professional experience meaning they were doctors, teachers, entrepreneurs, farmers, a lawyer, and the director of the local school. The members of the Strategy Council agreed to meet once a month and to work on the strategy. From now on, the strategic plan was developed and prepared by the Council and the Strategy Specialist was there just to facilitate the process and to help its members.

The Strategy Council agreed that the direction drafted by the Strategy Specialist could work for them. However, no one had the knowledge of how to transform their gmina into a tourist resort.

The Strategy Council was divided into 3 groups. Each of them was assigned a different part of Poland and their task was to find a gmina or town that had already gone this same way. The criteria were simple. It had to be located close enough to a large town so that it would almost fully depend on it. Geographic location was not important, although a few regions were eliminated like

mountains, lake districts and the coast. Those gminas had natural resources and a landscape that propelled their development and generated large tourist traffic.

After one month, each group showed up at the meeting with two chosen gminas, the second one just as a back up. All of them used the support of institutions like LGPP or the British Know-How Fund in the development of their plan, so co-operation and sharing of information was not considered to be a problem.

After the initial contact was set up and some information exchanged by mail, members of the Council (still divided into 3 groups) visited their partners. Each group had to prepare a detailed report, which was then assembled. Based on what they saw, the Strategy Council was able to define what was needed in terms of infrastructure and services. Then a SWOT analysis was conducted (partly based on information already in the database). SWOT allowed them to find the main obstacles in the development of the gmina, but, also, selected the strengths on which the core strategy could be based. At this stage, additional research was done in order to fill the gaps in the data previously gathered before.

SWOT Analysis

At this stage of work, the Strategy Council had quite a lot of information including statistical data, inputs from tax offices, experience from trips, observations and comparisons of their own gmina to other parts of Poland. This knowledge needed to be organized and catalogued in order to be used efficiently. It was now the time for a SWOT analysis.

Based on this, the Strategy Council hoped to receive some direction in creating the strategic development plan and to answer questions that seemed to them the most important: what can the gmina do, what resources did the gmina have and what would be the best way to use them. Another question was how the gmina could best utilize scarce resources and use them to bring the best results to the gmina. The final question the Strategy Council hoped to answer by using the results of SWOT were what had to be done to successfully achieve goals. An especially well-conducted weaknesses analysis would provide those answers. Identified weaknesses could be the starting points for modernization or investments.

Obviously, the Council had to base the plan on the strengths of the gmina. Weaknesses would point out the weakest parts of the plan, the potential sources of crisis and problems in reaching goals. The plan should help the gmina avoid the most dangerous Threats and Opportunities and could be used to create goals.

It was important that all members of the Council participate in the SWOT sessions. Some of the members could be directly involved in particular problems or would promote some of them as especially dear to them. Having other

people involved during the session would lead to objective discussion and setting the right priorities for discussed issues.

If possible, the SWOT analysis had to take into consideration 4 factors:

- macroeconomic conditions
- state of private business
- analysis of the competitive environment of the gmina
- analysis of the organizational capabilities of the gmina

First, a general grouping of problems were created. These were to be used as guidelines for the discussion. When considering strengths, special attention was paid to social trends, available resources (human, financial), and elements of competitive advantage. In considering weaknesses, the Council focused on current problems and their potential influence on the future, obstacles in reaching the goals, and unavailable resources. Then, evaluating the opportunities, the Council tried to remember not only about changes in the environment and events that would be beneficial for the gmina, but, also about potential partners. On the other hand, the group of threats consisted not only of negative changes in the environment, but the analysis was extended to careful consideration of potential effects of actions taken by the gmina itself. The Council felt that it was necessary to properly define the components of the environment of the gmina. After discussion, members of the Council listed six forces that shaped the surrounding of the gmina: actions of other gminas, changes in law, changes in economy, changes in society, technological development and the natural environment.

The results of the analysis showed that the gmina had some attributes that could be used for development. Nicely located farms were not profitable in terms of agriculture production, but their location suited them perfectly for the development of agro-tourist activities. Forests, nice landscapes and a close proximity to the large town could be used to organize sports events (e.g., cross country races, horse riding, etc.). The gmina had land that was located close to the forest, just along the rivers, that could be sold for summerhouses.

One of the lessons learned from visits to other towns and gminas was that the most important obstacle in attracting tourists was the different life styles and mentality of people living in the city and in villages. The first ones demanded a certain standard of services and infrastructure, which was not always understood by the local society. However, this was something that the gmina would not have to fear as most of the inhabitants lived or commuted to Łódź in the past. The requirements of town life were well known to them.

On the other hand, the gmina had a poor infrastructure, low quality roads and very few places which could be offered as tourist resorts.

The opportunity that could be used was the changing lifestyle of the inhabitants of large cities. More and more of them considered moving out of the

cities and were looking for a natural environment to spend their free time. On the other hand, tourist agencies located in Łódź tried to meet those expectations.

After many meetings filled with lively discussion, the SWOT was ready:

Strengths:

- Nice landscape
- Clean environment (good air, clean rivers and forests)
- Friendliness of citizens
- Openness to strangers and acceptance of the city standard of living
- Continuing good attitude of citizens and their enthusiasm for participating in the program
- Educated specialists (those who worked in Łódź or for firms that were subsidiaries of companies in Łódź) who could be used in modernization works of infrastructure
- The gmina had no debt which made negotiations with potential investors easier

Weaknesses:

- Poor infrastructure
- Low quality roads
- Few places ready to invite tourists
- Small schoolchildren had to start classes at different hours due to overcrowded classrooms. This could have a negative effect on education levels and encourage young families to move away from the gmina

Opportunities:

- The changing life style of citizens of Łódź and their need to spend weekends outside of the town
- Growing group of well paid professionals- potential clients to the gmina
- Emerging private transportation companies- they could provide buses to bring people to and from the gmina
- The fact that some companies would organize and even partly finance the leisure time of their workers- it was easier to send offers and negotiate with them
- Growing number of small tourist offices- they could be used to promote the gmina in Łódź
- Fashion for "ecological" vacations on agro-tourist farms

Threats:

- Highly competitive tourist market – the gmina would have to compete with other offers provided by tourist offices
- No recognizable name or good reputation among potential clients- the gmina and its resources were rather unknown to their potential clients
- Due to the macroeconomic situation, growing unemployment and deterioration of household income

- High dependence on weather

Further Works

The Strategy Council was divided again into three groups: economic development, social development and architecture development. Their task was to set the goals for the gmina and to translate them into projects and actions. The results of the work of those groups were included in three chapters of the strategic plan.

Economic Development

Create Tourist Traffic

Three projects were agreed upon for this goal

- One or two day events- currently, the gmina had no infrastructure that could accommodate a large number of tourists, so it could organize short events only. One of the actions that the Council recommended was a cross-country race organized for the 1st of June for children. The race would be advertised in schools in Łódź and the gmina would provide transportation.
- Such events could not only create initial tourist traffic but could give an opportunity to present the area to perspective clients.
- Land for sale- some of the areas belonging to the gmina were selected and advertised for sale. The gmina contacted real estate agencies in Łódź and organized a tour for them. Additionally, all short sporting events were to be organized in close location to those areas.
- Agro-tourism- the gmina had no funds to finance construction of hotels and restaurants in order to attract tourists. Instead, it decided to support development of privately owned agro-tourist initiatives, especially as this form of spending free time was gaining in popularity. The group decided that the gmina should provide farmers with know-how and examples of how they should get organized and what needed to be done. Also, financial aid was granted to those who wanted to upgrade their farms.

Develop Local Business

Because of the agriculture – tourist profile of the gmina, the Council decided to support the development of light industry and services as they could contribute to the strategy. Also, development of heavy industry could be contrary to the strategy.

It was clear that, currently, local industry couldn't become a driving force behind the economic development of the gmina. However, if well adjusted to the profile of the gmina, it could benefit from it. The group decided that it would be especially beneficial to develop production and services connected with tourism. People buying land and building their houses would require a full range of services and materials. Farmers converting their farms for agro-tourist activities would demand the same goods. Then an infrastructure would be

needed such as well supplied shops, doctors, and tourist information points. The group created a list of services and production that could interact with tourist services and decided that they would be included in their priority list.

Organizing a meeting with the local businessmen solved the problem of finding the right tools to trigger economic development. As a result of discussion, a list of expectations was made as to the actions of local government that, according to representatives of the business, would help them.

Social Development

Housing– although rich in space, the gmina lacked housing for new families. As the gmina had no funds to support construction, it was decided that outside support should be found. As a first step, the search for developers would be started. The second option was to organize Local Community Construction Societies (towarzystwo budownictwa społecznego).

Stop the flight of young people from the Gmina – it was easy to notice the trend, but the group decided that first it should discover the reasons. Why did young people leave the gmina? Where were they going? What were they hoping to find? It was agreed that special research among young citizens and graduates of secondary schools would be organized. Based on the answers received, the Strategy Council would draw up some actions.

Architecture Development

Cartographic changes – this group had to co-ordinate selecting and measuring the land for sale. The group was also responsible for finding and preparing places for sport events.

Road traffic – it was crucial for the group to prepare the plan for modernization of the roads-selecting which roads needed to be fixed, and where (if any) roads needed to be constructed. The group was also responsible for preparing the organization of traffic so that the gmina would be prepared for the larger number of cars that was expected.

Each project prepared by each group was divided into stages and actions, people responsible for its completion, and a budget and time frame for every stage. It was also clearly set who would participate in the action and what responsibilities they would have.

Acceptance of the Plan

The plan was presented to the Head of the Gmina Administration and to the Council of the Gmina for acceptance. After it was received, the plan was publicly announced and another opinion poll started. Some comments received during this process were included in the plan. It was agreed that a regular communication program would be maintained in order to keep the public informed about the progress of the work.

Questions for Discussion

1. How would you evaluate the activities of the Head of the Gmina and the Strategy Specialist in this case? Do you think they managed the process correctly and achieved the desired results? Would you have done anything differently from what they did?
2. What do you think about how the strategic planning process was developed? Did it meet many of the concepts outlined in the chapter and introduction to the case studies section? Were there any aspects of the planning process that you think were missing that should have been included?
3. What do you think of the way in which the SWOT analysis was developed? Do you think the process lead to real identification of problems and imaginative solutions to these problems?

Strategic Planning for Economic Development

Marian Szymanowicz*

This case describes how a municipality, faced with already existing economic problems associated with the transformation to the market economy and suffering further deterioration in its economic and political importance due to the effects of losing its position as the capital of the region, responded to this challenge by undertaking a strategic planning process. The case illustrates how the municipality undertook the planning process, overcame resistance to developing a vision of the municipality, and developed the elements leading to a successful implementation of the plan.

The case illustrates how municipalities, like businesses, have to adapt to changing external environment conditions. The ability to assess municipal strengths and weaknesses, as well as to identify opportunities and threats resulting from the external change in the environment, is of crucial importance for the process of managing municipal development. The management process is based on long-term goals established in a strategic planning process.

Administrative Reform

In Poland, at the beginning of 1999, a new administrative reform was introduced which established sixteen new province regions (replacing the existing forty-nine provinces), and 320 counties (poviats, a new unit of territorial local government which consists of several neighboring communities). For the majority of the provincial capital cities, the reduction of the number of provinces from forty-nine to sixteen meant weakening of their position in the country.

The Mazowieckie Province is presently the province with the largest area – 35,597,000 square km, (11.38% of the area of the whole country), and population – 5,065,000 (13.10% of the total population of Poland). It is situated in the Central Eastern part of Poland. Warsaw is the capital of both the province and of Poland.

The Mazowieckie Province has an industrial and agricultural economic base. Its economy grows very dynamically and its production capacity is the highest in the country. It is the richest region in Poland with the highest per capita revenues of communities. Statistical data for the economy of the whole Mazowieckie Province does not reflect the situation of particular municipalities. The real image shows enormous contrasts between the level of development of Warsaw and other municipalities in the province.

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Situation of the Municipality

One of the municipalities that, as a result of the administrative reform, lost its status of the province capital is a city situated in the North Eastern part of the Mazowieckie Province at a distance of approximately 100 km from Warsaw. This area is one of the least developed regions of the country both in terms of per capita GNP as well as per capita income of households. This is a vast agricultural area with numerous forests. The main agricultural production concentrates on cattle and pigs, providing raw material for agriculture and food product.

The municipality occupies an area of 29 sq. km and is an industrial and service center consisting of industries for cellulose products – paper, food and building materials. Also, it is a center of public services of more than local importance. The municipality developed dynamically in the 1950s and 1970s. In 1975, the city became the capital of the newly established province which resulted in its quick growth due to investments from the central state budget. Since then, the number of inhabitants has doubled and now it amounts to approximately 52,000 people.

The transformation of the Polish economy from a centrally planned to a market economy, which began in 1990, also encompassed the city's economy. The negative results were liquidation of unprofitable enterprises in the city and an increase in unemployment, which was a new phenomenon in the postwar history of the city.

The loss of the status of the capital of the province, national economy transformation and prospects of integration of Poland with the European Union challenged the local government to look for a new way to develop the city. This led to a decision to work out a strategy of development of the city for the period of 2000 – 2010.

The Vision of the City

Following the methodology on city development strategy worked out by a group of consultants cooperating with the representatives of the city board and council, the work on city development strategy started from a formulation of the vision of the city.

The vision of the city is "a picture" of the city in the future, reflecting the expectations of city inhabitants. It is an "engine" pushing forward all the actions to be undertaken to achieve a planned and expected stage of city development.

The vision of city development should answer the following questions: "How is the city going to look in the future?", "What will differentiate our city from other cities?", and "How is the city going to be perceived by its inhabitants and business people?"

The formulation of a vision is the most difficult task in the whole process of strategy preparation. This results not only from the fact that it marks the shift from decision making to implementation, but also from the fact that, according to the methodology of formulating the city development strategy, city representatives have to change their way of thinking and acting towards local development.

This new approach to city management was difficult to accept by the city board and city council, and it required support from external consultants. This was obvious from the very first meetings, when some negative attitudes and comments like "it is unreal" or "this is not serious" appeared. Many people showed a passive attitude by saying, "let us wait for the results". In this situation, consultants proposed an artistic competition for school children and teenagers, entitled "My city in 2010". The competition was very popular among school children and resulted in many pictures sent to organizers. City representatives, encouraged by the success of this competition, organized a conference open to the public under the same title. During the course of the conference, the city board and council representatives as well as city inhabitants presented their opinions on a vision of the city. Also, external consultants were invited to present their opinions on future trends in city development.

These actions helped to diminish the number of previously negative attitudes, and increase the involvement of city representatives in the preparation of a common vision of the city. The attitude of the city mayor was also of important significance since he participated actively in the process from its very beginning and supported it with his authority.

The final version of the city development vision was worked out during a few succeeding working meetings of the city representatives and these were moderated by a group of external consultants. The accepted declaration of the vision is the following:

"THE VISION SETS THE CITY AS AN IMPORTANT INDUSTRIAL AND SERVICE CENTER ON A COUNTRY SCALE, OFFERING BUSINESS PEOPLE FAVORABLE AND COMPETITIVE CONDITIONS FOR DEVELOPMENT OF THEIR BUSINESSES, AT THE SAME TIME BEING THE CENTER OF PUBLIC SERVICES ON A REGIONAL SCALE."

Strategy Preparation

The next stage of the strategy preparation was the stage of analysis and diagnosis of the present situation of the city, creating a background for the city mission. Since the vision of the city is the ideal picture of the city in the future, its mission helps to achieve this picture. This means that the mission of a city is based on the analysis of city strengths and weaknesses, the current city situation, and the analysis of its threats and opportunities, potential or already existing.

Demographic Situation

Regarding the demographic situation, the city distinguishes itself from other comparable cities in the country in a positive way. The number of inhabitants in the city is increasing and the proportion of inhabitants at productive age and younger is higher than in other similar cities. The negative aspect of the demographic situation of the municipality is the fact that the proportion of inhabitants with higher education, (4% only), is significantly lower than in other similar cities in the country, (the average amounts to 10%). The situation is worsened by the fact that most of those who leave the city are young and well educated people.

Local Economy

The local economy of the city is dominated by two large enterprises: the Cellulose Company and the Power Company. Together, they employ approximately 3,500 people, which amounts to about 16% of all jobs in the city. The financial situation of both companies is not good, which results in the necessity for further employment restructuring. That will cause more unemployment, and in recent years the unemployment rate has been continually rising to reach the current level of 16%.

In this situation, Small and Medium Enterprises (SMEs) are a great opportunity for the city and the number of SMEs has been dramatically growing. In 1991, there were 2,133 SMEs and in 1999, there were as many as 5,070 SMEs. The dynamic growth of the SMEs, which operate in the city, is a chance for development and diversification of the local economy presently dominated by the two large companies.

However, the fact that SMEs use more external resources than they sell results in their own work threatening the development of this sector of the economy. It means generating a trade deficit for the city in relation to its environment, which means that it makes it more difficult to accumulate financial resources and poses a barrier to development of this sector of the local economy. Additionally, the industry structure of the businesses is not favorable because there is a high proportion of trade companies and a low number of production and service businesses.

Foreign investment is another opportunity for the development of the city. So far, foreign capital has invested approximately $50 million in the city. In most cases, the investment was related to privatization of existing state companies. The privatization has ended and presently there are no companies left in the city, which could be presented as investment offers to potential investors. However, investors are interested in new properties for industrial investment. The talks that are being held between the representatives of the city with potential investors confirm that interest, specifically in the field of agricultural and food products. The first evidence of the investors' interest in investments is the decision of "Hochland" to build a new factory within the city limits.

Environment

The evaluation of the state of the environment and of technical and organizational conditions of environmental protection in the city indicates a necessity to improve the present situation, especially in the issue area concerning the level of municipal sewage treatment and municipal waste management. The sewage treatment plant that presently operates in the city does not meet current standards concerning sewage treatment and, therefore, it requires modernization. The next important problem that urgently needs solving is to build a municipal waste utilization plant. Presently, all municipal waste is dumped in a landfill site and the site's capacity is diminishing rapidly. The city has prepared a comprehensive municipal waste management program, which provides for construction of a modern municipal waste utilization plant, with the participation of neighboring communities. The first meetings that were held between representatives of the city and of surrounding communities indicate that all parties are interested in realizing a joint undertaking.

Technical Infrastructure

As far as technical infrastructure is concerned, the city is close to the average level with other Polish cities. About 90% of the inhabitants of the city use the water supply system of the city and 85% use the city's sewage system. However, the technical condition of the water supply and sewage systems requires considerable modernization inputs, which is also the case of the sewage treatment plant.

Also, most of the city roads require rebuilding, and there is a new problem that has to be solved urgently, i.e., the city ring road has to be built soon due to a considerable increase in the transit road traffic.

The city's gas grid, heat distribution and power networks are regarded to be in a good condition. Their services are available to practically all of the inhabitants of the city and to all buildings and the networks are fitted with mostly new equipment. The condition of the telecommunications infrastructure is also good and it is currently able to meet all relevant demands.

Educational, Cultural and Sports Facilities

It is estimated that the city has enough educational facilities and the technical condition of these facilities is satisfactory. An issue is that they are poorly equipped with modern educational aids, particularly IT equipment. Teaching curricula in vocational schools are negatively assessed, because their profile does not respond to trends of the modern economy. There are no teaching curricula connected with banking and insurance, IT and telecommunications, or environmental protection. There is a noticeable lack of teachers of foreign languages. Another problem is the absence of a university in the city, which results in young people moving to other cities in order to continue their education. Most of them do not return.

The city offers a satisfactory choice of cultural, recreational and sports opportunities. As far as the cultural sphere is concerned, there is a problem of low level of activity by local cultural institutions and circles and in the case of recreation and sports, there is a problem of the lack of proper recreational and sports facilities. The city is the only one of its size that does not have its own sports hall.

The level of healthcare is satisfactory in comparison with similar cities in the region. The city has a well-developed healthcare services sector, which provides comprehensive medical services not only to the inhabitants of the city, but, also to inhabitants of towns and villages in its environs. It is worth noting that the city has a specialist hospital and clinic, which provides its services to the population of the whole region.

The Budget of the City

The city budget's per capita revenue, which in 1998 amounted to 800 PLN, ranks the city among those with the lowest budget revenue in the country. The poor financial condition of the city's budget is reflected in the level of municipal investment which is also low, (investment expenditure varies around 10% of the total budget expenditure). The decrease of the share of the city's own revenue in the budget structure may be observed, which results in an increase in state subsidies. The city's authorities look for new sources of funding for their investment needs and they consider the possibility of issuing municipal bonds.

Plans of the Province Development

Work on the strategy for the city coincided with work on the strategy of development of the new province – region in which the city's authorities representatives also participated. The situation created an opportunity to exchange information and to coordinate planning activities. Thanks to such cooperation, construction of the ring road became an element of a plan of construction of a national express road, and the municipal waste treatment plant project was included in the provincial program of environmental protection, which increases the chances of the city obtaining external funding for the venture.

Opinions of the Inhabitants and Business People

The initial analysis and diagnosis was concluded with a survey of the inhabitants of the city and of representatives of the Small and Medium Enterprises operating in the city.

The survey was entitled "The city in the eyes of its inhabitants" and the results provided important information concerning the assessment of conditions and prospects of living in the city.

The results of the survey provided information that half the people in the survey considered the possibility of leaving the city and had a pessimistic view of conditions and prospects of living in the city. Among those who considered

such a possibility, the majority were young people with higher education. Lack of jobs and low wages were considered to be the main factors that determined poor conditions and prospects of living in the city. The participants of the survey assessed the activities of the authorities of the city toward improvement of the situation and development of the city as being very poor. Among postulates that were put forward in this respect was the indication of a necessity to increase the level of efforts to attract foreign investors and to support local business people. In the assessment of public services, the inhabitants surveyed were very positive about the services of the municipal technical infrastructure, although, in their opinion, the condition of the city roads required improvement. According to the participants of the survey, the decisive factors for city development were attracting new investors, supporting entrepreneurship, developing higher education, improving the transportation network, and developing cultural, recreational and sports services.

The goal of the survey, which was conducted among representatives of small and medium enterprises, was to identify barriers to development of this sector in the city. According to the participants of the survey, the main barrier was the lack of knowledge and know-how of local business people in accounting and marketing and the lack of training that would respond to those needs. The next barrier of the SME sector development was, according to business people, the lack of a clear idea determining the future economic profile of the city.

Next, the participants of the survey indicated poor promotional activities of the city and a low level of integration of the local circle of business people. Among activities that should be undertaken by the authorities of the city, according to the business people surveyed, was the need to work out a concept of economic development of the city, and to increase its promotional activities in order to attract new investors and to look for new markets for local businesses. They also suggested improving training and advisory services for business people and to assist in the process of integration of local business circles.

Diagnosis

The diagnosis of the state of the city development included an analysis of socioeconomic processes that allowed formulating an initial diagnosis of the situation of the city. Some of the elements of the diagnosis, such as loss of status as a provincial city, the poor condition of the local economy, growing unemployment, the number of highly educated people who leave the city, and the low level of the city budget revenue created a pessimistic scenario of the city's future.

In this situation, city authorities could remain passive against unfavorable trends, try to reduce their effects or could undertake an effort to look for new opportunities of building solid foundations for the development of the city.

One of these opportunities is to develop agricultural and food production. According to independent experts from the Institute of the Market Economy Research, this particular industry has prospects for future development in Poland, which makes investment in this field the lowest risk.

The Mission of the City Development

The mere decision to start working on the city development strategy indicated that the city authorities did not want to adopt a passive approach towards problems identified. It was obvious to everybody that the current priority of the city was the development of the local economy. This priority was reflected in the mission statement concerning the development of the city, which was formulated in the following way:

"The mission of our city is to create favourable and competitive conditions for business development, particularly for food production, in order to attract domestic and international investors. Our mission is also to develop the local business community through supporting the development of small and medium enterprises. Simultaneously, we will aim at continuous improvement of life standards of our citizens and the development of public services sector".

Strategic Goals

The vision of the development of the city and the priorities resulting from it became a basis to establish strategic goals. The first main strategic goal of the city development is to provide assistance to economic development through creating competitive and favorable conditions for business activities in order to attract domestic and international investors, and through supporting development of small and medium enterprises. The expected result of these activities is to establish new factories in the city and increase the share of SMEs in the structure of the local economy.

The above goal has been formulated in the following way:

"The main strategic goal No. 1: To stimulate development of the local economy through creating competitive and favorable conditions for international and domestic investors, especially from the food production sector, and through supporting the development of Small and Medium Enterprises, in order to decrease the unemployment rate to the level that would be at least lower than the average unemployment rate in the neighboring cities".

The basis for the formulation of the goal is an assumption that competitive conditions for international and domestic investors, together with the accessibility of raw materials for agriculture and food production, will be significant incentives for new investments in the city. Another assumption is that the development of small and medium enterprises is a chance for development of the local economy, which is now dependent on the condition of two main enterprises in the city. The conversion of the local economy based on new investments in the field of agriculture and food production, and on development of small and medium

enterprises, should lead to increased employment in this sector of the economy, a reduction of the level of unemployment, an increase in the city's revenue, and reduction of threat to the city caused by the fact of being dependent on the condition of the two largest enterprises in the city. Development of small and medium enterprises does not only mean keeping a high level of dynamics of their growth, but mainly developing existing businesses through strengthening their competitive position and increasing the level of sales to external markets, both domestic and international.

The unemployment rate in the city was accepted as a basic indicator of the level of execution of this goal, and it should be at least lower than the average unemployment level in the neighboring cities. It will be evaluated at the end of each year on the basis of accessible statistical data. If the indicator goes above a specified level, it will be a signal that there is a necessity to review the effectiveness of actions taken and to undertake some corrective steps.

The main strategic goal no. 1, (as were other main strategic goals concerning improvement of the living conditions of the inhabitants and maintaining the function of the city as of the sub-regional center of public services), was broken down into a number of indirect strategic objectives which indicate areas to improve in order to reach the goal. The objectives are as follows:

1.1 To increase the number of small and medium enterprises, especially in developing industries, and to increase sales of products and services of those businesses to external markets.
1.2 To attract external investors and start realization of new industrial investment projects in the city, specifically in the field of food production.
1.3 To raise vocational qualifications of the city inhabitants by increasing the share of people with higher education and with vocational qualifications in the field of agriculture and food production.

In the case of objective no. 1.1, an accepted indicator of its achievement is the increase in the number of small and medium enterprises operating in the city and the increase of value of sales of products and services produced by those companies to external markets.

In the case of objective no. 1.2, an accepted indicator of its achievement is starting a new investment project funded by an external investor in the city.

In the case of objective no. 1.3, an accepted indicator of its achievement is an increase in the percentage of people with higher education and with qualifications meeting the requirements of agriculture and food production.

Strategic Tasks

Each of the objectives needed to be further broken down into strategic tasks, i.e., concrete undertakings that would allow established objectives and goals to be met. This is represented in the following table relating strategic objectives to specific strategic tasks.

STRATEGIC GOAL STATEMENT
To stimulate development of the local economy through creating competitive and favorable conditions for domestic and international investors, especially from food processing sector, and through support of development of Small and Medium Enterprises, in a way, which is aimed at decreasing the unemployment rate to the level that would be at least lower than the average unemployment rate in the neighboring cities.
An indicator of the level of execution of this goal: The unemployment rate in the city should be at least lower than the average unemployment level in the neighboring cities.

STRATEGIC OBJECTIVE NO. 1.1	STRATEGIC TASKS
To increase the number of small and medium enterprises, especially in developing industries, and to increase sales of products and services of those businesses to external markets. Goal progress measures: Increase in number of small and medium enterprises operating in the city in developing industries. Increase of value of sales of products and services produced by those companies to external markets.	To create an institutional form of financial, training, advisory and promotional aid for small and medium enterprises (Business Incubator). To create a competitive system of tax allowances and preferences for external investors and Small and Medium Enterprises. To create a form of cooperation between the authorities of the city with representatives of the Small and Medium Enterprises and to assist business people in establishing a Chamber of Commerce.

STRATEGIC OBJECTIVE NO. 1.2	STRATEGIC TASKS
To get external investors and start realization of new industrial investment projects in the city, specifically in agriculture and food production Goal progress measures: Number of new investment projects started in the city and funded by external investors.	To prepare an investment area for new investment projects. To proactively promote investment areas in the city aiming promotion efforts at a target group of external investors To establish an office in the City Hall that would offer a comprehensive service to investors.

STRATEGIC OBJECTIVE NO. 1.3	STRATEGIC TASKS
To raise vocational qualifications of the city inhabitants by increasing the share of people with higher education and with vocational qualifications in agriculture and food production. Goal progress measures: Increase of percent of people with higher education. Increase in the number of people with qualifications in agricultural and food processing sector.	To set up a university branch in the city. To develop training and vocational courses in sought – after vocations. To adjust education curricula in vocational schools to development needs of agriculture and food production.

Economic Promotion of the City

One of the strategic goals of the strategy of city development for the years 2000 – 2010 is to attract a foreign investor and to start a new industrial investment project in the city. To be able to realize that goal, it is necessary to develop and implement a new program of promotion of investment areas situated in the city. The program is supposed to be aimed at selected investors from industries that best fit the profile of the local economy. The selected industry for potential investors is agriculture and food production.

In contrast to the promotional activities that were so far directed towards an indeterminate group of respondents, the promotional campaign will be directed straight at selected entrepreneurs from agriculture and food production. The offers were to be prepared specifying available investment grounds and sent by mail with an invitation for business people to participate in a presentation of the investment offer organized by the city. The task of coordination of promotional activities will be given to the City Hall officer employed in the position for providing comprehensive service to investors. His task will also be to make phone calls to selected entrepreneurs at the proper time after the offers were sent. The expected results of the activities should be the identification of a group of the most interested investors, with whom a very close cooperation should be started in order to sign relevant agreements and contracts.

The Beginning of Development

The work on the strategy of city development for the years 2000 –2010 lasted for almost a year and concluded with the approval of the strategy document by the City Council. The approved document is not the only success of the work; another success has been the integration of all local circles around the problems of city development. Representatives of the circles actively participated in all stages of the process. For many of them, a methodology of strategic planning of city development was a new experience which caused numerous questions, especially at the beginning of the process. These were the fundamental questions, what is a vision and a mission, and what is a strategy?

A local government consultant who was invited to participate in the process responded that a vision is a goal, a mission is a way to achieve the goal of developing the city and a strategy is a map showing the way to reach that goal. Referring to that response, it can be said that the city is at the beginning of its new direction of development. The direction is neither easy nor short, but this city, as opposed to other similar cities, has already found its vision.

Questions for Discussion

1. What is your opinion of the use of consultants in this case and how important do you think they were in actually completing the strategic planning process?

2. What is your impression of the political leadership presented in this case and its acceptance and understanding of what is involved in developing a strategic plan?
3. How important do you think it was that the development of the municipal strategic plan coincided with a similar effort at the regional level?
4. What comparisons would you make in the method of developing the strategic plan in this case with the first on the rural Polish gmina? Can meaningful comparisons be made between the two situations as far as the development of the planning process?

Strategic Planning in a Hungarian Local Government: The Case of the Budapest Broadway Project

György Hajnal*

The case describes a strategic planning exercise executed on the assignment of the Budapest Terézváros (6th District) Local Government in 1997 aimed at implementing a complex project – the 'Budapest Broadway Project' – that would develop the area into an entertainment and cultural centre and enable the renewal of some of the worse areas in the district. The strategic document elaborated during the project was expected, after a series of previous unsuccessful attempts of the local government, to set the project in motion, to form a viable basis for the initiation of the project by presenting a realistic and appealing vision of the future, and offering plausible ways to actually realise that perspective. Furthermore, it was expected that the plan would outline the major organisational, legal, and financial means and ways of implementation, along with a detailed action plan for the local government recommending short-term, operative steps and decisions to be taken. The aim of presenting the case is to induce thinking and discussion on such central elements of strategic (policy) planning as goals, values, and implementation, and by describing the policy context of an actual strategic planning exercise and the emerging problems and issues [1].

Background

The Pre-history of the Budapest Broadway Project

Terézváros – which is the 6th district of Budapest – is located in the centre of the city. It has numerous buildings, and cultural and public institutions of high prestige and of substantial tourist attractiveness (the State Opera, the Ballet Institute, a number of palaces, theatres, pubs, commercial areas, the most prestigious boulevard of Budapest, etc.). Its facilities and traditions enable the area to play not only a local, but a regional and (to some extent) an international role as well. At the same time, the less frequented areas of the district were troubled with a large proportion of run-down buildings, inadequate public safety, a high proportion of aging and low-income population, and related problems.

Financial resources available to the local government were lower than those necessary for the initiation of an overall reconstruction and development program. The Budapest municipal government and the central government showed a supportive attitude, but only minimal interest in or ability to actually fund the project. The overall situation of the 6th district was still above average and, thus,

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[1]   Although the case is 'real' for illustrative and/or didactical reasons we consciously emphasised some aspects while de-emphasising others

other areas enjoyed priority. In addition – a well-known phenomenon in local and regional development – a competitive behaviour between various local governments/geographical areas was unfolding in pursuing the existing scarce developmental resources.

Before 1989/90, a large proportion of the buildings were owned by the local government (mostly blocks of flats built around the turn of the nineteenth and the twentieth century). In the 1990-95 period, however, most of these assets were sold to private owners (usually at unrealistically low prices), and the income earned was used to finance the operating costs of the local government [2]. Thus, by 1996, most of the commercially valuable real estate was sold and, with some exceptions, only the strongly deteriorated blocks of flats remained in the possession of the local government. These would have been difficult to sell anyway, and the elderly and/or low-income tenants would have been unable to pay either for the flat or its renovation anyway.

It seemed that these strengths and weaknesses in Terézváros made a reconstruction and development project based on the excellent entertainment and tourist capacity of the district – as coined by an unknown author: the 'Budapest Broadway' project (BBP) – the only way of breaking the negative spiral of deterioration. Pursuing this aim, several development plans were elaborated by BUVÁTI, a large and prestigious urban planning institution, during the last few years. However, according to tradition, these plans were mostly restricted to the detailed description of the physical dimensions of the project (buildings, infrastructure, etc), and didn't go far beyond conclusions of the type 'the overall budget estimate of the project is XYZ'. Issues of general policy goals and tradeoffs, resource availability and dimensions of legal and organisational feasibility and implementation were rarely discussed, if at all.

The serious deterioration of buildings and the urgent need for a broad and long term policy to handle the overall complex problem had already been acknowledged by most local government decision makers. Apart from its general appeal, the possibility of connecting the BBP to some more general renewal program made it an important political priority. Of course, any large-scale public policy has winners and losers as well. This was especially true under the difficult conditions. Thus, the emotional identification of citizens with the proposed policy was also an important factor. The BBP – whatever it exactly meant – carried such an element, too, since it involved the restoration of the grande et gloire Terézváros used to have in the past. Beside local governmental intentions, there were some spontaneous movements already present in the area, too. New cabarets, restaurants, and pubs, opened or were under construction and in some restricted places the 'classing up' of the area – reflected by the increasing property market value, improving quality and 'look' of buildings and public spaces – could be observed. There were some indications that

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[2] This was a very wide-spread phenomenon of the time in Hungary, which have been deeply rooted in political as well as economic causes not discussed here

larger scale capital investments into the local entertainment industry and show business had also been considered by certain private investors.

Basic Data and Organisational Setting

Budapest has 23 districts each having an independent local government status. In addition, the city in its entirety is governed by the Budapest municipal government. The division of tasks and responsibilities between the local district governments and the municipal government is subject to detailed legal regulation. The main principle here, however, is that the local district governments are not subordinate to the municipal (city-level) local government [3].

In the Hungarian local government system, the executive powers of the local government are exercised by the mayor and the elected Council. In the 1994-1998 election period,[4] the coalition of the Hungarian Socialist Party (MSZP) and the Alliance of Free Democrats (SZDSZ) – identical with the composition of the governing coalition – had a stable majority position in the district as well. The mayor was also a joint coalition candidate. Thus, the (party) political conditions for district initiatives were favourable.

The key district local government players and their organisational connections are displayed in the figure below.

Figure 1
Organisational setup of the Terézváros Local Government administrative office (Mayor's Office)

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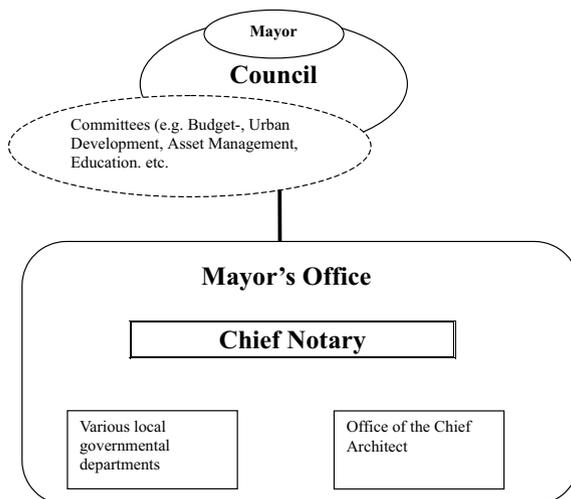
[3] Further information can be found in Locsmándi et al (2000) pp. 26-27

[4] In Hungary – until now – the central and local government election cycles have coincided since national and local government elections have been held in the same years (1990, 1994, and 1998)

Terézváros is one of Budapest's small inner districts. With its 47,000 citizens, it accounts for only about 2.6% of the 1.82 million people in Budapest. Its main budget (income and expenditure) figures are shown in the below tables.

Table 1

Budget income (A) and expenditure (B) of the Budapest Terézváros Local Government in 1995 and 1998 (in thousand Forints; USD/HUF exchange ratio was USD 1=HUF 114 in 1995 and USD 1=HUF 210 in 1998)

(A)

	Total income	Local tax	Personal income tax	Normative state subsidies	Earmarked state subsidies
1995	6,263,332	250,789	392,770	710,800	0
1996	4,855,945	400,409	341,251	760,532	0
1997	9,037,704	692,084	362,430	888,430	0
1998	7,275,302	836,117	552,095	822,959	0
1999	6,665,201	684,478	622,140	845,724	0

(B)

	Total expenditure	Total operating expenditure	Health & social care	Education	Communal	Culture & sport	Investment
1995	4,957,140	3,741,385	608,091	1,080,720	0	25610	273,560
1996	4,148,969	3,748,354	578,311	1,087,415	0	950	205,232
1997	8,645,555	6,923,919	753,025	939,287	0	0	687,782
1998	7,149,859	5,393,550	779,011	1,078,119	0	0	1,187,101
1999	6,844,060	5,637,627	771,440	1,226,672	0	0	619,679

Source: TÁKISZ (State Information Service on Public Budgets and Public Administration) [www.kozinfo.hu]

Strategic Thinking in Urban Policy Making

Since 1990, from an institutional point of view, urban development has had an ambiguous status in Hungary. Major development decisions were practically born either at the local governments or at various (central) governmental departments. In 1996, this system was supplemented by a network of county level and regional development councils. The new emerging system was, however, characterised by newer problems of fragmented and partly conflicting organisational competence and inadequate coordination, as well as, importantly, inadequate administrative capacity [5].

Apart from the problems inherent in its macro context, urban development as a profession and practice posed some new problems, too. In the Communist era, development policies and institutions operated in a system of relatively strict centrally controlled and, very importantly, financed hierarchy, whereby urban development basically equalled centrally initiated and funded large-scale housing and industrial development projects. Under such circumstances, the primary function of urban planners, as a profession as well as a set of

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[5] An overview of the urban planning and development system and its transition can be found in Locsmándi et al. (2000)

institutions, was usually restricted to putting into operation and technically implementing the development programs. Thus, urban development activities became highly technical.

This approach, of course, was not at all viable under the new conditions emerging after 1989/90. The most obvious, but not only, missing element was adequate state funds. Ambitious and appealing plans did emerge, but their voluntary style, the lack of observing goals-and-means relationships, and the failure to observe the entire issue area of implementation (including the need for public-private partnering, the facilitative and intermediary role of the local government) mostly prevented them from being realised.

Most mosaic pieces of the above picture, constituting a negative spiral of urban problems of insufficient resources, conflicting stakeholder interests, implementation problems and the like and reinforced by positive feed-back mechanisms, are well-known to the (urban) planning and development communities of the more developed countries as well [6]. From the 1970s on, planners and urban policy makers in the Western world started to employ various elements of a more 'strategic' thinking. This was the time when in many countries elements of the 'strategic' paradigm started to penetrate large business corporations and subsequently, public organisations as well.

What 'strategic planning/strategic management' really means, however, is a subject of fierce discussion among many partly conflicting, partly overlapping schools of thought not only in the general and business management literature, but also in the narrower realms of public and urban (strategic) planning [7]. Consequently, in delineating what we mean by a strategic approach in the context of the case presented here, we are inevitably subject to a degree of over generality as well as arbitrariness.

For didactic purposes, we illustrate the central propositions of a new, 'strategic' urban planning approach, which we have been trying to keep in mind during the course of strategic planning, by a set of dichotomies. This approach, as opposed to the more traditional practice of Hungarian urban planning [8],

- frames the entire problem not in narrow, technical terms (usually in those of architecture and engineering), but sees it as a complex public policy issue, whereby not only the means, but also the ends of the policy are subject to conflicting societal and political interests;

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[6] Although these processes were not so severe as similar slumming and segregation processes known in some western, esp. U.S. cities, they represented a qualitatively new challenge to the Hungarian urban planning and urban policy making

[7] For a comparative overview of the former, see e.g. Minztberg (1998). On the application and viability of various strategic planning/management approaches in public planning see e.g. Bryson-Einsweiler (1988) and Kaufman-Jacobs (1997)

[8] Cf. Hajnal (1999) p. 426

- instead of relying on the (central and/or local) government's legal authority and funding, explicitly acknowledges the multiplicity of stakeholders as well as the fundamental need for co-operation among those stakeholders ('social partnering') as a central prerequisite of the project's feasibility;
- rejects the hidden presumption that a policy once adapted will be, by the virtue of state authority, implemented 'automatically'. In the opposite, it observes the many nuances and the variety of financial, organisational, management and other conditions that have to be satisfied for a large-scale development project to be implemented. Therefore, it attributes the utmost importance to the detailed and careful planning of actually how the project will be carried out (resources, legal, organisational, etc., preconditions, on-going monitoring of processes);
- instead of treating policy issues according to strict departmental and/or legal fragmentation, attempts to integrate the legal, technical, and various professional requirements of related (local) governmental activities (e.g. property management, zoning/land use planning, building authorities, local taxation, social policy, development policies).

The Problem Situation

The Question

It was under the circumstances described above that the Chief Architect of the Terézváros local government decided to seek the help of external strategy consultants in formulating an adequate overall strategy and a sequence of shorter-term, operative measures capable of overcoming the inertia and resistance surrounding the BBP.

The most primary and strikingly evident appearance of the problem was that, from the resource point of view, previous plans (or, indeed, any plan that could have been conceived of in the framework of the 'traditional' urban development approach) of the BBP seemed entirely unrealistic. As we noted above, the capital requirement of renewal plans elaborated or contemplated previously was significantly larger than the total yearly budgetary expenditure of the district, and by about two orders of magnitude larger than its yearly capital expenditure. Consequently stakeholders had to realise that – unless the entire idea of a larger-scale (re)development project is to be abandoned – some sort of a fundamentally new approach is needed. It was nevertheless ambiguous at best as to what this approach should look like.

During the preliminary consultations a few cornerstones of the way to go were laid down. These included the following:

- It had to be explicitly acknowledged that, due to lacking resources in the present as well as in the foreseeable future, the 'classic' type of urban development based on the predominance of public development funds and, thus, local governmental 'unilateralism' would not be viable anymore.

- Consequently, the bulk of the job had to be done by, or in cooperation with, other interested social partners, primarily various groups of business enterprises. This also meant that the overall policy goals of the local government could be achieved only in a compromised and gradual, step-by-step manner. In the actual development process, an acceptable balance between the interests of social players (primarily those of business and also those of the local population) and the overall policy objectives (e.g. renewal, conservation) had to be made.
- The extensive involvement of social (and, especially, business) partners and the associated emergence of formerly unknown problems and tasks required new approaches, methods, and solutions. Consequently, an integrative concept that (a) enumerates these new problems and perspectives, (b) proposes solutions and working methods to manage them, and (c) suggests a sequence of operational steps by which the project can be commenced – that is: a strategy – was needed.

Interpretations of the Problem: Stakeholders' Point of View

There were many players within as well as outside the local government all of which have their own interpretation of the 'problem', possible 'solutions' to it, and relevant constraints. The most important stakeholders (stakeholder groups) are briefly discussed below.

The Local Government's Point of View

Sometimes it is useful to think of local politicians in terms of a Public Choice perspective. The mayor and the council members of the Terézváros local government formed no exception to this rule. They were primarily interested in 'buying votes' by initiating a spectacular, large-scale enterprise capable of demonstrating their ability and willingness to improve the living conditions of their electorate. However, the deterioration of many buildings and areas posed substantial 'hard' concerns as well, which inevitably had to be confronted and handled somehow.

The expectations and goals of the local government were framed according to (a) the presented external opportunities and problems, (b) internal conditions ('strengths and weaknesses') of the local government, (c) previous expert materials on the project, and (d) – last but not least – the legal-institutional and cultural framework in which it operated.

(a) External opportunities and threats. The maintenance and, especially, the urgent task of renovating the deteriorated buildings in the district was a number one priority. Almost half of the buildings (both tenements and owner-occupied apartments) – approximately ten thousand units – needed renovation, a significant proportion of which was local government property. (Owners of the privately owned apartments were in general unable to pay for the renovation of their property; cf. the above footnote on the ad hoc policy on the privatisation of

former state-owned tenements.) Under the given income and price conditions, this task was overwhelming for both the local government and the private owners.

Local tax revenues (that is, taxes levied and collected by the local government) formed about 5 to 10 percent of total income [9]. However, this proportion had some potential to be extended and, observing the modest prospects of central state funding, basically this seemed a central long-run option of increasing local governmental revenues [10]. Consequently, (re)vitalisation of business activity and improving the socio-economic composition of local population was another central priority.

(b) Internal conditions (strengths and weaknesses). The central issue around which local governmental concerns were structured was the very limited cash flow and credit potential of the local government. As noted in the previous section, the costs associated with the initiation of a large-scale renewal project in the area were by several orders of magnitude beyond the budgetary limits (measured by e.g., the yearly capital investments) of the local government. Thus, finding alternative funding sources was a prerequisite of any serious action. Lack of (project) management and business expertise and bureaucratic inflexibility were other limiting factors.

(c) Previous expert materials. Previous plans and expert materials envisaged various physical development goals, such as the construction of appealing public spaces, underground parking lots, greens, etc. These were seen as important elements of the renewal of the affected areas.

(d) Legal, institutional, and cultural framework. The legally defined requirements of the preservation of historic buildings and areas, as well as legal and political requirements of effective local government property management, protection from misuse of public funds and public property, had to be respected. The central locus of initiative within the local government was in the Office of the Chief Architect. Besides being responsible for the management of physical planning, the Chief Architect was the 'central node' of intra-organisational communication and decision flows regarding the development project (cf. above figure on organisational arrangements).

Other Stakeholders' Point of View

Local population. For the majority of the population, the priority was to avoid or minimise the financial burdens associated with renovation and related costs which would emerge either in the form of increased rents (in the case of

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[9]   See above table on local government budget

[10] Local tax potential is primarily determined by the volume of business activity, since the most important element of the local tax system is the business tax, which is based on businesses' net income. Other taxes levied on citizens are (politically) constrained by their ability to pay, which in the final analysis depends on their disposable income

tenements), as capital expenses (in the case of owner-occupied apartments/ condominiums), and/or as increased tax on property. Of course, renovation of buildings as well as larger-scale urban renewal were perceived as appealing objectives. For another (supposedly relatively minor) proportion of the population and property owners, improving the quality of the neighbourhood and the associated increasing market value of their property was a major goal for which they would have been willing to make a financial sacrifice. Public safety [11] was an important concern for the entire population, both in that they expected an improvement in areas already contaminated, and it was feared that 'high-density night life' would cause the crime situation to worsen.

Entrepreneurs. Entrepreneurs already present or planning to move into the area gave an important impetus to the project, since synergic effects of a true entertainment district were expected to create large additional market demand and associated profits. However, for many of them it was a concern that dubious, criminal 'entrepreneurs' would penetrate the area and impair the general business climate.

Investors, capital holders. The investment market at the time exhibited a strange inconsistency: despite there being difficulty to find feasible and profitable investment opportunities, credit interests were quite high (above 20 percent). This could be attributable to the circumstance that the overall business climate was ambiguous, and business projects (most of which were usually of modest size) were usually risky and/or hard to evaluate.

Professional groups. Theatre and other artists possibly affected also had a substantial stake in the project. State funding of artistic activities had decreased dramatically in previous years, which left many highly qualified people in the field without an acceptable source of income. It was expected that revitalising artistic life and increasing tourism could improve the situation.

Other state authorities. The attitude of the Budapest municipal government and various central governmental departments affected was that they 'supported' the development as long as no substantial costs – either financial or political – emerge on their side, and administrative procedures (e.g., physical planning) and laws (preservation of historic buildings, cityscapes) were ensured.

The wider public. The attitude of the wider public (citizens, media, politicians) was perceived as supportive.

The Way to Go: Questions and Answers

In the following subsections, the central dimensions of the decision and planning problems faced by the Chief Architect are presented and grouped into two closely related clusters:

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[11] Urban crime was a major concern in the whole city and due to public opinion surveys of the time was perceived as one of the 2-3 most serious social problems.

(1) Overall goals of the local government;
(2) Implementation problems and procedures.

In some cases, the presentation is restricted to asking questions or outlining specific dilemmas; in other cases it involves the specification of alternative solutions considered/proposed.

Policy Values and Goals

It seems trivial to state that every policy has losers as well as winners. However, depending on the specific policy option chosen, the range and composition of winners and losers may significantly vary. In other words, there is a trade-off between interests of various policy stakeholders and/or between various policy goals. The choice between conflicting goals, interests, and values and the decision as to the appropriate extent of compromises are always at the core of the policy process. Some of the central dilemmas confronted in connection with the BBP are outlined below.

- Weighing between renewal and profit goals. One of the emerging plan's genuine features was that it was based on the primacy of private initiative and private capital vis-á-vis the (local) government. It was clear that if the local government wanted private entrepreneurs to invest into activities not immensely necessary for their profit goals, they had to somehow be motivated to do that. The central dilemma here was how much the local government should sacrifice (in terms of tax and regulatory concessions, direct subsidies, local governmental property, etc.) from the public's interests and endowments in order to attract and motivate businesses. How should the interests of the (more) general public and those of the business be weighed?
- Time orientation. It was also clear that the implementation process would extend to a long period of time, possibly overarching multiple election cycles. Here, again, the quest for immediate and visible results had to be weighed against technical and financial constraints. Another issue was that a credible longer-run commitment of the local government towards the project had to be communicated so that social partners would be willing to make and rely on calculations extending the election cycle ending in 1998.
- The extent to which the project should be 'socially sensitive'. According to some plans, the changing land use patterns and functions of buildings and areas would have necessitated some dislocation of the population of the affected buildings (this would have typically affected the lower-income/ 'lower-class' segments of population; see the next subsection on implementation issues). This prospect raised a socially and politically sensitive issue: apart from the legal and technical constraints, how should the expected resistance of the affected people and of the general public be treated? Or: how should the interests of the affected population be traded against overall policy goals and the more immediate interests of business?

- 'Spontaneity' vs. planned character. This dimension concerned the question of how much spontaneous business dynamics should be (attempted to be) constrained by local governmental policy actions.

Implementation

Not only the ends, but – maybe more importantly – also the means of the BBP involved serious dilemmas. These problems and some proposed or contemplated solutions to them are outlined below.

- **Organisational/management arrangements**

There were important legal and institutional-organisational limitations of the local government possibly affecting the implementation of the BBP. The most important ones included the following:

- Expertise. By launching the plan, it had become clear that the local government or any of its organisational subdivisions are – in their present state and on their own – unable to effectively elaborate and manage a complex and long-run project comprising many different elements and each requiring different skills and areas of expertise.
- Decision rules. Due to relevant legal regulations many decisions – e.g., those on selling or mortgaging local government property – could be made only by the Council (which is, of course, always a cumbersome process). Besides, the 'unwritten traditions' also prescribed a cumbersome and 'no-responsibility' decision-making style for the local government authorities in most decision areas (contracts, agreements, etc.).
- Sluggishness in administrative procedures. Administrative procedures (related to e.g., building administration) could in some cases seriously hinder business operations. It was expected that streamlining and accelerating the administrative procedures (by e.g., creating 'one-stop-shops', tightening deadlines) could substantially increase the attractiveness of the area for possible entrepreneurs/investors.
- Other problems included the status of the local government as a legal entity (difficulty in exercising certain rights, no right to VAT deduction, etc.).

Contemplating these problems, a conclusion was reached that in the management and implementation of project-related activities, there must be some point from which local governmental responsibilities would be assumed by a player organisationally and legally external to, but (at least mostly) owned and controlled by, the local government.

Not only internal limitations, but also the need to involve social partners necessitated the rethinking of the organisational dimensions of the project. If social partners (entrepreneurs, professional groups, the media, the citizens) were expected to participate, they had to be offered adequate participatory competencies and 'rights', and a corresponding organisational form had to be elaborated and established, too. For example, setting up an independent program

agency (for dealing with certain operational tasks) and founding an association/ 'club' (for intensifying and institutionalising public-private communication) was envisaged.

- **Business and financial arrangements**

Another major constraint was related to the sources of necessary development funds. As we noted earlier, it was clear from the outset that the cash available for the local government was far less than necessary for the initiation of even a smaller-scale project. It also seemed implausible to expect any budgetary resources from the various central government channels or (at least in the short term) increases in local taxes. Thus, the conclusion was reached that entrepreneurial capital has to be involved and relied on as much as possible.

After reaching this conclusion other, not less problematic questions emerged, and these can be summarised as follows:

1) How should private investors be mobilised and be attracted to the area?
2) Once private capital is mobilised, by what means and to what extent can it be ensured that the investments and the operation of businesses will lead to the (although partial and longer-term, but nevertheless definite) realisation of the local government's general policy goals (first of all, renewal of the affected areas)?

Of course, the possible solutions had to deal with the practical problems of corruption, inexperience and insufficient administrative capacity of the local government organisation. A few mechanisms designed to answer the above problems are outlined below.

Active property management and utilisation. Despite former large-scale sale of its property, the local government still owned a substantial number of buildings and this potentially represented a significant market value (at that time, these were mainly used as tenements). Thus, an obvious and basic option was to rely on them in establishing funding sources for the project. It was considered that the local government – or, rather, a company owned by it – could initiate renewal projects and/or acquire cash income by applying the following sequence of steps:

- dislocating inhabitants of the affected building(s) or block(s)
- renovating the building, then
- selling it en bloc (either for high-value tenements or for commercial purposes), using the cash income to initiate further projects.
- The dislocated population could be offered alternative accommodation in other local government owned tenements or cash compensation.
- Alternatively, the project could end in leaving the flats in their former use while the rents would be raised so as to reflect a higher quality and the large investments made.

'Tax concessions/local government property for renovation' agreements. According to this technique, property owners would be motivated

to invest in the renovation of their property by offering them concessions from local property and income taxes in return, or selling lofts or cellars of the building to the investors for symbolic sums. These agreements were planned to be managed either by normative regulations or via case-by-case agreements.

Co-financing with commercial banks. It was seen as a major problem that even the little money the local government could have afforded for direct subsidies was practically unprotected from threats of deliberate or unintended misuse, corruption, etc. Furthermore, the local government also lacked the expertise required to qualify and select the subsidy applications. As a solution to this problem, a partnership with one or more selected commercial banks was considered whereby the local government would offer a subsidy amounting to a given proportion of total investment expenditures, but only under the precondition that a similar commercial bank loan is granted for the project (for example, 30% local government subsidy is given if the bank gives another 30%). This solution was expected to devolve the task of qualifying the application upon the bank, and to seriously restrict the possibility of corruption by putting the actual decision mostly in the hands of the bank.

It was hoped that the combined application of these means could initiate 'development foci' in the area which would then, little by little, raise the attractiveness and market value of neighbouring locations as well, and thus induce a positive, upward sloping development spiral (instead of the currently existing negative one).

Classical Instruments of Development Policy

It was clear that the effectiveness of the 'real', classical policy instruments were limited. Still, there was considerable room to apply those means as supplementing and supporting the overall policy goals. Important groups of classical development policy tools are:

- Fiscal (budgetary) policy. Due to very limited resources, the main function of direct budget spending was rather to signal and clearly communicate the commitment of the local government towards the project, and to promote the attractiveness of certain focal spots in the area. Besides, subsidies implemented via some joint constructions with commercial banks were envisaged (see above).
- Regulatory environment. The local government's tools to set the regulatory environment (primarily of local businesses) were mainly confined to the specification of a district regulatory/zoning plan. According to the valid laws and general practice, the land use patterns envisaged in the district regulatory plan could be enforced by the building administration managed by the local governmental department in charge. Although the regulatory plan could be enforced by legal means, it could mostly involve only provisions of a rather general nature.

• Tax policy. The role of local taxes was seen as twofold. Firstly, they formed an important revenue source (although strongly restricted in magnitude; most local taxes were already near or at their highest limits set by the law, which were, to be sure, quite modest in absolute terms). Secondly, they had the potential of orienting private players' decisions by encouraging or discouraging certain activities/land use modes in certain areas. To this time, this second potential of local tax policy was almost entirely omitted. However, the regulatory potential of local tax policy was to be utilised to a fuller extent by, for example, strongly differentiating tax levels according to business activity and geographic location. This was expected to support the elimination of undesired activities (e.g., storage, some forms of small-scale industry) and the improvement of others (entertainment, personal services, retail, and tourism-related services).

Communication, Public Relations

Beside the direct involvement (via budgetary, tax, and regulatory policies) of, and the facilitative role played by, the local government, a conscious, comprehensive and effective communication strategy was seen as a third major pillar of the project. Communication was required to achieve at least three main goals:

• attract entrepreneurs/investors from Hungary as well as from abroad;
• give the area an image attracting customers and, among them, tourists, and inspire consumption;
• support the possible lobbying at the Budapest Municipal Government and the central government/Parliament.

There was, of course, a fourth, less explicit function of communication activities: the electorate of the local government would be primarily informed about the achievements of the project through these channels, which is a prerequisite to realising the political benefits of the whole project.

These aims were thought to be served by initiating various NGOs, e.g., association of local showbiz entrepreneurs, the elite club of the most exigent 'art and cabaret customers' (in both cases prominent representatives of show-business and cultural life would be involved), and the possible involvement of PR professional and media consultants.

Epilogue

The aim of presenting this case was, as stated earlier, to expose the problems and questions faced by strategic planners in urban policy making, to introduce some of the possible solutions and answers to these problems and questions, and, most fundamentally, to induce thinking and discussion regarding these problems. However, for the sake of some sort of completeness, and –

most of all – to satisfy the readers' (hoped-for) curiosity, a few words regarding the post-history of the strategic planning project are in order.

Despite the changing composition of the Council following the 1998 local government elections, as well as the organisational and personnel changes attached to these political changes, many elements proposed by the strategic plan have been introduced. It is hard to withstand the temptation of saying that, at least in part, as a consequence of this effort, significant progress has been made in the district since 1997. The organisational/implementation arrangements and the policy instruments envisaged by the plan have been, although to a strongly varying extent, put in place and relied on. The external signs of progress are even more obvious: new pedestrian areas and public parks have been created, and the project area became the capital's (and, indeed, the country's) most dynamic development area in the entertainment industry sector. For example, the largest, newly built jazz concert hall and club of the country, and one of the most prestigious music halls, renovated for tens of millions of dollars, opened here, along with a large number of other high-prestige, 'fancy' entertainment and tourist facilities.

Questions for Discussion

1. Discuss the context of urban policy making – both in terms of its societal context and in terms of its professional heritage – in your national context. Are there significant similarities or differences? If so, what could be the underlying explanatory factor?
2. The above case presented some policy dilemmas which had significant implications for the actual (social) value content of the policy to be pursued. Are these questions real/legitimate? How could they be answered? Are there other important issues connected to the final ends or consequences of the BBP not discussed here?
3. The subsection on implementation issues introduced some major problems expected in the implementation process. Do you see these problems as being relevant, and are there other issues not discussed here? Would they be a problem in your national context as well, and if so, why?
4. Discuss the strengths and weaknesses of solutions proposed in the case as well as other solutions emerging during the discussion (known from other similar projects, etc.).

Annex: Map of Budapest's 6th district (Terézváros)

The encircled area is the one mostly affected by PPB.
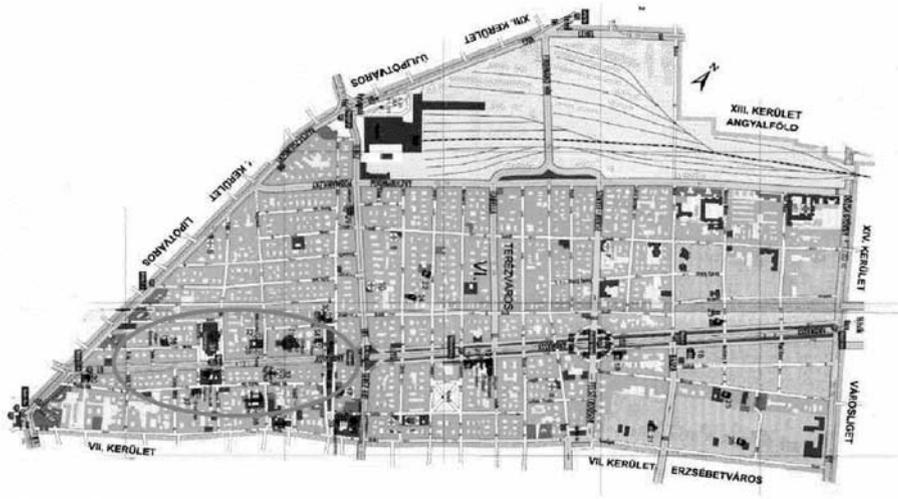
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CHAPTER THREE
Public Personnel Management

Public Personnel Management

Tiina Randma*

I. Importance of Public Personnel Management

The organization of the civil service and public personnel management in individual public agencies can be considered a core area in the development of public management. Many of the major problems in public management are people problems, and real changes have to be people-based. Purposeful public personnel management is not only a part of administrative reforms, but is also an important prerequisite in the development of a 'good government'. Civil service reform is a subgoal of a broader administrative reform. At the same time, it is a mechanism for the reform, since several other goals of administrative reforms (decentralization, performance management, quality of services, etc.) depend either directly or indirectly on human resources. It is difficult, if possible at all, to increase the efficiency and effectiveness as well as the openness, transparency and quality of public services without the active support of civil servants. Decentralization, deregulation, privatization and contracting out will remain only empty slogans if they are not supported by changes in the behavior of civil servants, who should put these goals into practice.

Contemporary public organizations need more flexibility than ever before to adapt to change and cope with new problems in rapidly changing societies. While academics and practitioners of public administration are familiar with the problem of ensuring stability in the civil service, they are less familiar with those concerning flexibility. Whereas stability justifies the development of long-term plans and detailed programs of activity, increasing flexibility involves adaptive efficiency, as argued by Metcalfe and Richards (1987). The management of civil services in stable environments places great emphasis on institutions and their rules, procedures and structures. However, managing for flexibility creates new demands for individual civil servants, and the successful functioning of public organizations increasingly depends on efficient human resource management. To achieve flexibility, organizations become more dependent on their employees and their abilities to learn and adapt. In a dynamic and fast changing world, the motivation and commitment of personnel are increasingly important for the organizations that employ them. The growing interest in public personnel management stems from the recognition that improved efficiency and effectiveness depends first of all upon improved utilization and development of human resources.

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The aim of this chapter is to draw the attention of public managers to the most important issues in public personnel management. There is a saying that "every manager is a personnel manager," which is increasingly accepted by top and line managers in the private and public sectors. Studies of managers have shown that about one third of their working time is devoted to managing their staff. Public personnel management, which includes human resource management (HRM) as referenced in this chapter, is a managerial function that can never be completely delegated or outsourced. Therefore, managers at all levels need to be acquainted with the main developments in HRM in order to meet the requirements of increasingly complex organizations.

The chapter begins by pointing out the specific conditions surrounding personnel management in Central and Eastern European countries. This is followed by a brief comparison of HRM in public and private organizations to help public managers with a private sector background better understand the environment of public organizations. The core of the chapter deals with the techniques of public personnel management and its application to Central and Eastern Europe. The following techniques are analyzed:

· job analysis
· recruitment and selection
· training
· performance appraisal
· career development
· incentives, motivation and compensation

The chapter concludes with emphasizing the need to design and implement fair personnel practices in order to attract and retain the best qualified personnel in public organizations.

II.   Public Personnel Management in Central and Eastern Europe

The following sections examine public personnel management in the context of the specific situations and conditions of Central and Eastern Europe. This provides an important background to the development of personnel and civil service systems in the region.

II.A   Country-specific Differences

Although more flexibility may be needed in stable countries with long democratic traditions, the situation in Central and Eastern Europe (CEE) is different. These countries have gone through rapid changes in the last decade. They need more stability and predictability in their state structures as well as in personnel policies. At the same time, there remains the need to cope with the changing environment. The stability/flexibility issue is only one factor that illustrates the distinct situations that exist in different countries.

Virtually every area of public administration reflects particular substantive problems in a given society. Public personnel management is a country-specific field, as it is influenced by broader societal, cultural, legal and economic factors. Research into human resource management in the public sector is complicated by the fact that the majority of previous studies in this particular field have been conducted by American scholars, which may have influenced the understanding of public personnel management by giving it an 'American flavor'. Human resource management varies between American and European countries due to different historical, cultural, legal or economic factors, which raises questions about the transferability of theories developed in one country to the context of other countries. For example, Brewster (1995) demonstrates in his comparative study of American and European human resource management that 'EuroHRM' is influenced by a limited organizational autonomy, constrained firstly at the international (European Union) level, secondly, at the national level by culture and legislation, and thirdly, at the organizational level by trade union involvement and consultative arrangements.

CEE countries have their specific characteristics, which, in turn, distinguish them from Western European countries. Personnel management practices also vary within CEE countries depending on the values, traditions or behaviors in different societies, organizational size, organizational culture or management practices. Therefore, it is very difficult to draw any generalizations within the region. Nonetheless, CEE countries share the specific features derived from the Communist legacy.

II.B   The Communist Legacy of the Civil Service

Several authors (Bercík and Nemec, 1999; Jasaitis, 1999; Vihalemm et al. 1997) have described the Communist personnel policies as over-politicized; meaning political loyalty had high priority, and strict ideological control was exercised over personnel and decisions. In most CEE countries, people in the government worked under the same conditions as other employees and were subject to the general employment act. The civil service was not 'professional' in that it did not depend on specialized training and competence, and did not operate in accordance with high ethical standards. The professional ethics of bureaucrats was equated with commitment to the Communist ideology. Being a member of the Communist Party was an obligation an individual had to fulfill at a certain point in his or her professional career. Performance appraisal, if it existed at all, was merely symbolic and was based mainly on the assessment of ideological commitment. Employees of state institutions were not supposed to serve the country's citizens, but to carry out instructions from the Communist Party. Furthermore, no incentives were given to make public offices more efficient or to involve citizens or civil servants in discussions on the improvement of the provision of services. The outcome of Communist traditions, written and unwritten rules and practices, was the alienation of officials from citizens and of citizens from the state.

Civil services in former socialist countries offered a clear example of a patronage (spoils) system with no regard for merit principles. Personnel selection and promotion were carried out in line with a combination of loyalty to Communist ideas and personal relationships with immediate supervisors. Social mobility above the level of rank-and-file workers was, as a rule, directly related to official recognition of an individual's political virtues. Open competitions and competitive examinations were completely unknown in the Communist regime. Civil servants had no specific status or social guarantees, the staff was to a large extent dependent on the whim of supervisors, and opinions sometimes even overrode legal norms. This caused selective implementation of legislation depending on whose interests were involved and on instructions received from the leaders of the Communist Party.

II.C   Internal Needs and Problems of Public Personnel Reform

Since the beginning of the 1990s, a great effort in all CEE countries has gone into the establishment of new democratic structures, including the development of a responsive, transparent, professional and efficient civil service. However, several authors (Drechsler, 2000; Hesse, 1996; Ridley, 1995; Verheijen, 1998) have observed that the political and economic reforms of transition have left civil service reform in the shadows. Accordingly, development of consistent and fair public personnel policies has not been at the top of the political agenda in any of the CEE countries.

When criticizing the slow and inconsistent development of the civil services in CEE, consideration has to be given to the fact that the revolutionary events of the early 1990s occurred simultaneously at all levels of society. The newly created (restructured) government organizations had to guarantee the normal functioning of society and the carrying out of radical reforms in many areas of life (monetary reform, property reform, land reform, privatization, drafting of new legislation, etc.). Hence, within a very short period of time, a great number of extraordinarily complicated and time-consuming tasks had to be implemented.

There was, and still is, the need to restructure the old institutions, on one hand, and to create the new structures required by democratic and independent states, on the other hand. In this respect, development in the new states that belonged to the former Soviet Union has been different from that in other CEE countries that already possessed the attributes of independent statehood. However, all countries of the region have faced an unavoidable task in reforming the administrative apparatus itself, in addition to the reshaping of political and economic institutions. An underdeveloped civil service, with inconsistent and inadequate personnel policies, can act as a brake on continuing the political and economic reforms and further stabilization.

At the beginning of the transition, no strong bureaucratic restraints existed in CEE countries to endanger administrative reforms, as in countries with long civil service traditions and well-established administrative cultures. However,

the Communist legacy with its patronage and prevailing ideological/political principles and administrative culture have caused many of the problems that civil services in different CEE countries faced during and after the transition. Several authors (for example, Verheijen 1998) have observed that the implementation gap between formal acts and procedures on the one hand, and their actual implementation on the other hand, has been a far reaching problem in most CEE countries in the 1990s. This, in turn, has made it difficult to introduce merit principles into public personnel management. Even if the legal framework for a democratic civil service and public personnel management has been created, there is still ample evidence of continuing occurrences of patronage in different CEE countries (see Verheijen, 1999, p. 98; Jasaitis, 1999, pp. 305-307). The development of merit principles remains a challenge not only in the law drafting endeavors, but, first of all, during the real implementation process of these policies and laws at every management level in public agencies.

Public personnel reforms in CEE countries have been affected by the situation in the transitional labor market. A rapidly developing private sector has created an enormous number of new jobs requiring new qualifications and providing interesting opportunities for people. The shift from a planned economy to a market economy has created many career opportunities, and a great deal of uncertainty and ambiguity regarding the types of jobs available. The market has been re-evaluating people's skills and abilities. As several authors (Bercik and Nemec, 1999; Jasaitis 1999; Randma 2001) have demonstrated, in a period of increasing career opportunities, the public sector may face the situation where 'winners' in the labor market move to the private sector which can provide competitive salaries and greater growth prospects. This may leave the public sector with 'losers' from the transition, which in turn, may become a great barrier in designing and implementing administrative reforms. Enthusiastic and professional public managers as well as well-developed public personnel policies may help to avoid such a situation and make the civil service an attractive place for qualified people in the labor market.

II.D   External Needs for Public Personnel Reform

Reforming public personnel management in CEE is caused by both internal and external needs which overlap to a great extent. The candidate states of the European Union have been increasingly influenced by the development of the 'European Administrative Space' operating by common principles. These principles are derived from the standards that underlie administrative law in most EU Member States and from the decisions of the European Court of Justice. These include the rule of law, openness and transparency, accountability, and efficiency and effectiveness of public administration. As EU candidate countries prepare their administrations for accession, they need to take these principles into account, and this has implications for the way in which their public personnel management operates and is regulated.

The Treaties of Rome and Maastricht do not provide a specific model of civil service to be established by the EU Member States. Despite this, the issue of a common administrative law has been a matter of debate since the outset of the European Community, and a common administrative space assumes the uniform enforcement of administrative law. Fournier (1998) is only one of a few authors who have made an analysis of the position of the administrative criteria in the Commission Opinions. However, the question remains as to the basic features needed for national civil services to live up to a supranational European Administrative Space. The extent to which the above mentioned principles are present in the regulatory arrangements for personnel management, and are respected and enforced in practical life, gives an idea about the capabilities of the candidate countries to implement and enforce the *acquis communautaire* in a reliable way.

In sum, CEE countries have gradually been moving from the Communist civil service towards a modern civil service based on internal and external needs for modernization. The goal has been the development of a merit-based system in which comparative merit or achievement governs each individual's selection and progress, and in which the conditions and rewards of performance contribute to the competency and continuity of the civil service. Replacing the Communist civil service by merit principles relies on a fundamental change in the values, attitudes and beliefs of lawmakers, public managers and individual civil servants. The CEE countries are currently at different stages of such development as their starting conditions have been different. A few elements of a modern civil service existed in some countries in the Communist era also. For example, the Law on State Employees was adopted in Poland in 1982. Several CEE countries (such as Hungary) have experienced a longer tradition of appreciating professional values in civil service. Other CEE countries (as demon-

Communist civil service	Modern civil service
Loyalty to Communist Party	Loyalty to public interest
High level of politicization of civil service	Distinction between political and administrative positions
Based on spoils, patronage and nepotism	Based on merit principles
'Administration of the working class'	Administration of professionals
Closeness, access to critical positions depends on Party membership	Open to different groups in society, competitive exams
Secrecy (e.g., pay systems with subjectively allocated bonuses)	Transparency of decision-making, personnel policies and their implementation
Personal favoritism of managers	Written procedures for HRM
No stimuli for high performance	Effectiveness and efficiency are highly valued
Accountability is not specifically addressed	Well-developed accountability framework
Labor Code determines work relationships in both public and private sectors	Separation of public and private spheres, adoption of a Civil Service Act
Selective implementation of legislation	Rule of law

strated in the Georgia case study) have started developing merit principles literally from nothing.

III.   Human Resource Management in Public and Private Sectors

Organizations differ on the basis of sector, size, objectives, character of work and organizational culture, which makes it difficult to generalize from studies of human resource management across employers and situations. The classical question is whether public sector personnel can be developed on the basis of the same assumptions as in the private sector or whether specific HRM approaches are needed for the public sector.

Several reasons can be evoked for arguing that management practices in the public sector are becoming more like those in the private sector. On one hand, the conventional gap between distinctive civil service careers in closed systems and more flexible private sector employment has been diminishing in the course of civil service reforms in the Western countries since the 1980s. On the other hand, several CEE countries have introduced a specific status for civil servants through the adoption of civil service laws in the 1990s. Thus, they have deliberately emphasized the distinction between public and private employees and their working conditions. This section aims to discuss the general context of public management by demonstrating particular characteristics of the public sector that surround personnel policies and form a broader environment for more specific HRM techniques.

The following sections aim to assist new public managers, with either private sector experience or with no public management experience, to be acquainted with the complex management systems in the public sector. Public managers should know what to look for in the environments surrounding their particular organizations in order to effectively and fairly manage human resources.

III.A Legal Environment

One of the main problems in CEE stems from the tradition of not regarding civil servants as different from any other employees (Synnerstrom, 1999). The notion of civil servants carrying out the powers of the state under the law and under a certain responsibility had, during the Communist regime, no impact on the regulation of employment conditions for this group. Civil servants were subject to general labor codes. However, a civil service regulated by the general labor code may lead to a patronage system, where officials are changed when governments or leadership change. There was an absence of mechanisms to protect civil servants from these kinds of interventions during the Communist regime, and in addition to that, there were insufficient recruitment and selection procedures to guarantee that the most qualified individuals were selected. This created a sense of distrust on the part of incoming politicians and public managers towards the existing staff. These were the main reasons why, during the mid-1990s, most CEE countries passed civil service laws, and in so doing,

legally defined the status of civil servants and this played a stabilizing role during the transitional time in the change of regimes.

Public managers are subject to close scrutiny by legislative acts or legislative oversight bodies in ways that are quite uncommon in the private sector. Such scrutiny often constrains the executive and administrative freedom to act. There are more constraints on procedures and spheres of operations, greater tendency toward proliferation of formal specifications and control, and less decision-making autonomy and flexibility of managers than in the private sector. The special status of civil servants and specific personnel policies to ensure the specific civil service values cause weaker, more fragmented managerial authority over lower levels in the organizational hierarchy. Allison (1980) claims that in the public sector, "civil service, union contract provisions, and other regulations complicate the recruitment, hiring, transfer, and layoff or discharge of personnel to achieve managerial objectives or preferences". By comparison, business managers have considerably greater latitude and much more authority to direct the employees of their organization, even under collective bargaining. Civil service tenure and the requirements for merit principles and transparency further limit organizational and managerial autonomy in the public sector.

There are several legal aspects of personnel management that all public managers should be aware of. For example, hiring a new person to a vacancy in the private sector may considerably differ from the hiring procedure in the public sector, where open competitions, assessment by different committees, and approval of senior civil servants is often required by civil service laws. This means that the implementation of personnel procedures may take much more time in the public sector. In addition, requirements in the public information act may require making most of the personnel information available to the public. For instance, private sector managers do not need to explain bonuses paid to their employees, whereas in the public sector, allocation of bonuses may need to be accompanied by explanations open to the public, which, in turn, requires more careful reasoning by public managers. The public nature of personnel decisions may encourage the further "formalization" of the public sector. Finally, the limits of a public budgetary process (for example, the impossibility of transferring money from one budget line to another) also set barriers for personnel management. It is very difficult or impossible to pay extra bonuses for extra work to individual civil servants or to transfer training funds to the next year in order to obtain more sophisticated courses with accumulated training funds.

To establish a well-functioning civil service, it is not enough to simply pass a new law. Rather, it is a matter of engendering certain behavioral patterns among officials working in an environment underpinned by laws, institutional frameworks and management systems.

The legal environment in the public sector determines the focus of personnel management. The complexity and thoroughness of legal acts surrounding the working conditions of civil servants may make personnel managers passive and reactive followers of the rules rather than proactive in the development of particular personnel policies and the improvement of their implementation. Such a problem is well documented by Angela Dobrescu in her case study on a Romanian city government. Alternatively, the lack of or inadequacy of relevant legislation may leave individual managers with great discretion that may result in several negative consequences; such as a higher degree of politicization, fragmentation of personnel policies, problems with equal opportunity or transparency of personnel policies. This is amply demonstrated by Mzia Mikheladze et al. in the case on personnel reforms in Georgia. It is a challenge for politicians and civil servants not only in CEE, but also in any other country, to find the right balance between centrally (legally) determined personnel policies and techniques, and the discretion of individual organizations and managers.

III.B Political Environment

The political environment influences public personnel management in several important aspects. The political environment sets the time perspective. While private managers usually take a long-term perspective oriented toward developments in the market, public managers tend to have relatively short time horizons dictated by political necessities. As many of the personnel practices aim at long-term changes (for example, development of long-term training strategies and the evaluation of their impact), it may happen that the top public managers may not have the motivation for seeing the outcome of their immediate personnel policies. This may lead to their disinterest in strategic personnel management. In addition, the in-and-out political masters are not likely to have an institutional memory of what works and what does not in personnel management. Consequently, the change of government may easily bring changes in different aspects of personnel management.

CEE countries lack 'self-management' by the public administration and a clear delineation of political interference (Verheijen, 1998, p. 409). Thus, in CEE countries, which can be characterized by relatively high political instability and frequent political changes, the short time perspective of political leaders may cause a situation where strategic personnel policies are not sufficiently addressed besides the random attention paid to individual critical (top) positions.

The political environment may also substantially influence the work of permanent civil servants, especially in countries where there is a high degree of politicization of a civil service, and where tenure does not exist or where it is easy to dismiss civil servants despite formal tenure. As a result, a considerable number of posts may be filled without the need to follow the competitive merit system. There is much evidence to demonstrate that politicization of civil

servants is a great problem in CEE. For instance, Verheijen (1999, p. 118) claims that, although professional competencies are important qualification requirements for the Bulgarian civil service, professional criteria may sometimes be sacrificed in favor of political interests. If the government is willing to limit political interference, it could be done through appropriate personnel policies, especially through the establishment of and control over merit principles, provision of more rigorous guarantees of employment and the protection of civil servants from dismissal on purely political grounds. Such an environment would make the overall organizational development more stable, which is essential for individual public managers in designing their strategic personnel plans and implementing more politically neutral personnel policies.

III.C Senior Civil Servants

Management of senior civil servants requires special attention in public personnel administration. This is because, in several countries, the Senior (Higher) Civil Service constitutes a distinctive class of civil servants. Senior civil servants directly influence the development of the civil service culture and ethics of bureaucrats. Huddleston and Boyer (1996, p. 132) claim that higher administrators view themselves above all as guardians of the broad public interest. They are supposed to identify not with the narrow perspectives of an agency or profession, but with the central idea of public service in order to promote the professional quality and shared ethical standards of officials. The goal of the Senior Civil Service is to have a cadre of highly professional generalists. Despite prevailing Western principles of decentralization in personnel management, in some countries (Australia, Italy, the Netherlands, the United States), higher civil servants are appointed to the general service of the state. Mobility programs for the Senior Civil Service are aimed at contributing to the development of better cooperation throughout the civil service, promotion of the common civil service culture and adaptation to the advanced functions and requirements of management. Public managers should be aware that senior civil servants may be governed by different rules for recruitment, promotion and conditions of service than other officials.

The development of the Senior Civil Service might prove valuable for the CEE countries that have been characterized by a high degree of fragmentation of public administration (Verheijen 1998, p. 415). Senior civil servants in CEE countries play a crucial role in initiating and maintaining democratic changes (or resisting the changes) and, therefore, their development requires special attention, and probably specific personnel policies. However, senior civil servants in CEE have either long civil service experience from the Communist period, or alternatively, they are composed of relatively young people who have joined the civil service only recently. In both cases, senior civil servants may lack both managerial and professional qualifications as well as experience in democratic governance. Consequently, development of a professional senior civil service remains to be a key for the development of modern civil services in CEE. Senior

civil servants themselves may need specific high quality training, distinctive remuneration policies and other conditions of service.

In sum, general public managers have two main personnel problems to solve. Firstly, to make sure that necessary personnel policies for their organizations are developed and, in accordance with the organization's strategic plans, implemented, i.e., indirectly influencing personnel practices. Secondly, direct administration of senior civil servants, which includes attracting the best candidates to the organization, motivating them and developing their professional qualities. The overall development of a public organization depends on the skills of general managers in building teams of professional senior civil servants, which, in turn, would have a multiplier effect on the further development of their subordinates and the whole organization.

III.D Civil Service Ethics

CEE countries are characterized by relatively high levels of corruption, which influences all sectors in society, including the public sector. Transparency International conducts global corruption studies on an annual basis, which result in the development of a Corruption Perceptions Index (CPI). A CPI Score relates to perceptions of the degree of corruption as seen by business people, academics and risk analysts, and ranges between 10 (highly clean) and 0 (highly corrupt). The following table presents the results as of the year 2001

Country	Country Rank	2001 CPI Score
Finland	1	9.9
Denmark	2	9.5
New Zealand	3	9.4
………		
Estonia	28	5.6
Hungary	31-33	5.3
Slovenia	34	5.2
Lithuania	38-39	4.8
Poland	44-45	4.1
Bulgaria	47-49	3.9
Croatia	47-49	3.9
Czech Republic	47-49	3.9
Slovakia	51-53	3.7
Latvia	59-60	3.4
Romania	69-70	2.8
Kazakhstan	71-74	2.7
Uzbekistan	71-74	2.7
Russia	79-81	2.3
Ukraine	83	2.1
Azerbaijan	84-87	2.0
………		
Nigeria	90	1.0
Bangladesh	91	0.4

based on the research of 91 countries around the world. The level of corruption varies widely among CEE countries. The following data demonstrate a relatively high level of corruption in CEE compared to the Western countries.

Civil servants have twofold responsibilities in fighting corruption. Firstly, they are responsible for the creation of a regulatory environment that minimizes the possibilities of misconduct throughout the whole society. Secondly, civil servants need to demonstrate high ethical standards themselves. Different subfields of personnel management such as recruitment, promotion and compensation policies directly influence the composition of the civil service. Public managers have a great role to play in the development of civil service ethics through the design of criteria for recruitment, performance appraisal, promotion and compensation; and by making sure that these criteria are actually implemented in practice.

Huddleston and Boyer (1996, p. 133), among other authors, have noted that work in the public sector requires far more political acumen, bargaining ability, and sensitivity to diverse constituencies than does private employment. Most importantly, it requires a particular commitment to the public service and the attitude that the work involves more than meeting a certain goal or deadline. The analysis of changes in society and of the dynamics of the public sector is necessary to judge whether the classical values attributed to civil service still apply. For example, Stevens (1995, p. 13) claims in his study of the British civil service that the present generation of recruits does not have the same commitment to the public service as their predecessors who are now in senior positions. During the 20th century, the environment of public management changed rapidly. The increase in one period of the functions of the state, which was followed by privatization, decentralization and deregulation, have increased the power of civil servants, while reducing control in the next period. These processes may result in increased possibilities for misconduct and corruption.

This has again brought the ethics of civil servants to the political agenda, which has been realized in the adoption of the codes of ethics in various countries (for example, in Australia, Canada, Ireland, New Zealand, the United Kingdom and the United States). From CEE countries, Estonia and Hungary have already adopted their Codes of Ethics for civil servants. Based on common values and principles, specified in the codes of ethics, it is possible to describe an 'ideal' civil servant. This task has been a central feature of public personnel management for more than a century, and provides a basis for more technical HRM policies. The key values emphasized in the codes of ethics include the following: serving the public interests, respect for the constitution and the laws, openness and transparency, impartiality and independence, self-improvement and professionalism. The main goal, however, is not only the formal establishment of the Code, but also the implementation of its values and principles into everyday life, where personnel policies and practices have a great role to play.

Illustrative Example 1. The Estonian Public Service Code of Ethics
(Annex 1 to the Public Service Act)

1. An official is a citizen in the service of people.
2. The activities of an official shall be based on respect for the Constitution of the Republic of Estonia provided for in the oath of office.
3. An official shall adhere, in his or her activities, to the legally expressed will of politicians who have received a mandate from the citizens.
4. Public authority shall be solely exercised in the public interest.
5. Public authority shall always be exercised pursuant to law.
6. The exercise of public authority shall always involve liability.
7. The exercise of public authority is, as a rule, a public activity.
8. An official shall be prepared to make unpopular decisions in the public interest.
9. A person exercising public authority shall endeavor to achieve as broad a participation of citizens in the exercise of authority as possible.
10. An official shall always, in his or her activities, subject departmental interests to public interest.
11. An official shall be politically impartial in his or her activities.
12. An official shall make decisions based on public and generally understandable criteria.
13. An official shall avoid creating a situation which arouses or may arouse suspicion with regard to his or her impartiality or objectivity in considering matters under suspicion.
14. An official shall treat property entrusted to him or her economically, expediently and prudently.
15. An official shall use information which becomes known to him or her through official duties solely in the public interest.
16. A person exercising public authority is characterized by honesty and respect for the public and co-employees.
17. An official shall be polite and helpful when communicating with people.
18. An official shall be respectable, responsible and conscientious.
19. An official shall do his or her best in the public service by constant individual development.
20. An official shall facilitate the spread of the above principles in every way.

The ethics of public servants cannot be taken for granted, especially in the countries without long state traditions and short experience with democratic governance. Drechsler (2000, p. 267) argues that "the fundamental challenge to Central and Eastern Europe is still a restoration or (re)creation of the positive concept of the state." The missing positive concept of the state and the insufficient identification with the state on the part of citizens leads to serious problems, which include the unattractiveness of a civil service career, the lack of loyalty of the citizens, or true respect for legal or administrative decisions. The administrative culture, as well as the ethics and attitudes of bureaucrats, are highly dependent on tradition. They are very difficult to change and cannot be easily forced. In CEE, any state matter, and particularly public administration, usually suffers from the legacy of a justifiably bad reputation of the state in the

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Communist regime. Drechsler (2000, p. 270) claims that under the circumstances where there is neither a good tradition nor ethos, a good civil service can be obtained if the state offers what it can best provide: security, honor, stability, civility, and fulfillment. If the state does so, it becomes more prestigious to work for the government. This will lead to a greater faith in the state, which will lead to higher civil service prestige.

IV.   What a Public Manager Needs to Know

The following sections introduce the main techniques of public personnel management, and their specific problems in CEE. Managers at all levels need to have an understanding of the main personnel techniques in order to more effectively manage the work of their subordinates. Management of human resources can be done on the basis of common sense; however, experience from the past few decades has demonstrated the positive effects of systematically developed personnel policies. Therefore, every public manager should know the basic issues and trends of the design and implementation of personnel tools, such as job analysis, recruitment and selection, training, performance appraisal, career development, incentives, motivation and compensation, which are discussed below. In the development of individual techniques of public personnel management, it is essential that the above mentioned factors and characteristics of the public sector and the national context, be taken into account. Moreover, not only should individual personnel management techniques fit with each other, they should also be compatible with broader public administration strategies. The role of a public manager is to make sure that organizational personnel policies support the organization's strategic plans, and are included in strategic plans. Personnel management cannot be a managerial function on its own. It should be closely linked to other managerial duties.

IV.A Job Analysis

New Public Management reforms in Western democracies have demonstrated a turning away from a more generalist-oriented career service to a narrower focus on job-specific skills, where position classification focuses attention on the work assignment of the individual (the job or position). Jobs in organizations are products of an organization's job analysis. Job analysis and design are of great importance to individuals and organizations. For individuals, the characteristics of a job shape everyday life. For organizations, job analysis and design is an integral piece of the organization's structure. Managing the human resources of an organization requires a study, analysis, and arrangement of work activities that compose jobs. Job analysis lays a basis for all major personnel decisions including obtaining, retaining and managing the organization's work force. High quality job analysis data can and should contribute to selection decisions, personnel appraisal, training, career development, compensation, design of organizational structure and work force planning. If a public manager wishes to demonstrate to the public, civil servants or courts that

either the selection process, appraisal, promotion, compensation or dismissal are valid, he or she has to start from the basis of the job analysis.

Job analysis has been the focus of researchers and managers since Frederick Taylor (1865-1915) established the 'scientific school of management', which concentrated on the creation of 'ideally described jobs' in order to improve technical efficiency and productivity based on 'mechanical engineering'. The meaning of a job, however, changed during the 20th century, to the extent that some authors (for instance, Murray 1981, Schuler and Jackson 1996) predict 'the end of a job'. Such a claim is caused, firstly, by an increasingly dynamic environment which requires frequent changes in individual jobs in order to flexibly adapt to the changes. Secondly, job analysis and design are taking on renewed importance as organizations look for ways to attract and accommodate to a workforce that is diverse in terms of age, gender, lifestyle and capability (Schuler and Jackson, 1996). Thirdly, the focus on individual jobs may suppress teamwork. This has led some organizations to the development of more general job descriptions which emphasize key values and objectives rather than precise, predetermined duties.

Job analysis is the process of describing and recording information about job behaviors and activities. The information recorded includes the purposes of a job, the major duties or activities required of the jobholder, and the conditions under which the job is performed. One of the most immediate results of job analysis is the development of clear and understandable job descriptions. Civil servants use their job descriptions as guides to their behavior and directing their activities to the most important aspects of the job. Managers use job descriptions in evaluating performance, identifying training needs and providing feedback. Typically, a job description includes the following items of information:

- job title
- department or division
- date the job was analyzed
- job summary
- supervision received and given
- work performed: duties and underlying tasks that make up a job
- job context: the environment that surrounds the job

In addition, job analysis is essential for public managers to conduct work force planning and decide upon its utilization, including discovering cases of duplication and overlap. As public managers are forced to react to changes in society, they are often confronted by questions of reduction or expansion of the work force, which in turn must be based on careful job analysis. Job analysis, if it is well done, enhances communication both inside and outside the organization. Job analysis demonstrates what civil servants should do, to what or to whom, and at what level of quality. On the basis of the job analysis results, employee specifications can be developed to detail both what the jobholder is expected to do and the knowledge, skills, abilities and other

characteristics needed to perform the job. Job analysis provides job applicants with realistic job information regarding duties, working conditions, requirements, and relationships between managers and civil servants. Good quality job analysis could and should make the organization more transparent for those inside and outside the organization.

There are very few professional organization analysts in CEE countries, and managers may not give a high priority to organizational development due to little experience or poor management skills. Therefore, it can easily occur that job analysis is entirely left to work incumbents. This, however, may bring subjective elements to the job descriptions, and may not lead to a thorough analysis of the organization as a whole. The incumbent may not be knowledgeable about all aspects of the job or may even be doing the wrong job. This is why both general and immediate managers who are responsible for the quantity and quality of the work need to be an integral part of the job analysis process.

Just as many sources provide information about jobs, many methods are used to obtain that information. The most common methods are the following:

- observations which may include videotaping, audio recording or electronic monitoring
- interviews provide information for jobs which are difficult to observe
- questionnaires are used when information is collected from many job incumbents
- diaries of job incumbents are most valuable for jobs that vary at different times of the year

Public organizations in CEE, as case studies below confirm, are characterized by poor organizational and job design. In CEE countries, new organizations, structural units and individual jobs have been created without the necessary analysis, which has led to unclear hierarchical relationships, overlapping functions, duplication of duties and other problems with division of labor. When the basis of the organization is weak, the other management techniques have a very poor and unreliable foundation. Public managers in CEE should realize that organizations need constant care if they want to be efficient and effective. The prerequisite for good personnel management is the presence of regular and systematic job analysis.

IV.B Recruitment and Selection

The future of the civil service depends on the success of public managers in attracting, motivating and retaining a high-quality and high-performing group of people to the civil service. Civil servants can be recruited either to a general civil service or to certain posts. In a traditional civil service, individuals are selected not just for a specific position but, also, on the basis of their long-term potential for careers in the civil service. Traditionally, officials were recruited to the entry level of the hierarchy at the start of their working lives with a commitment to a career within the civil service. In such a case of closed career

systems, the mid and higher-level posts are reserved for internal promotion and transfer. From the CEE countries, only Hungary, Poland and Slovenia have introduced policies that follow this approach. In the other CEE countries, there are no legal restrictions for outsiders in applying for mid and higher-level positions in the civil service.

There are internal and external sources of recruitment that can be used for attracting good candidates to specific jobs. The internal sources include present civil servants who become candidates for promotion, transfer or rotation. Public managers are interested in keeping motivated and stable personnel. A stable work force represents institutional memory and program competence and is a carrier of organizational culture. Turnover involves high monetary costs associated directly with recruitment and training of newcomers. Therefore, it is important to ensure that civil service jobs remain attractive to insiders.

However, recruiting internally may not produce enough qualified candidates, especially in a rapidly growing organization or one with a large demand for high-talent professional, skilled, and managerial positions. Recruiting from the outside has a number of advantages, including bringing in people with new ideas, knowledge and skills. External recruitment can be carried out by using the following means:

• open competitions advertised in media
• the use of employment agencies
• headhunting
• job fairs
• recruitment from schools/universities
• professional associations
• online services

One of the most important questions that public managers face in the recruitment and selection of personnel is the degree of centralization and decentralization of the recruitment function. Recruitment and selection have traditionally been carried out by central personnel agencies. Central recruitment procedures have allowed the standardization of personnel policies, and ensure that common principles are implemented throughout the civil service. However, traditionally centralized recruitment procedures have been decentralized in a number of Western countries that have reformed their civil services. Decentralized personnel systems allow immediate managers to actively participate in the selection and development of subordinates in order to achieve a better match between a position and an individual. As authority and responsibility for human resource management previously held by central agencies has been delegated or decentralized, the need for human resource skills throughout public administration increases significantly.

Critics of New Public Management (Frederickson, 1999; Gregory and Hicks, 1999; Kellough, 1999; Brans, 1997; König, 1996) have identified several factors

that demonstrate weaknesses in decentralized recruitment and selection. If central government contains loosely connected internal labor markets, every government unit develops its particular culture and work habits in the long run. Decentralization and a high degree of discretion may create the opportunity for abuse by individual public organizations and public managers. Decentralization of personnel management, and, more specifically, recruitment and selection, also provide several specific features for CEE countries. Verheijen (1998, p. 415) argues that liberalization of employment conditions in the present CEE context may lead to a further increase in politicization, and enhance, rather than eliminate, instability; as well as increase levels of corruption. Decentralization may prove to be risky because of an insufficiently developed legislative framework, lack of experience of high and mid-level managers, and insufficient control mechanisms.

In most CEE countries, general provisions for recruitment exist, although the selection itself is left for individual public organizations, which have sometimes prepared their own procedures and internal guidelines for recruitment and selection. The most decentralized system is applied in Slovakia where all recruitment and selection procedures are fully decentralized and follow the general Labor Code (Nemec, 1999). The Czech civil service is also characterized by a high degree of discretion of individual agencies to carry out recruitment and selection of personnel (Vidláková, 1999). In Estonia (Randma and Viks, 1999), recruitment is formalized and centralized for the limited number of top positions, and decentralized for the rest of the civil service. There are, however, more centralized recruitment procedures in Poland (Torres-Bartyzel and Kacprowicz, 1999, p. 164), where a separate unit in the Civil Service Office carries out an initial selection, a Qualifying Commission conducts interviews, and where general knowledge tests and intelligence tests are performed.

Not only formal recruitment procedures, but also actual implementation, is important for CEE public managers who are establishing merit principles in civil service recruitment. Different authors have identified serious implementation problems in recruitment in CEE. For example, Verheijen (1999, p. 98) argues that there is no well-developed system of announcing vacancies in Bulgaria, which leads to many civil servants being recruited in an informal way, by means of private contacts. It has been observed in Latvia (Simanis, 1999) that although most competitions for vacancies are open, this is sometimes only a formality, which is possible because of decentralized selection procedures. Jasaitis (1999, p. 305) argues that there have been cases in Lithuania where applicants were informally intimidated or discouraged from applying, or the selection proceedings were influenced by political ideology and personal associations. Such examples provide a warning sign for all public managers in CEE and indicate the importance of the existence of fair recruitment and selection procedures and need for the control over their actual implementation.

IV.C Training

Training is a key element in modern personnel systems. There should be a strong effort by public managers to improve current and future performance by increasing personnel capabilities. Training is particularly crucial for the CEE countries to develop professional and committed civil servants for their newly democratic governments. As the success of organizations in a rapidly changing environment depends increasingly on the qualities of their members, their ability to learn and adapt has become a specific skill that contemporary managers very highly appreciate. Adaptation is particularly important for public organizations that are accountable to external authorities by virtue of mandates in their legislative authorizations. Therefore, systematic training efforts have become part of strategies that are used for organizational change.

Public managers are also interested in training aimed at shaping the attitudes, values and perceptions of civil servants in order to build a common organizational culture. New civil servants often enter the organization with no concepts about the proper roles and functions of government bureaucracies. They may also enter with attitudes developed in other organizations. In order to effectively transmit their rules and values, organizations provide an orientation to new civil servants before they assume their assigned duties and responsibilities. Systematic socialization is particularly important for people whose previous experience was limited to the private sector. Socialization of civil servants should therefore focus on accountability to elected officials and an overall public service orientation. Public managers at all levels need to help their recent recruits to accommodate to the organization, which can also be done by either specific training courses or information sharing carried out by managers. The benefits of the latter are twofold: managers become better acquainted with their new subordinates and new civil servants will understand better what their managers value, what their vision of the organization is and what are their priorities.

In CEE countries, civil servants did not experience democratic governance before the 1990s. Democratic civil services in CEE of the 1990s were composed of the remaining civil servants from the Communist system or of newcomers to the civil service. Whereas in Western countries skills training traditionally receives a greater emphasis in the government agencies (Sylvia and Meyer, 1990), training efforts in CEE countries should, in addition to skill development, specifically focus on the role of the civil service, and the very basic values surrounding a contemporary civil service. Development of a code of ethics is one possibility to draw attention to broader values of civil service, especially if the development of the code of ethics is accompanied by relevant training.

The focus of in-service training depends on the education that civil servants have. Broad educational levels of candidates for different civil service positions are determined in most CEE countries. Usually, the law sets a general requirement for secondary education, and for a university degree for the senior civil service. György (1999, p. 136) observes that in Hungary, the most important recruitment

criterion is the educational level of candidates. The Hungarian Civil Service Act includes four promotion tables for civil servants with different educational levels. The Polish Civil Service Act (Torres-Bartyzel and Kacprowicz, 1999, p. 163) also distinguishes between four categories of civil servants based first and foremost on educational level. In addition, most CEE countries have developed specific university programs in public administration in the 1990s (Verheijen and Nemec, 2000).

A mandatory training period for new recruits is common in many Western European countries. There is evidence that CEE countries increasingly provide systematic training programs for new civil servants. In Hungary, civil service candidates are recruited as trainees for a probationary period, which includes a training program (György, 1999, p. 136). A compulsory in-service training program including adaptation, functional and specialized studies, has been introduced in Slovakia (Bercík and Nemec, 1999, p. 192). Slovenia practices a special mandatory training program for entrants in the civil service and this ends with an obligatory examination (Virant, 1999). Jasaitis (1999, p. 305) demonstrates that although the two to four-week training has been required by the Lithuanian Law on Public Officials, it has not been offered because of budget restrictions and the unwillingness of managers to release critical personnel for training activities. The usual practice in most CEE countries is that officials are provided with an opportunity for both general civil service training, as well as specific training for certain posts. However, these practices are not systematized and consistent.

Public managers in CEE have several opportunities to rationalize their training initiatives. The most important prerequisite for training to succeed is planning. The first step is for management to decide where the organization is and where they envision the organization to be in the foreseeable future. Next, it is important to determine the appropriate mix of skills and knowledge necessary to achieve the desired objectives. Only then should public managers turn their attention to the design of training programs. As the organizational resources are limited, it is important to determine priorities for training, and to weigh different training methods and target groups. Training opportunities do not include only training courses, but a variety of other training methods, such as on-the-job training, self-study or computer-based training. Several CEE countries may also face the problem of the shortage of qualified trainers, especially in narrower specialist fields within public administration. Therefore, organizations should evaluate their commitment to training of the trainers in whom the organization entrusts its most critical training activities.

Training is expensive and, therefore, it is essential for public managers to make sure that the effectiveness of training is carefully weighed. This era of fiscal constraint demands that all organizational activities, including training, be retained on the basis of their relative effectiveness vis-á-vis other programs. The

cost of training includes the actual expenses of training programs and the lost time to the organization that result from participant absences.

The benefits of training are more difficult to assess. Often direct and consistent improvements in the state and local government work that have resulted from the expenditure of training funds are virtually impossible to demonstrate. The effectiveness of training can be best evaluated by immediate managers who are in direct contact with civil servants. Therefore, the design of training policies cannot be left only to the personnel department or specific officials in charge of training, but every public manager should take responsibility for training his or her staff.

IV.D Performance Appraisal

Contemporary efforts to promote better performance have led many public managers to consider the area of performance appraisal as a potential means for enhancing the productivity of civil servants. Civil servants may learn how well they are performing through informal means, such as by favorable comments from their colleagues. But performance appraisal refers to a formal, structured system for measuring, evaluating and influencing a civil servant's job related attributes, behaviors and outcomes. Public managers need systematic feedback on how every civil servant performs and whether he or she can perform effectively or more effectively in the future.

Performance appraisal is related to specific fields within HRM such as evaluation of the need and efficiency of training, discovering hidden talents that might be better utilized in different ways than currently, promoting shared expectations between public managers and staff members, deciding upon promotion, and salary increase or pay-for-performance. In the development of these key fields of HRM, problems with performance appraisal and public sector objectives are to be expected. This, in turn, requires a high degree of competence from those designing and implementing particular personnel policies. When there is a lack of professionalism in performance management, various other HRM initiatives may fail or result in unexpected (or negative) consequences.

Prior to establishing performance appraisal procedures, public managers should be aware that there is little, if any, agreement on the standards and measurement of performance to appraise civil servants. Various indicators of performance (e.g., financial return, market share) are well established in the private sector. Several authors (for example, Allison, 1980) have drawn attention to the greater diversity and intangibility of objectives and criteria in the public sector, which may make objectives vague and difficult to follow and evaluate. Moreover, the public sector goals can conflict by combining values, which in their transfer to concrete policy proposals, may be contradictory. For instance, several 'democratic' goals such as "representativeness", transparency, equal opportunities, equal access to services, and citizen participation in decision-making, may conflict with more 'technocratic' or 'rational' goals such as efficiency,

effectiveness, value-for-money or quick decision-making. This kind of contradiction can be especially hard to solve in CEE countries, where the above mentioned democratic principles are not as ingrown and broadly accepted as in the countries with long democratic traditions, and where the limited resources put pressure on governments to follow 'technocratic' goals.

Performance appraisal has a multifaceted character, including a variety of appraisal techniques and processes for use. There are various techniques for performance appraisal, and these share a common goal of technical perfection of the appraisal exercise. That is, the focus of attention is on the identification of problems associated with the measurement of performance. A widely shared assumption is that the performance appraisal should be linked to job description, especially the critical tasks of the job. There should be quality standards or level of proficiency statements to the critical tasks of the job. The primary question of performance appraisal for each public manager is: "did the civil servant do what he or she was asked to do?" The secondary question is "did the civil servant do it at an acceptable level of quality"? There are a number of different techniques that try to find answers to these questions, for example the following (Lovrich, 1990, p. 93):

- the graphic rating scale
- narrative essay
- forced-choice rating
- weighted checklist
- critical incident assessment
- behaviorally anchored rating scale (BARS)
- employee ranking
- paired employee comparisons
- forced distribution of unit employees

There are ample opportunities for public managers to choose among these different techniques, and there are numerous reasons for caution in making the choice. Different types of appraisal systems have different effects on civil servant attitudes and behavior. The character of human resources, the nature of agency goals, the availability of rewards for good performance, and management skills affect the ways performance appraisal systems work. These techniques are not equally suitable to all situations. They have their strengths and weaknesses. However, many of them share common rating errors or biases such as, for example:

- halo and horn errors
- leniency or strictness
- central tendency
- primacy or recency of events
- contrast effects

Whereas a specific procedure of performance appraisal is usually worked out by HRM specialists, general public managers should focus on its practical implementation. Even if the appraisal instrument is correctly chosen, the success of the appraisal exercise depends on its implementation in the appraisal process. Here the focus shifts to a comprehensive consideration of the goal of performance improvement through the process of appropriate supervisory communication and commitment of civil servants.

Who should be doing performance appraisals? Is it a supervisor, peers, subordinates or the civil servant? There has been an increasing tendency in the last few decades to include self-evaluation in the appraisal process, leading to the 360-degree appraisal. It is designed to take advantage of the benefits derived from enhanced participation – namely, clearer communication of expectations and personal involvement of civil servants in the goals of their work unit.

Advocates of 'participative management', such as Blake and Mouton (1978) and Likert (1967), are predisposed to replace traditional forms of performance appraisal with some form of collaborative process of goal clarification and commitment of civil servants. This involves 'non-evaluative reviews' (Wallace 1978), and the replacement of uniform appraisal formats with flexible adaptation of practices to individual cases. This is also called a 'counseling approach' to appraisal where a two-way exchange is designed to stimulate and enhance the quality of communication between managers and their staff members, and to contribute to the development of individual staff members. Elements of such a 'participative management' were characteristic of the Hungarian example described below. Laszlo Vass demonstrates that in the Hungarian Prime Minister's Office, much attention was paid to the appraisal process and the improvement of communication between supervisors and subordinates.

Performance appraisal is one of the most difficult and sophisticated functions of public personnel management. Therefore, public managers in CEE who often have quite little managerial experience should be aware of the problems and failures that often accompany appraisal exercises. Managers with too little experience tend to overquantify performance indicators as these are easier to measure and may look more objective and understandable than qualitative data. This technique may well over shadow the purpose of administrative operations. There can be additional CEE-relevant problems related to the appraisal process; such as little trust between managers and civil servants due to a high level of politicization. This may make the appraisal process less a 'counseling' and more a controlling exercise by public managers. Performance appraisals can succeed only if public managers receive appropriate training and strong methodological support, and when the collaborative process of appraisal is as important as the appraisal techniques.

Mini-case 1. Performance Evaluation at the Hungarian Prime Minister's Office: Management by Dialogue

Laszlo Vass

The Hungarian Civil Service Law of 1992 established a career system excessively based on seniority. The required length of service for each rank has been exactly defined. Civil servants with the highest capabilities might be promoted to a position one category higher than they would originally be entitled. The Law also introduced individual performance assessment based on the evaluation of general personal competencies.

In 1999, the government released Decree No. 1052 in order to introduce performance management methods across public organizations. The Prime Minister's Office (PMO), as the most powerful administrative center in the government, took a pioneer role in this development. The Minister of the PMO expected that the PMO should have a decisive impact on the whole public sector with its initiatives and practice. The PMO Minister, István Stumpf, expressed his strong personal commitment to performance management in government. His commitment and permanent support was the starting point for the successful introduction of performance evaluation in the PMO. In January 1999, Minister Stumpf requested that the PMO's administrative leaders start the preparatory work on a performance evaluation system. This would later also serve as a model to other government organizations. Based on the ministerial initiative, the next steps were completed.

The personnel office of the PMO Minister and the HRM Department of the PMO established a task-group dealing with the issue of the performance evaluation system. A professional advisor for performance evaluation was put in the Minister's Cabinet.

A comprehensive survey (based on Zussman and Jabes 1990) revealed the human, organizational and cultural conditions of individual performance at the PMO. The findings confirmed that there were appropriate work conditions in the PMO, that civil servants had a certain level of autonomy and responsibilities, and that managers were able to set performance objectives. Some complicating factors also appeared, like the very political characteristic of the PMO. This can distort the performance indicators and the process of evaluation. In general, the tasks of deriving organizational objectives from the very political strategic goals seemed to be extremely difficult. The leaders of the PMO (minister, political and administrative state secretaries, HRM manager) finally decided that an individual – and not an organizational – performance evaluation system should be introduced. They recognized that different administrative and political organizational units had very different tasks and performance indicators. Therefore, a longer learning process was needed for the development of a comprehensive evaluation of the organizational performance.

Before starting the survey and the performance evaluations, the managers involved and the civil servants being evaluated participated in two training seminars, and the managers also participated in two more meetings with the Minister, who repeatedly reconfirmed his commitment to the evaluation. The Minister of the PMO defined the following objectives of the performance evaluation:

- improving the efficiency of work at PMO;
- developing performance oriented cooperation between the managers and the subordinates;
- strengthening performance orientation;
- setting clear goals, requirements and personal relationships for the employees;

- using human resources in a more efficient and effective way;
- developing HRM and improving feedback from and to the civil servants;
- introducing regular performance evaluation;
- developing managerial thinking at the PMO.

The final form of the individual performance evaluation system at the Hungarian PMO followed the model of the performance evaluation of the British Senior Civil Service and at the Ministry of Defence, the experiences of the Austrian Federal Government, and the practice of the Irish Government. The performance evaluation was based on two sets of criteria connected to specific tasks: one set of criteria included the indicators of the execution of tasks, and the other set was composed of the required skills and competencies. At the beginning of the five month evaluation period, the managers specified the tasks for the evaluation. The criterion of the selection was the importance of a given task for the organizational unit during the period. This selection process was expected to help managers develop their strategic view. Although the performance evaluation was focused on individual performance, the selected tasks reflected their strategic importance for the organization.

The method of the evaluation included two well-focused, bilateral, personal discussions between a manager and a subordinate. They chose the evaluation criteria together at the beginning and they also evaluated the accomplishment of the settled tasks. A senior British expert named this system as "Managing by Dialogue," because the key element was personal communication. The formalized core of the method was a 'performance contract" filled out and signed by the civil servant and the evaluating manager. During the evaluation process, the manager and the civil servant evaluated the performance according to the settled criteria, and discussed how the manager could help the subordinate, and what the civil servant should do for better performance. An important consequence was the identification of the training needs of the civil servant.

The administrative leaders of the PMO decided that the evaluation should not involve any negative consequences. The only outcome should be better co-operation, and more efficient and motivated work. Promotion and salary increases were not connected to the evaluation yet, but superb civil servants had the opportunity to get extra bonuses based on their evaluations. Further development of the system is expected to lead to a wider use of the outcomes. However, it was recognized that in the beginning, positive attitudes about the performance evaluation are essential. Therefore, managers should be very motivating, helpful and fair. It was also decided that the evaluation should not create competition or conflict among the civil servants so the results should not be publicly announced.

The administrative work with the evaluation forms was done by the HRM Department, which ran the permanent information service and assistance to the participants. The HRM Department also qualified and archived the performance contracts and prepared detailed written guidelines to the civil servants.

Lessons of the performance evaluation at the PMO were discussed at the ministerial meeting. The positive experience of the PMO led to an amendment in the Law on Civil Service in January 2001 by incorporating a paragraph for the individual performance evaluation of the civil servants as an important element of the promotion system.

IV.E Career Development

Why should public managers be interested in career development of civil servants? Several authors (Leibowitz et al. 1986; Mayo, 1991) argue that career development programs are supposed to lessen turnover among personnel, to help people find new challenges and to assess their fit with their current jobs. The benefits of career development are twofold: both organizations and individuals can profit from it. For an organization, it means better use of skills, increased loyalty, dissemination of information at all organizational levels, better communication within the organization as a whole, greater retention of valued people, an improved public image as a people-developing organization, clarification of organizational goals, more realistic staff and development planning, and an expanded talent inventory for special projects. Organizations may also benefit from increased job motivation and satisfaction on the part of their personnel. For an individual, a career development program helps to identify development opportunities within an organization; including both vertical mobility to upper levels as well as horizontal mobility to new fields of activity.

Public managers in CEE need to recognize the different choices that concern career development of civil servants. The traditional European view has favored closed career systems for two reasons. First, ideological, because this emphasizes the special character of state service. Second, practical, because this allows the state to develop its own administrators. Career systems that are, to a large extent, based on traditional models of bureaucracy, have existed in many European countries since the 19th century. According to the Weberian ideal model of bureaucracy, employment of civil servants is a profession set apart, because it requires specific qualifications and skills and expects its members to uphold specific values: political sensitivity and the ethics of bureaucrats first of all. The traditional model of public administration maintains that the only way these qualities can be promoted is through the development of a closed career system that should be clearly identifiable and isolated from other employers. Career systems have built into them a notion of a 'career contract' which is a legitimate expectation of promotion within the civil service. People in a closed career system might expect to spend their entire working careers with the same employer and in return they would receive lifelong tenure and a high social status. It is a closed entry system within which senior posts are exclusively open to those officials who have come up through the ranks.

The New Public Management reforms of the 1980s and the 1990s have moved towards the openness of civil services, and in doing this, also, opened senior civil service positions to people with private sector experience. Ridley (1983) has argued that an open system emphasizes equality of opportunity and avoids the elitism of a career path separated from the rest of the community. Individuals are chosen for vacancies on the basis of post-related qualifications, and the mere fact that someone is already a civil servant does not give an advantage in recruitment or promotion. Although some people can spend their

working lives within the civil service, there may also be a good number of 'in-and-outers'. The 'in-and-outer' system has its advantages. It broadens the horizon of civil servants by allowing them to mix with people from other sectors. It also introduces fresh ideas and new blood to the civil service.

Experience in both European and American public and private organizations indicates that there are increasingly limited prospects for advancement in organizations due to flattening structures, decentralization and financial cutbacks. However, organizational mobility is not confined to movements up a hierarchical structure, but consists of a mixture of both vertical and horizontal changes. Horizontal mobility offers new challenges in a work environment where upward mobility is not possible. It also provides opportunities to transfer skills to a new area and avoid becoming stagnant, bored or "plateaued". The movement of employees through a series of jobs ensures the availability of broadly skilled employees to staff other positions in the organization. Movement through several positions, rather than only upward mobility, is also important for motivational purposes. The idea of horizontal mobility between public offices has been attractive to several governments that have built up special mobility programs for senior civil servants with the aim to promote a common civil service culture and to develop a better coordination in the civil service.

In most CEE countries, it is not possible to talk about long historical traditions of the state and the gradual emergence of modern forms of government, which usually accompany the development of traditional career systems. Countries which do not have a long state tradition, high prestige or a distinctive social status for the civil service, such as most CEE countries, may have difficulties building their civil services upon a long-term 'career contract' between an official and the state. A classical career system presumes societal and organizational stability and continuity. However, CEE public administration suffers from both broader societal and political as well as structural and legal instability. Open systems also provide specific features for CEE countries, most of them related to the possibility of a further increase in politicization, which has been identified as one of the biggest problems in the case studies below. On the other hand, open and decentralized systems may provide more flexibility for management in unstable environments. It is up to politicians and public managers to find an optimal solution for career development for each country and organization.

Despite the general trend towards individual responsibility of careers and decentralized management, organizational policies still play a great role in career development. Public managers can develop a mix of the following possibilities for institutional career management for their organizations (West and Berman,1993, p. 288):

• analysis of organizational tasks and skills; involving examination of the match between job tasks and employees' skills with the purpose of improving the match;

- assigning the right people to particular jobs; by matching capabilities of employees with the requirements of the job;
- supporting the climate for continuous learning; through the creation of an organizational culture that encourages continuous development of skills and knowledge;
- providing feedback to employees; through immediate performance evaluation, with the purpose of achieving its improvement;
- encouraging job rotation; by transferring people across assignments to increase their skills;
- establishment of fast-track schemes; through planned and accelerated career development aimed at ensuring adequate skills and experience for higher level jobs;
- creation of job enrichment possibilities; involving designing motivational factors into work;
- establishment of mentor programs; by using supervisors and senior personnel as career counselors.

Career development and the presence of permanent tenure in civil services are highly complex matters. The general problem in CEE seems to be the lack of strategic personnel management, which becomes crucial in long-term planning that is needed in management of careers. Another problem is related to a high degree of politicization, which intervenes into career perspectives of civil servants, and may reduce their motivation to move up the organizational hierarchy. Although most CEE countries declare a special status of civil servants, indefinite terms of service or employment security, the actual practice can be rather different. Dismissal of officials because of political reasons or through structural reorganization can be quite easy and are widely used, which may make formal declarations of permanent tenure rather senseless. For instance, Verheijen (1999, pp. 98, 105) claims that, although Bulgarian civil servants are provided with permanent tenure after an initial contract for a maximum of three years, permanent positions are by no means really permanent, especially if we look at the actual dismissal practices of public organizations and the high level of politicization. More positive examples come from Hungary and Poland. György (1999, p. 138) demonstrates well how difficult it is to dismiss civil servants in Hungary. Torres-Bartyzel and Kacprowicz (1999, p. 166) claim that it is not possible to dismiss tenured personnel under the Polish Civil Service Act, except in very limited cases.

And last, but not least, seniority in the CEE has a specific meaning. Long civil service experience and seniority do not necessarily mean better professional knowledge and skills, but rather sometimes mean attitudes and work habits inherited from the old Communist civil service culture. Therefore, the 'old' civil service experience may not always be appreciated. On the other hand, there are very few people with contemporary civil service experience because of the short history of democratic governments. These are a few reasons why the need

for conscious career development has not been recognized by many public managers in CEE. However, the more stable public organizations in CEE countries become, the more attention should be paid to systematic programs for career development by public managers in order to motivate highly competent civil servants.

IV.F Incentives, Motivation and Compensation

Successful recruitment from external markets and retention of existing civil servants depend on several labor market issues, such as the relative attractiveness of the civil service and specific conditions of public employment. In some respects, the attractiveness of the public service is dependent on factors that are outside the control of individual managers, such as public attitude toward the civil service and toward government in general. However, public managers can use different policies to recruit and maintain high quality people.

Organizations are attractive to employees depending on the incentives they offer. According to Clark and Wilson (1961, p. 134), incentives can be classified into two main categories: material and "solidary" incentives. Dominance of one or the other determines the basis for personnel management in organizations. Material incentives are tangible rewards that have a monetary value or can easily be translated into such rewards, for example, wages and salaries. "Solidary" incentives are intangible: the reward has no monetary value and cannot easily be translated into one that does have such a value. "Solidary" incentives may, for example, include training and career opportunities provided by organizations. Clark and Wilson (1961) claim that "solidary" incentives mostly derive from the act of associating with the organization and include socializing, the sense of group membership and identification, status resulting from membership and the maintenance of social distinctions. Members of such organizations may be less interested in money or other material rewards than in additional institutional prestige, publicity or good fellowship.

Public managers, as well as private managers, use both types of incentives. However, it is important to identify which incentive is predominant, since different organizational policies focus on different types of incentives. Because "solidary" incentives of traditional civil services, such as long-term tenure and other specific employment conditions, are increasingly absent in modern civil services, personnel policies and employment conditions are being reviewed in countries carrying out structural civil service reforms. Traditional civil service systems assumed that working conditions and attractive pension schemes, together with the distinctive status of civil servants, allowed the state to employ good people at pay levels below the market rates. However, Trevelyan (1856) feared more than a century ago that without competitive rates of pay, the British civil service could end up with the 'dregs of all other professions'. In order to have a realistic chance of attracting and maintaining highly talented people in a situation where public service employment conditions are coming closer to

those in the private sector, public service pay and benefits are expected to be reasonably competitive. The motivators of the civil service, such as the contribution to the public good and socially meaningful accomplishment (Buchanan, 1974; Gabris and Simo, 1995), may compensate for salary disparity to a certain extent.

Perhaps every manager has thought about the motivation of his or her subordinates. Usually this issue comes up when a good civil servant wants to leave an organization and a manager is thinking of extra incentives that could help to retain excellent staff members. A number of authors (Lane and Wolf, 1990; Perry and Wise, 1990) claim that there are specific motivational factors which affect civil servants. The question has been discussed for decades as to whether public sector employees have a higher need to serve the public and a lower need for monetary rewards. On one hand, Gabris and Simo (1995) suggest that public, non-profit and private sector employees are very similar with regard to needs such as monetary rewards, advancement, meaningful work, feeling wanted, making a difference, having social responsibility, taking risks and having job security. On the other hand, Perry and Wise (1990) maintain that people choosing public sector occupations are motivated by career needs which are substantially different from those associated with the private sector. Public motivation consists of the desire to serve the public interest and loyalty to the government or belief in social equity. Motivation of civil servants is affected by a mix of more complex factors than motivation of private sector employees. The social and political environment of the civil service shapes organizational culture and directly affects the level of enthusiasm that individuals bring to their jobs. Motivation of civil servants is dependent on national factors such as the perceived importance of public administration by the public or the status of civil servants in society, and this differs from country to country. Societal attitudes about work in the public sector and about people who perform that work have a significant impact on how public servants perceive the value of their occupations.

Pay is one of the most powerful organizational rewards. Financial rewards are intended to encourage organizational membership and performance-related behaviors. Financial compensation comes in a variety of forms, but the most common form is regular cash compensation. Organizations do, however, reward employees financially through retirement plans, holiday provisions, health insurance, pay-for-performance and so on. Job classifications based on job analysis determine the relative worth of jobs and form a basis for a compensation system. A growing number of both public and private organizations favor "broadbanding," which clusters more job descriptions into broader job family categories and salary grades to achieve more flexibility (Schuler and Jackson 1996). A few Western countries have decentralized their public sector salary systems to leave more flexibility to individual organizations to develop their own specific job classifications and salary systems.

In CEE countries, the non-competitiveness of public service pay is a pervasive problem. Financial limitations do not enable the state to pay competitive market rates to its civil servants. Especially in the countries which have not adopted Civil Service Acts, or where such Acts do not provide specific social guarantees, it is very difficult to attract and maintain high quality people in the civil service. In addition, the reputation of the civil service is relatively low due to the Communist legacy and unstable political environment. As many citizens of the CEE countries do not have a positive concept of the state, this leads to a lack of respect for public administration, where the presence of the above mentioned "solidary" motivators of the civil service can be questioned. These factors put public managers in CEE in a much more complicated situation than their counterparts in the West. Also, there is a need for the existing compensation policies to be perceived as fair by civil servants and the public.

All CEE countries apply a unified salary system in their civil services. There are no overly decentralized, individualized or flexible pay systems in CEE countries. Therefore, managers of individual public organizations do not have much autonomy in developing organizational pay policies. However, it is up to them to make sure that existing central policies are well implemented and pay policies and decisions made transparent to all civil servants. A few CEE countries also use a set progression of pay. For example, in Slovenia (Virant, 1999), promotion to a higher salary rank automatically takes place every three years. Polish civil servants get a salary raise every two years if the job performance review is not negative (Torres-Bartyzel and Kacprowicz, 1999, p. 166). There is also a uniform (regular) increase in basic salaries based on civil service experience in the Czech state administration (Vidláková, 1999).

Pay-for-performance has attracted lots of attention by private and public managers in the last decades. Many managers look upon pay-for-performance as a quick and easy fix for serious performance problems. While some employees in the private sector, such as salesmen, can be employed mainly based on commission, in government organizations, the use of pay-for-performance has been quite limited. On one hand, pay-for-performance is a powerful tool to encourage high quality performance of civil servants, and to reward the best officials based on merit. Pay-for-performance symbolizes to the public and its representatives that public managers care about the performance of their staff and that civil servants are receiving a fair return for their efforts. On the other hand, financial rewards are a function of measured performance, rather than performance itself, and this makes performance appraisal vital to the system's success. Consequently, complexities of performance appraisal in the public sector discussed above set limits to the use of pay-for-performance. Perry (1990, p. 109) claims that the primary problem that managers encounter is not with knowing who the best performers are, but in measuring and documenting performance differentials. Merit pay often fails as a motivational program because of the inability to measure performance accurately and completely. If pay-for-

performance is poorly designed or managed, it may result in a counter-effect and harm productivity and organizational culture. If pay-for-performance schemes are to improve the actual performance of civil servants, public managers in CEE should be ready to invest much of their time and thought as well as financial resources into development and implementation of merit pay, and to learn from the experience and mistakes of their Western colleagues.

V. Managing People Fairly

Developments during the 1990s have been led by the aim of public managers to introduce merit principles into public personnel management in CEE, and to abolish the patronage and politicization of the civil service that were inherited from the Communist regime. All CEE countries have struggled in the last decade with the establishment of new civil service legislation and problems of its implementation. The specific civil service legislation has helped to make personnel recruitment, selection, compensation and promotion more transparent and fair than during Communist times.

Whereas most CEE countries were involved in developing a legislative framework for their public personnel policies in the middle on the 1990s, more attention has been paid to the managerial, or 'softer' issues of public personnel management since the end of the 1990s. The legalistic approach to HRM has gradually been replaced by a focus on management problems that have been encountered during the implementation of new legislative acts. As the implementation gap between legislation and reality remains a problem in CEE, public managers need to make sure that values of the modern civil service such as rule of law, transparency, openness and accountability be followed in implementing the laws.

The fairness of the civil service is closely related to the idea of representative bureaucracy. Representative bureaucracy implies that there should be some relationship between the composition of the civil service and the demographic structure of the society. A democratic society should allow diverse segments of society to be part of the governing and policy-making structures. Whereas "representativeness" has been an important issue in Western civil services for decades, data and studies on "representativeness" in CEE civil services are still scarce and often unreliable. The position of women and minorities in the civil service as a whole and in individual organizations or levels of a civil service will very likely become a more substantial and meaningful part of public management in CEE.

Changes in CEE have been fast and radical, which have often required fast decisions and actions, and therefore, have sometimes ignored those who should have been consulted. Many changes have been implemented in the top-down approach during this transition. More than ten years later, however, both politicians and public managers should develop more consultative approaches, and should consider the opinions of the public as well as civil servants in

policy-making. Personnel policies especially require the understanding and commitment of those for whom they are established – civil servants.

People's perceptions of fairness reflect at least two features of the situations they find themselves in: the actual outcomes and the processes used in arriving at these outcomes. When establishing new personnel practices in CEE, great attention has been paid to particular techniques, particularly the development of performance appraisal or salary systems. The focus on techniques has sometimes ignored the process. Many public managers have already learned that the process of conducting recruitment, appraisal, promotion, and socialization of new civil servants or firing can sometimes be even more important than a particular technique.

Perceptions of justice depend on more than the relative distribution of outcomes. Beliefs about the entire process used to determine outcomes also come into play. The term "procedural justice" refers to perceptions about fairness in the process. Generally, a procedure is considered fair if (Schuler and Jackson, 1996, p. 82):

- the information used to make the decision is appropriate and accurate;
- the basis for making the decision is clearly explained;
- all legitimately interested parties are given the opportunity to have input into the decision process;
- attention is given to protecting less powerful parties from abuse by more powerful parties;
- all interested parties have equal and open access to the system;
- the system is relatively stable and consistent over time;
- the system is flexible enough to be responsive to changing conditions and unique circumstances.

Public managers use a variety of procedures, policies and practices to ensure fairness. However, these are not always sufficient. Interpersonal relationships within the organization also influence the perception of fairness. Inevitably, civil servants sometimes feel that a decision or procedure is unfair. Formal grievance procedures are one way to encourage civil servants to voice their concerns and seek solutions. Usually civil servants are covered by legislative acts that specify formal grievance procedures. However, grievance systems are reactive. They focus attention and energy of disputants on the past, and formalize the process for identifying an injured party by blaming someone or something for the injury, and claiming a remedy. Public managers should think of developing proactive approaches to ensure fair treatment including, for example, well designed and implemented performance appraisals, frequent informal feedback, clear discipline policies, regular surveys to monitor attitudes and perceptions of civil servants, benefits packages designed to meet the diverse needs of civil servants, involvement of people in lower ranks in managerial decision making, and good communication practices in the organization.

Public managers play an important role in ensuring that human resources are managed fairly. They are responsible for establishment of personnel policies, procedures and practices to help ensure that significant employment decisions are made with fairness and due process, that these decisions respect the rights and responsibilities of civil servants and managers, and are as just and as informational as possible. Unfortunately, the development of public personnel policies has not been in the frontline of political priorities in CEE. However, the establishment and implementation of personnel policies require both strong political will and managerial support. Development and implementation of personnel policies is not the responsibility of personnel departments only, but a part of every manager's job. With the tendency toward decentralization of personnel management, the need for the knowledge and skills of HRM is expected to substantially increase.

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Introduction to Case Studies

The following case studies provide examples of the introduction of personnel processes and techniques in public organizations in three CEE countries: Romania, Georgia and Estonia. Since the beginning of the 1990s, all three countries have been introducing modern values into their civil service systems including fairness, transparency, merit principles, professionalism and efficiency. The scope and the speed of reforms have been different. However; all three case studies present examples of deep structural reforms with crucial organizational impacts. Mzia Mikheladze et al. presents the difficult path of fighting patronage in the Georgian civil service, and replacing it with merit principles, established by a recently adopted Law on Public Service. Angela Dobrescu demonstrates how a Romanian city government has planned and implemented a major organizational change including the development of new formal aspects in the organization (job analysis, new personnel management procedures) as well as organizational culture (building professional self-awareness and participative decision-making culture). Külli Viks shows in her case study how the Estonian State Audit Office replaced most of its personnel within a few years by using an overwhelming performance appraisal of civil servants.

Common Problems

Although there are substantial differences in the personnel policies of the CEE countries, there are many common problems in Estonia, Georgia and Romania. For example, several weaknesses in public management in CEE can be traced back to poor design of organizations, division of labor and insufficient job analysis. As both Mzia Mikheldaze et al. and Angela Dobrescu demonstrate, some people in the same unit may be overloaded with work, while others in similar positions do not have many responsibilities. Although the following case studies on Estonia, Georgia and Romania focus on issues other than job analysis, they result in the acknowledgement that job descriptions form a basis for further personnel policies, and many changes in CEE personnel policies must start from a careful job analysis. This also includes the separation of political and nonpolitical appointments and reducing the level of politicization of the civil services which has received lots of critique from the authors studying civil services of CEE countries.

Political Enviroment

The political environment influences the work of permanent civil servants, especially in countries where there is a high degree of politicization of the civil service, where tenure does not exist or where it is easy to fire civil servants despite formal tenure. As a result, a considerable number of posts may be filled without the need to follow the competitive merit system. The following case study by Mzia Mikheladze et al. confirms that politicization of civil servants is a great problem indeed. The case demonstrates that some forms of patronage still live on in the offices of the Georgian Parliament, and shows how difficult

it is to introduce merit principles into the civil service which has for a long time been led by spoils and personal contacts between politicians and civil servants. Mikheladze et al. describes in the case study how people with obvious 'political agendas' have been recruited into the Georgian civil service, and how civil service candidates have actually bypassed competitive processes required by the laws. Fair and merit personnel practices can be developed only under conditions that hidden politicization is abolished.

Public Managers Role

In a situation where the civil service culture accepts the occasional implementation of legislation, public managers have a crucial role in influencing actual personnel practices. The authors of all three case studies highly appreciate the role of managers in planning and implementing changes. Angela Dobrescu has shown in her case study the importance of the support and commitment of top mangers to the personnel reform. On the other hand, she demonstrates how difficult it is to involve senior civil servants and managers in the change process. Sometimes it is useful to hire an outside consultant to facilitate communication between different levels of organizational hierarchy as is shown in Dobrescu's case study. Külli Viks provides a case study of the Estonian State Audit Office, where the change of top management brought major changes in organizational personnel policies. She also demonstrates that the personnel reform is not the "playground" of a single personnel manager, but structural personnel changes require continuous support and encouragement as well as systematic institutional backing by the top management.

HRM Techniques

The following case studies introduce various HRM techniques, for example, development of job descriptions and performance appraisal procedures. However, the authors pay even more attention to the implementation of newly established personnel techniques. The case study by Angela Dobrescu is a good example to demonstrate how the participation in the decision-making process makes civil servants committed to change. On the contrary, the Estonian State Audit Office developed a complicated appraisal technique, but did not focus enough on the process of evaluating civil servants. As a consequence, the appraisal exercise created tensions in the organization and was perceived as frightening by officials evaluated.

Personal Reform Problems

The case studies describe several problems that initiators of personnel reforms may encounter. For example, Angela Dobrescu demonstrates resistance to training and that suspicions exist related to training. Dobrescu also describes the impossibility of any career management – one of the personnel policies which clearly requires a strategic vision – in an "ever-changing legal framework" in Romania. The case study by Külli Viks provides an example of the "generational

conflict" in the Estonian State Audit Office, which describes a substantially different situation from what stable Western organizations may face when developing their career programs.

Summary

In order to analyze public personnel management in CEE countries, the readers of the case studies may benefit from paying attention to the following aspects:

- the politicization of the civil service, including the "hidden patronage", and the remedies to fight it;
- legal framework versus actual personnel practices: what to do if they do not coincide?;
- different phases in changing the personnel management system: planning, implementation and evaluation of personnel reforms;
- the sequence of different personnel reform strategies including the identification of prerequisites for the successful implementation of particular personnel techniques;
- the process of implementing technical procedures of personnel management, including the decision-making process and its implications to the organizational culture;
- barriers to personnel reforms;
- the role of managers of different levels in personnel reforms, including the responsibilities and tasks of general managers and personnel managers.

Personnel Reform in the Georgian Parliament

Mzia Mikeladze*, Terry Anderson** and
Marine Asatiani***

The Beginning of Personnel Reforms in the Georgian Parliament

In November, 1998, Diana Iremashvili, Head of the Personnel Department of the Staff of the Parliament of Georgia, was sitting in her office working on a proposal for a major reform of the personnel system within the Georgian Parliament (see general structure of the Parliament as shown in Attachment 1). Personnel of the Parliament included those who worked in the Staff offices of Committees, Factions, Interim Commissions, and Staff of the Parliament. The Personnel Department was one of the departments of the Staff of the Parliament whose major goal was to develop and manage personnel policy and control its implementation at the Parliament. The task before Diana Iremashvili was extremely difficult and already she had been working on it for over a year at the request of both the Head of the Parliament and the Head of the Staff. On this particular day, she was examining a situation at the Staff Office of the Committee on Economic Policy. It was typical of other situations in the other Staff offices and clearly indicated the need for sweeping personnel reform.

Context of the Reforms in the Parliament

At the time that Georgia achieved its independence in April 1991, the country appeared to be one country among those in the former Soviet Union with good preconditions to make a successful transition to a democratic market economy. It had a highly educated labor force, a long tradition of entrepreneurship, and a substantial underground economy, which indicated that some market mechanisms, and market-oriented behaviors were, to some extent, already in place. Georgia also had a prosperous agricultural sector and substantial natural resources. Its location made it a primary transit corridor in the South Caucasus. Despite these strengths, Georgia was experiencing one of the most painful transitions among former Soviet republics [WB, 1998].

In July 1995, legislators approved a new Constitution that established a strong executive presidency. Despite several years of positive economic growth, Georgia was still facing pressing economic problems. Problems of governance and corruption had undermined fiscal stability, and discouraged investment and

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Editors note: The names used in this case are fictitious and are not intended to identity any particular individuals or offices that may be indicated in the case.

saving. Economic activity remained significantly below potential while poverty indicators had not shown substantial improvement in recent years.

As it prepared to enter the new millenium, Georgia still lacked the developed political life of a democratic country. The political culture of society was still underdeveloped; political parties and government organizations were weak. Official relationships still tended to be on the basis of personal trust, and family and region were sometimes considered a stronger basis for trust than other criteria. The same labor legislation governed employees in all sectors of society. Employment relationships were built on a contractual basis, with heads of entities empowered to hire and fire their employees. Under this arrangement, there was no system of centralized personnel management in the civil service. Each entity managed its own employees. The accountability and loyalty of employees tended to be directed more toward people (i.e. to their respective superiors) rather than toward the law [WB, 1998].

One of the most fundamental challenges facing a country in transition is an overwhelming need to transform its governance. Respect for human rights, adherence to the constitution, rule of law, and transparency in governmental affairs were recognized as crucial factors for a successful transition towards democracy [UNDP, 1997]. The majority of members of Parliament were people with different backgrounds in science, agriculture, industry, and art. They brought "political romanticism" that often is very far from the realities of the country. In such conditions, the Staff of the Parliament should be the main guarantee for professional decision-making and drafting of laws. It should provide organizational, informational and intellectual support for these activities as well as continuity of activities and political and organizational culture in the Parliament [Parliament of Georgia, 1998].

Attestation of the Staff

The leadership of the Parliament knew that in order to develop the plan for future reforms at the Parliament, it was first necessary to analyze what had been done. Several studies were undertaken for this purpose. Diana clearly remembered the results of the attestation of Staff employees conducted in March 1997. The process of attestation generally refers to the periodic testing of knowledge, qualifications and skills of civil servants. The major purpose of this particular attestation was:

- To evaluate the personnel potential of the Parliament;
- To develop recommendations for the improvements of the Parliament's organizational structure;
- To assess the needs of the Staff and committee employees for their further development and training, and issue recommendations for designing their professional training programs; and
- To design the program for further development and strengthening of the Staff and clarification of the plan of its activities [Parliament of Georgia, 1998].

The attestation was preceded by a two month preparatory period. During this period, the Attestation Commission got acquainted with the existing structure and organization of the Staff. The Personnel Department prepared and submitted all the needed documents to the Commission. These documents included regulations of different departments of Staff, divisions and subdivisions, lists of functional responsibilities of employees, reports of all units, and individual reports of employees. Personal data of each employee had been updated and all Heads of Departments and Committees were asked to answer the questionnaires about employees' qualifications and their results. In addition, the Head of Staff individually evaluated each employee.

The Attestation Commission met the Chairman of the Parliament, Heads of the Committees and Departments and Divisions of the Staff to gain political and administrative support. During these meetings, the leadership of different levels discussed how to organize the Staff's work and increase its efficiency. As a result, common opinions about the procedure and content of the attestation were defined and the procedural principles and evaluation criteria were outlined. Such an approach created a sense of transparency of the whole attestation procedure; it established an atmosphere of peace and trust that led to avoidance of tension and conflicts.

Overall, the attestation had been conducted in less than favorable conditions. One of the major reasons was the lack of a complete legislative and regulatory basis that would create the legal and rational framework for the attestation. No law passed to date had completely defined all necessary rules and procedures for attestation. This problem was partly overcome several months later when the Law on Public Service was approved by the Parliament.

The Law on Public Service

Georgia enacted a Law on Public Service that came into effect in December 1997. The purpose of the law was in part to create definitions of public service and public servants, to classify public servants, and to lay down general principles relating to the recruitment, promotion, remuneration, leave, other benefits, and discipline of public servants. All employees covered by the Public Service Law were divided into four categories:

- state-political officials (i.e., those officials who hold constitutional positions specified in the law);
- public administrators (which include professional civil servants as well as political appointees, in central and local self-government entities);
- assistant servants (i.e., technical and support Staff, engaged on contract); and
- freelance servants (i.e., contract employees engaged for temporary assignment).

With the passage of the Law on Public Service, civil service management was entrusted to a Civil Service Bureau (CSB) established under the law with a very wide mandate. Its major goal was to suggest and oversee civil service reform. The newly established CSB still needed to grow into its role as a body

for centralizing civil service management and development. Until then, each entity was still managing its own personnel. It was evident to Diana that each public organization should start to build the new personnel system in close collaboration with each other.

The Committee on Economic Policy

Thinking about the results of the first attestation and contemplating what would be needed in the future, Diana went back to the papers on her desk and again reviewed the situation before her at the Staff Office of the Committee on Economic Policy. (Attachment 2 shows the structure of the Committee). She was reminded that Elene Ratiani, a successful graduate of the local university in Tbilisi, the capital city, was hired at the Committee on Economic Policy based on the favorable recommendations of her professors. Elene had shown that she was very energetic, had a dynamic personality and good communication skills, and demonstrated a strong desire to grow professionally. As a result, two years later Elene found herself in a position of great responsibility and authority as she was appointed as the Head of the Staff at the Committee. A year had passed since then.

The Staff Office of the Committee on Economic Policy was specifically responsible for drafting laws concerning economic reforms in the country, identifying and preparing options for economic development of the country, defining state policy on economic development, conducting parliamentary control of executive bodies, and issuing suggestions on how to conduct economic reforms. Under Georgian Parliamentary structure, it was one of sixteen such Staff offices serving the individual committee members of Parliament. Economic development of the country was arguably one of the most important tasks facing its leaders. With that task came a tremendous necessity to create the proper legislative basis for decisions that had to be made. Thus, the Committee on Economic Policy was considered as one of the most active and dynamic committees with a very intensive workload. Annually, the Committee prepared and submitted to the Parliament an average of 20-25 draft laws.

Elene's primary responsibilities included identifying problems, working together with her Staff to define strategies and plans for action to solve them, setting tasks for her subordinates, and coordinating their activities. The results of their efforts were submitted to members of the Committee on Economic Policy to be used in the formulation of economic policy for the country and adopting relevant legislation that would foster economic reforms. Formally, Elene was accountable to the Head of the Committee and Head of the Staff; however, while dealing specifically with personnel issues she was also accountable to Diana Iremashvili, as the Head of Personnel Department of Staff.

Elene's subordinates were individuals occupying various positions in the department including leading specialists, senior specialists, and specialists. Their duties and responsibilities are described as follows:

1. **Leading Specialists** – those who are subordinate to the Heads of the Committee and Staff of the Committee. They take part in drafting laws and preparing final versions of the draft laws and international agreements. They participate in the invitation of experts and discussions on draft laws and, on behalf of Committee Staff, are responsible for the draft laws submitted to the parliamentary hearings by the Committee. Leading specialists attend plenary sessions to discuss the drafts laws prepared with their involvement and participate in the review and analysis of letters and complaints of citizens.
2. **Senior Specialists** – those who are subordinate to the Heads of the Committee and Staff of the Committee. They provide organizational, technical and computer support to the Committee; make translations from foreign languages; participate in meetings, sessions and discussions connected with the legislative process; and prepare suggestions and recommendations.
3. **Specialists** – those who are subordinate to the Heads of the Committee and Staff of the Committee. They organize the operation of the Committee Head's reception room; conduct office work; review correspondence; organize meetings; and invite professionals, experts, and citizens to attend Committee meetings.

Elene believed the people on her Staff to be technically competent professionals. However, she was not certain of their individual political agendas and often questioned their motivations. Part of her task as Head of the Staff Office at the Committee was to try to raise the level of productivity and quality of work produced by her group. In addition, she tried to develop a team of highly professional, motivated, responsive, and supportive employees. However, Elene's efforts had not been successful so far. The Chairman of the Committee often criticized the Staff, saying that their work was passive and very slow, sometimes non-responsive, and inconsistent with the events taking place in the country. Further, there were charges that reports often failed to meet due dates and were sometimes clearly inaccurate or too biased to be of any real use in policy development. Things finally reached a climax when, after expressing his disappointment in committee meetings on several occasions, the Chairman formally criticized Elene's management style in a meeting with the Head of Staff.

That meeting brought out all of the shortcomings of the committee Staff as the Chairman began to list them one by one. He produced examples of the staff's work to illustrate his charges that it was unacceptable. He cited cases where members of the Staff had acted unprofessionally, had missed crucial deadlines, and claimed that at times they seemed beyond anyone's control. The Chairman questioned Elene's management skills, professional qualities, ability to meet the requirements of her position, and suggested to the Head of Staff that other candidates should perhaps be considered for Elene's position. The Head of Staff could do little but hear the accusations and agree that something had to be done.

The Head of the Staff met with Diana to discuss the situation. Diana listened carefully and considered how she would present her view of Elene and her Staff. Diana was convinced that the young lady still had the potential to be successful as Head of the Committee Staff. She was young, well educated, with critical thinking, open to the ideas of others, and motivated to make positive changes. At the conclusion of their meeting, after considering all of the facts surrounding the situation, Diana had persuaded the Head of the Staff to give Elene one more chance.

As the Head of the Personnel Department, Diana clearly understood that there were both subjective and objective reasons for Elene's failure. Diana knew that a large part of the problem for Elene at this time was that personnel reform in Georgia was in its infancy. Patronage and corruption were still very widespread and considered by many to be "business as usual." While Elene was recognized as a progressive, she personally tried to be as politically neutral as possible. Even prior to the recent formal complaint, Elene had begun to feel a growing sense of discontent among her subordinates, many of whom were committee Staff hired according to their political attitudes and affiliations. Sometimes analysis of problems and proposed solutions coming out of the Staff offices were biased and skewed in favor of supporting the interests of one political party or the other. Some employees who had tried to be more objective and neutral in their analyses and reporting complained about the nature of reports being passed to decision makers, citing that they were too political and value-laden to support decisions that would serve the country as a whole. Further, in recent months, it was evident that the distribution of completed work was very unequal. A few of Elene's subordinates routinely worked tirelessly, completing very complex tasks, always meeting their deadlines and striving to ensure submission of reports that were accurate as well as substantive. However, many more of the other employees had clearly been less industrious in their work, seldom meeting deadlines and settling for products that barely met the requirements of their clients. There was a great deal of ambiguity in the division of labor and there were different perceptions among Staff members about each other's responsibilities. The formal complaint from the Committee on Economic Policy Chairman was simply the last piece of evidence that Elene needed to acknowledge that she must do something to address the mounting personnel problems in her office.

Diana felt in part responsible for Elene's future with the Committee. She knew that the Chairman and the Head of the Staff would attentively follow Elene's activities and would regularly revisit the question of her continued employment in the position for the foreseeable future. The best way to address the problem was to try to discuss the situation at the Committee with Elene, analyze the circumstances objectively, and identify the major reasons for her failure. Subsequent conversations between Diana and Elene centered around the fact that problems in the office existed on several levels. First, Elene knew that despite increasing importance of the Staff for the functioning of the Parliament, its role was still not

completely formulated, particularly in the areas of decision making and drafting legislation. Even though the Staff was supposed to be able to provide organizational, informational, and intellectual aid to the Members of Parliament, they, in fact, were only really prepared to provide the first two. They clearly were failing in their ability to provide the intellectual support that was required.

There also seemed to be no common understanding of the meaning and content of different positions of the Staff. There was considerable differences of opinions about the major duties of the leading specialists, senior specialists, and specialists. There was no universally understood list of requirements for each of these positions. Elene was clearly aware, based on problems with members of her Staff, that each committee determined what each of the positions would do. She knew that objectivity and neutrality of Staff was one of the basic principles that needed to be fulfilled.

Although Elene acknowledged the existence of numerous problems throughout the past year, she was puzzled and anxious after her conversations with the Head of the Personnel Department. She spent some time thinking about her role with the Committee, estimating her own strengths and searching for possibilities for improvement. Finally, she concluded that "where there is a will, there is a way." The promise of continued support from Diana, some members of the Committee, several Staff members, and her unwillingness to fall short of their expectations served as a strong incentive for Elene.

Elene decided that in order to develop a solution to the existing personnel problems, she first had to clearly understand their nature and scope. It was evident that the problems present in her office could be better understood by closely examining the people working there. She began to create a brief synopsis of each person's background and evaluation of their performance while under her supervision. The results of this analysis were very revealing and soon it was apparent where some changes were needed. Her list of employees and analysis of each of their backgrounds and performance began to paint a clearer picture of the real nature of the problem.

David Beridze: a Leading Specialist. David had been with the Staff Office for five years. He was known to be somewhat regressive in his politics, usually taking a conservative view of situations. He was very well respected among the rest of the Staff because of his tenure and experience, but not very well liked because of his political attitudes. David was educated in international economics and was generally viewed as being very knowledgeable of the field. David was one of those members of the Staff who had gained his position because he was very close to certain members of the Parliament. He was extremely loyal to those members and quite outspoken on their behalf. He was quick to rebuke other Staff members who tried to present opposing views. Elene knew that David was central to some of the problems she now faced. Because he came to the Staff Office before her, he felt resentful of her position over him and was often difficult to manage as a result.

Nino Galdava: a second Leading Specialist. Nino had only been with the Staff Office for two years, but had been promoted ahead of others in the office. She was also well educated, but was not very skilled in producing written policy analysis. She tended to be a "free-rider," often agreeing to work with others in producing a report, but failing to do her share of the work.

Tamar Sokhadze: a third Leading Specialist. Tamar was very skilled as a policy analyst and knew the area of economics as well as anyone else in the office. She was new to the Staff Office, having transferred from the Staff Office on Budget and Finance one year earlier. She almost immediately began complaining to Elene that her duties were not the same as in her previous position even though she carried the same job title there. Because of her discontent over what she perceived as being forced to perform duties that were not her responsibility, Tamar was perhaps the most difficult of the Staff personnel for Elene to manage.

Nick Akhvlediani: a Senior Specialist. Nick was the person whom Elene had found she could count on to complete his work in a timely fashion. He was new in the Staff Office, having worked there just less than one year. In that time, however, he had demonstrated that he could work under short deadlines, without close supervision, and seldom complained about anything. Elene found herself relying on him a great deal since he was so willing to do things for her. In fact, many times, it was easier to appeal to Nick to work on a project than either of the Leading Specialists. Elene knew this was unfair since she was asking Nick to perform work that was usually delegated to the more senior Leading Specialists, but it was simply easier for her.

Manana Shubitidze: a Specialist. Manana had been with the Staff Office for almost four years, but in that time, the quality of her work had changed very little. She tried very hard, but just did not seem able to produce work in the volume or quality that was required. She was a very nice person and everyone liked to work with her, and because she was so pleasant and easy to work with, they forgave her shortcomings. Elene suspected that some people even did Manana's work so her superiors would not know she was not able to do it. Manana had studied political science at the university, but did not specialize in any particular area. As a result, her understanding of the current political and economic situation was shallow and Elene believed that this could be part of the reason for her weaknesses.

Michael Mosidze: a Specialist. Michael was educated in international law. He knew David for many years from the time they were students together before they attended university. Michael was relatively new in the Staff Office, working there for only six months. Despite his short time in the position, he was very outspoken. He complained about many things in the office, including the distribution of work, the favoritism that Elene seemed to show to Nick, the poor pay, and the long hours. Michael seemed to be more concerned with leading

the Staff in organizing their complaints against Elene than in meeting the goals of the office.

Anna Khonelidze: a Specialist. Anna studied English at university and served the office primarily as a technician. She was responsible for conducting Internet research and for translating materials for other members of the Staff. Anna had a good work ethic, but there were cases in which her research was not thorough enough. The result was that sometimes other specialists did not receive the information that they needed to complete their work. Because Anna didn't study the more substantive areas of interest to the Staff, such as law and economics, she had difficulty translating highly technical materials accurately.

Major Points of the Personnel Reform Draft

Diana carefully studied the notes and thoughts Elene had shared and concluded that the problems in her office were many. It was clear to her that the Committee on Economic Policy was typical of other committees in the Parliament and its personnel problems were common for the rest of the Parliament. It was equally clear that a personnel reform should address the problems identified. Diana was beginning to feel the pressure of her task as she attempted to develop the required plan for action.

As Head of the Personnel Department, Diana was responsible for the results of the overall personnel reforms at the Parliament. Some weaknesses of the newly adopted Law on Public Service, resistance to changes among the Staff, and some degree of uncertainty about the results of the personnel reform at the Parliament were the factors that she was thinking about while designing the plan. In her favor was the overall character of the Parliament. In the opinion of many local and foreign experts, the Parliament of Georgia was actually a quite dynamic, "reform-oriented" body. The leadership of the Parliament knew that the Georgian Parliament needed a highly professional Staff that would strongly support MPs in their legislative activities and formulating substantive policy. Support of the Chairman of the Parliament and the Head of the Staff was a key factor for the success of the reforms.

Diana continued to draft her proposal, knowing that the work she was doing was going to be part of sweeping personnel changes in Parliament. She also knew that a system involving human resources planning, recruitment, and selection of the Staff members would be necessary as part of the reform effort. In this particular case, successful development of such a system would result in the creation of a formal framework for addressing major weaknesses of the Committee on Economic Policy and all other committees in Parliament. It was essential that the Personnel Department be directly involved in all aspects of an employee's life in the organization, including their work, adaptation, professional training, and career development, in order to effect solutions of social and working environment problems. Before that, it was evident that a detailed job analysis must be conducted and, as a result, job descriptions needed to be

written for all positions at the Parliament. This would create a basis for establishing a merit-based recruitment system. These would include employee rights and responsibilities and job specifications. It would also avoid ambiguities in the division of labor, responsibilities and functions of different positions, overlaps and duplications of final work.

Recruitment in the past had been a particular problem. The 1997 law provided for competitive recruitment and a procedure was already in place. This was part of the reform effort. Vacancies had to be advertised, a competition held, and the winning candidate nominated for appointment by a "competition-certification commission."

Professional training and retraining of civil servants were also going to be especially important. A national training strategy for the civil service was not yet formulated [WB, 1998]. Nevertheless, the Law on Public Service identified some parameters for such a strategy and the unit responsible for developing and implementing the training policy, the Attestation and Training Department of the Civil Service Bureau had been established. Diana knew that the scale of the training needs in the Georgian civil service was vast and the lack of clearly formulated training priorities made it very difficult to target resources on the most critical training activities and to raise additional resources from internal and external sources.

Another area of primary concern was the arrangement for remuneration. Unsustainably low pay levels characterized the public service across Georgia. Real wages fell by 90% between 1991 and 1994. While pay had been rising since then, the erosion in real wages had not yet been reversed. Clearly, the future professionalism of Parliamentary committee Staff would depend on an established scheduled pay scale based on merit.

There was no doubt in Diana's mind that the activities described above, those that were already in place, should be continued. But clearly, Georgian civil service needed further radical reforms conducted by the undertakings and serious efforts of all three branches of government. Her proposal was almost prepared and she was ready to send it out for review. As she left her office late in the evening, Diana could not help but wonder whether her proposed reforms went far enough. She thought about the major steps in the implementation of this proposal and considered what would be the most difficult obstacles to it.

The State of Personnel Reform in The Georgian Parliament in 2001

More than two years have passed since the personnel reforms began. Since then, several non-personnel related activities, essential for the ultimate success of these efforts, have been accomplished. These appeared in the form of several sequential steps undertaken according to the plan originally developed by the Head of the Personnel Department. They include the following:

Separation of Political and Nonpolitical Positions

First, it was necessary to separate the Parliament's political and nonpolitical positions. This effort was reminiscent of Woodrow Wilson's politics-administration dichotomy and was endorsed for the same reasons that Wilson advocated it. This separation had to be accomplished in order to ensure the continuity of public service and administrative activities in the case of any political changes in the Parliament.

Collection and Analysis of International Experience

Next, it was essential to introduce and share the experience of other countries with rich parliamentary traditions. Four international projects were implemented beginning in 1995 and continued as this personnel reform project was undertaken. Implementation of these projects was conducted simultaneously. The first was a joint project with the National Academy of Public Administration (Washington, D.C., USA) devoted to the introduction of information technologies at the Parliament. A second was a project with the Bundestag, the German Parliament. Third was a project with a representative of the Swedish Parliament. Finally, there was the TACIS project of institutional development for the Georgian Parliament. Experience acquired at the US Congress, and the Parliaments of Sweden, France, Germany, Russia, Portugal, and Great Britain created a solid basis for all institutional changes at the Parliament of Georgia.

Development of the Parliament's Organizational Structure

A third element was to review the Staff regulations and its compatibility with the Parliamentary regulations. A decree was prepared that served as the basis for asking all employees to submit written reports about their personal results for the last two years. The reports were analyzed by the Head of the Personnel Department and her employees for the purpose of understanding the division of responsibilities between different units of the Staff departments and the different committees, to find overlaps, duplications, weak points, etc. As a result, the Parliament's organizational structure was clarified and the status of different Staff units was defined. Amendments were presented and approved in the laws on factions and temporary and investigation commissions of the Parliament. The next step undertaken was the development, submission and approval of the Regulations of the Parliament. Based on this, the Regulations of the Staff of the Parliament have been adopted and this document clarified the structure of the Staff, its purpose, and main activities. The list of the structural units of the Staff of the Parliament may be found in Attachment 3.

Similarly, structures of the Committees, Staffs of the Committees and all Departments were developed and separate regulations were written and adopted. The functions of committees and departments of the Staff were separated and overlaps were avoided.

Creation of Job Descriptions

The next area was that of writing job descriptions and the creation of an environment of training and development of Staff. Job descriptions were written and approved for all positions and all employees became aware of their rights, responsibilities, content of the job that they are supposed to fulfill and got acquainted with the professional requirements based on the content.

Identification of Required Staffing Levels

The ranking of positions and definition of functions, as well as clarification of the necessary numbers of employees, were done separately for the Parliamentary committees and Staff. Procedures were developed for employee testing and open competition. Employee testing and ranking were conducted using these procedures. In this way, Staff members would be hired only through open competition, or from the reserve database created by the results of selection procedures.

Development of Training Plan

Another area of reform was that of training. The development of clearly formulated training priorities, competitive procurement practices, contract management experience and financial controls would result in the ability to acquire the necessary training and ensure that it was of acceptable quality and cost-effective. In view of the scarcity of resources, the government also needed to evaluate training programs and assess the effectiveness of existing training arrangements. Several institutions have served the training needs of the civil servants in recent years. These include:

• The Public Administration College of TACIS (PACT) was created under the TACIS, Georgia's Civil Service Reform and Training Program. It started in 1995, and provided in-service training to 1,800 civil servants representing all three branches of government. Among them were 150 Staff employees of the Parliament.
• The Georgian Institute of Public Affairs (GIPA) was founded in 1994, and funded by US foundations. It provided a one-year MPA program to about 30 people annually. Every year, several Staff members from the Parliament are sent to GIPA for further education and the Parliament is one of the primary employers of GIPA graduates.
• The Regional Policy and Management Learning and Research Center of the President of Georgia. This center has been operating since September 1997 and provided one month of training to the heads of villages [WB, 1998; Marine Asatiani, 1999].

In addition, since 1996, almost 250 Staff members of the Parliament have received training abroad. A Computer Training Center was introduced where 20-25 employees are trained every month. Further, foreign language training courses have been introduced and function successfully.

Creation of the Reserve Database

Another requirement was the creation of a reserve database for the Staff of the Parliament. This system was being implemented and information about more than 500 applicants from different educational institutions, public organizations, and NGOs were eventually collected and included in the reserve. At this point, some of these applicants placed in the current database had already been selected for various positions at the Staff of Parliament.

ATTESTATION PROCESS

Upon observing the evolution of the attestation process since it began in March 1997, it was clear that the employee attestation was necessary to complete the reform effort. The groundwork and procedures were prepared for the process, and it was held from April to May 2001. The major aim of the attestation was to evaluate the knowledge and professional ability of Staff, define their correspondence to the occupied positions and assign ranks that would define their salaries.

REFORMS IMPLEMENTED

These areas all represent elements of personnel reform implemented to date. Overall, according to the local and foreign experts, changes undertaken in the personnel system of the Parliament of Georgia were the most serious personnel reform in Georgia's public sector. However, the drawbacks and weaknesses of the current situation are the subject of analysis. Several areas were defined that need attention and further improvement:

- Periodic revision of the structures of the committees and Staff of the Parliament to facilitate adjustment to the rapidly changing environment.
- Further development of the attestation requirements and attestation procedures to achieve more transparent and an unbiased evaluation of personnel knowledge and professional skills.
- Reduction of the number of Staff should be expected as a result of the above actions.
- Further development of serious training programs, conducting fundraising activities, and working with local and foreign donors for funding different training courses. Recently the in-house Foreign Language Training Center ceased its successful work due to the absence of funding.
- Improvement of the technical and technological equipment of offices.
- Improvement in the dissemination of information through strengthening printing and publishing activities. Publication of the Parliamentary Proceedings has ceased, again due to the lack of money. Plans to establish mini publishing in-house have been developed which will reduce the amount of needed funds.

CODE OF ETHICS

One additional area that has been the subject of ongoing discussions in Georgia is the introduction of a professional code of ethics, which does not currently exist. In reviewing the experiences of other countries, it is obvious that such declarations of ethical expectations for the public sector have contributed to improved decision-making and more fair and equitable public service delivery. Coupled with personnel reforms already implemented, one can surmise that a code of ethics would have similar results in Georgia.

Questions for Discussion

1. How would you evaluate the overall personnel reform plan?
2. What could be the additional or alternative options for the personnel reform at the Georgian Parliament?
3. What kind of performance evaluation would be appropriate under the newly established merit system?
4. What are the changes that you would expect for the Staff of the Economic Policy Committee after reforms?
5. Which HRM techniques can be used to abolish a high level of politicization in the civil service?
6. Why is a legislative framework important for public personnel management? What did the adoption of a new Law on Public Service change for every public manager?
7. What are the characteristics of a professional civil servant?
8. What are the reasons behind the unequal workload of employees in the same organization or a unit? Which HRM techniques can be used to improve such a situation?
9. Who among the Staff members of the Committee on Economic Policy were most likely to be supportive of the changes towards a merit system? Who would supposedly most resist change?

Postscript: The Fate of the Staff of the Committee on Economic Policy

As a result of implementation of the personnel reforms, several changes occurred among members of Elene's Staff. Through the attestation process, as part of the development of the organizational structure of Parliament, Nino Galdava was identified as an employee who had contributed little to the overall work of the Staff office as a unit. Her two-year self-study, combined with those of her colleagues from the committee Staff, clearly showed that others had produced the work that she had initially taken credit for. Based on these findings, she was assigned to the lowest rank she could be given. Similarly, Michael Mosidze, because he was more concerned with organizing employees in their complaints than in producing policy analysis, was transferred to another committee where there was an urgent need for a lawyer.

Nick Akhvtediani was recognized as a Staff member with potential. As a result of his self-study, he was offered an opportunity to attend the Georgian-American Institute of Public Affairs to earn a Master's Degree in Public Administration. The purpose of the institute is to prepare public administrators versed in concepts and principles of state management, as well as the theories and practice of market economics, law, ethics, public policy, and the political and economic aspects of public management. This was in response to the reform's call for additional training for public employees. Upon graduation, he was promised a promotion to the position of Leading Specialist. His exposure to Western administrative theories and practices at the institute were expected to prepare him for advancement to a position of greater responsibility in the future. Training was also recommended for Manana Shubitidze and Anna Khonelidze. Manana decided to apply for the advanced degree program in political science at the university. Anna is looking for courses of a more general nature to get acquainted with the basic concepts needed to translate the technical materials she handles.

The creation of job descriptions made Tamar Sokhadze much easier for Elene to handle. Tamar's earlier discontent with her position all but disappeared once she had a specific description of her duties, rights, and responsibilities to refer to. She sensed almost immediately that she had received an organizational identity that not only established her appropriate title, but also the content of her job. The tension between David Beridze and Elene was relieved substantially following the elections of 1999. His closest "political boss" was not reelected to Parliament and, thus, David's political anchor was gone from the scene. Without the influence of this individual, David soon began to change the focus of his activities toward building upon his professional and intellectual strengths and further his own career.

A study of the required staffing levels for the Committee Staff revealed that, despite termination of Michael, a Staff of seven was essential for efficient and effective operation of the department. The reserve database was consulted to find a suitable replacement for him. The new member was hired on a competitive basis as a result of testing that measured his skills and abilities in areas required for the position.

Finally, Elene was retained as the Head of the Staff Office at the Committee on Economic Policy. Though she was not without responsibility for the condition of the Staff prior to implementation of the personnel reforms, she was found to be capable of managing the members under the right conditions. In order to make her better prepared to take the department forward through the reform effort, Elene was given in-house management training through regular meetings with Heads of Staff and Personnel Department. Her job description clearly delineated her responsibilities in the area of supervision. Among other things, she was provided with procedures and processes for evaluating Staff to ensure

proper assessment of their performance and a mechanism for reporting the results. In short, her responsibilities were at last matched with her authority.

The future of general reforms in Georgia could well depend on these and other cases of success with implementation of the crucial elements of personnel reform. The optimist would argue that steps already taken put Georgia on the path to meaningful change in its personnel structure and its overall system of governance. However, there are always situations in which politics and reform efforts collide and this process of personnel reform has at times been difficult and has had some setbacks along the way. Those closely involved with the efforts are sure that they have launched the necessary steps to bring about the desired reforms. But these were only the initial and most necessary steps. The answer to the eternal question "Should they do more?" seems to be evident.

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Attachment 1
General Structure of the Parliament of Georgia:

Parliamentarians

Chairman of the Parliament

Vice Chairmen

Bureau

Committees

Factions

Interim Commissions

Staff of the Parliament

National Library

Departments
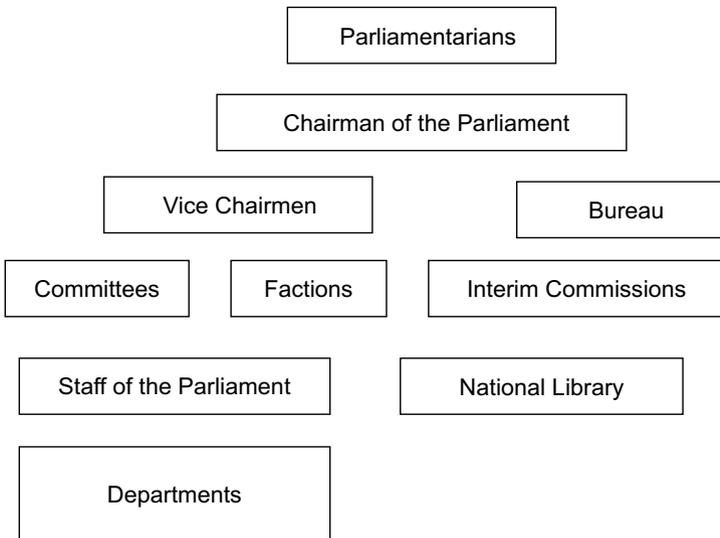
Attachment 2

General Structure of the Committee on Economic Policy:

Chairman of the Committee

First Deputy

Deputy

Subcommittee

Subcommittee

Subcommittee

Head of the Committee Staff
(Elene Ratiani)

Committee Staff:

David Beridze
Nino Galdava
Tamar Sokhadze
Nick Akhvlediani
Manana Shubitidze
Michael Mosidze
Anna Khonelidze
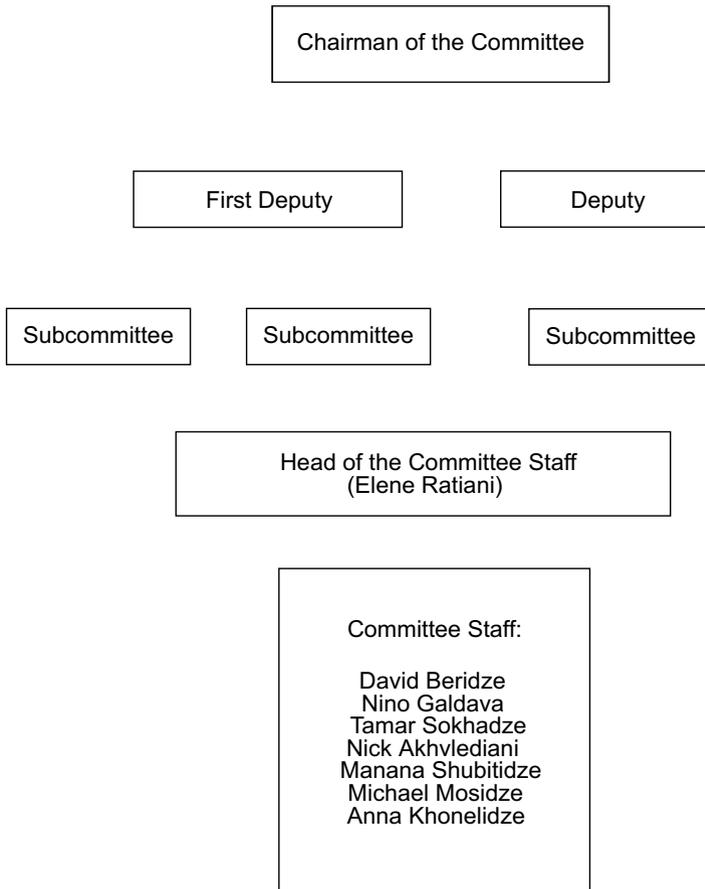
Attachment 3

Committees of the Parliament of Georgia

- Agrarian Issues Committee
- Human Rights, Petitions by Citizens and the Construction of Civil Community Committee
- Tax and Revenue Committee
- Education, Science, Culture and Sport Committee
- Environmental Protection and Natural Resources Committee
- Sector Economy Committee
- Economic Policy Committee
- Civil Integration Committee
- Defense and Security Committee
- Regional Policy and Self-Government Committee
- Legal Issues, the Legitimacy and Administrative Reforms Committee
- Mountainous Regions and Settlements Committee
- Foreign Relations Committee
- Procedural Issues and Rules Committee
- Budget and Finance Committee
- Healthcare and Social Issues Committee

Staff of the Parliament of Georgia

- Organizational Department
- Legal Department
- Department of International Relations
- Department of Press and Information
- Public Relations Department
- Department of Informatics
- Budget Office
- Library and Research Office
- Research Department
- Main Chancellery
- Personnel Department
- Finance Department
- Economic Supplies Department
- Supervisor's Service
- Staff Offices of Committees, Fractions, and Interim Commissions.

Performance Appraisal in the Estonian State Audit Office

Külli Viks *

Introduction

Performance appraisal of employees has been at the top of the Human Resources Department agendas in the Western world for decades. Sophisticated performance appraisal systems are gaining ground and popularity also in Central and Eastern Europe. Appraisals are used with different aims in mind. They are, for example, implemented to detect training and development needs, to foster communication in the organization or to lay ground for remuneration or promotion decisions. However, appraisals do not always result in expected outcomes. They may bring tensions and conflicts. As Murphy and Cleveland (1995) among other authors have noted, it is hard to do with performance appraisal and it is hard to do without it.

The problem is that there is no ideal performance appraisal system. An appraisal system must be suited to the context and be appropriate for achieving the aims it is expected to achieve. Furthermore, its functionality is dependent on the way people involved in the process perceive it. Nalbaldian ([1981] 1992) has good reasons to note that appraisals would work very well "if only people were not involved." Therefore, when developing an appraisal system, it is essential to ask why the appraisal is conducted and how these aims are targeted. These considerations result in the design of an appraisal system. However, good design of a system is only one step on the way to success. The other, and as important, is the way the system is implemented. Therefore, there are two aspects to keep in mind when analyzing an appraisal system – its design and implementation. Attention to these issues helps to find an answer to the question of whether the system has fulfilled the aims it was expected to and, if not, then why not.

This case study focuses on a performance appraisal system, which was introduced to the Estonian State Audit Office in 1999 as a step in a wider organizational change process. The aim of the appraisal was to gain an overview of the human resources of the Office. The case provides insight into the design and implementation issues of performance appraisal in a complex situation. The study begins with an introduction to the context of the case and then goes to the performance appraisal system implemented and its results. The terms "evaluation" and "appraisal" are used as synonyms.

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Background Information

Estonia regained independence from the Soviet Union in August 1991. For Estonian public administration, independence presented a dual challenge. On the one hand, it created the need to restructure and downsize the old structures inherited from Soviet Estonia. On the other hand, it brought the need to create new structures required by an independent state. The old state structures were neither comprehensive – because many functions belonged to the central government in Moscow – nor compatible with new demands. Estonia needed, among other institutions, an independent audit institution that would keep an eye on the ways the public funds are used.

In March 1990, the Supreme Soviet declared that the occupation of Estonia by Soviet Union in 1940 did not discontinue the existence of the Republic of Estonia de jure and announced a period of transition. Three months later, a law followed that determined the end of the subordination of Estonian legislative, administrative and judicial powers to the ones in the Soviet Union and divorced respective organs from the Soviet system.

In June 1990, more than a year before actual independence, the State Audit Office Act was adopted by the Supreme Soviet after a year of preparations. The Estonian State Audit Office (SAO) was reestablished [i]. Hindrek-Peeter Meri (born 1934) was appointed as the first Auditor General (AG) for a 7-year term. In November 1990, the newly established State Audit Office started functioning. Hindrek-Peeter Meri faced the challenge of developing the SAO into an independent audit institution like its counterparts in democratic countries. Under his leadership, the SAO grew to 80 employees in 1997 (Riigikontroll 1999). The term of Hindrek-Peeter Meri ended on 31 October 1997. In spite of speculations on his second term in the office, Meri did not continue. The main formal obstacle for that was his age. According to the State Audit Act, the person to be named Auditor General cannot be older than 60.

Finding a successor to Meri appeared to not be an easy task. Finally, almost six months after Meri had left the office, Estonian parliament Riigikogu appointed a new Auditor General, Juhan Parts (born 1966), a lawyer by education. His 5-year term in office started on 9 June 1998. The decision of Riigikogu made Parts (then 31) the youngest head of a constitutional institution in Estonia. Previously Deputy Secretary-General of the Estonian Ministry of Justice, Parts had the reputation of being a self-confident and reform-minded young man. He came to office with a strong vision for the term. In the presentation in front of Riigikogu, Parts emphasized the need for an organizational change concerning both the SAOs role and auditing practices. Although recognizing the work done by the SAO, Parts saw the main challenges for his term in developing the SAO into an institution up to international standards, which helps to increase efficiency, effectiveness, accountability and transparency of Estonian public administration. The SAO should become an institution which helps to raise the law obedience of Estonian civil servants and public trust towards administration. (Riigikontroll

1998) A central issue in this context was the issue of the personnel education and competence (Parts 1998).

Meri had the task of creating the SAO and developing it into an independent audit institution. Parts faced the challenge of bringing the Office to the level needed by a modern state upholding the principle of rule of law and acting in a dynamic international environment. The wish to gain an overview of the workforce and its ability to comply with the SAO's changing role and audit practices convinced new management of the need to conduct a comprehensive evaluation of human resources.

Context of the Evaluation

In 1998, when Parts entered the office, the SAO was divided into six audit departments[ii] and three support units (law, development and administration). Audit departments were led by six chief auditors. Tasks were divided between departments according to institutional principles.

The European Commission stated in its 1997 Opinion on Estonia's Application for Membership that the SAO's staff of 80 was "a modest level given the scale of the tasks." It also found that "the effective administration of the *acquis* in this area will require considerable efforts to establish the necessary management and control mechanisms." (European Commission 1997) The need for better means of control, planning and management was confirmed by a peer review of OECD/SIGMA experts, ordered by the new Auditor General after half a year in the office (Peer Review of the State Audit Office of Estonia).

The average age of employees was very high – 52 at the end of 1997 (Riigikontroll 1999). For comparison, in 1997, 55.8% of Estonian civil servants were younger than 40 years of age and 80.6% younger than 50 years of age (Riigikantselei 2000). In the SAO, there were not many people under the age of 40. Many of the civil servants of the SAO had worked for the organization since its establishment in 1990.

The employment of officials of the SAO is regulated by the general Public Service Act with some specific regulations in the State Audit Office Act. In 1996, when the Public Service Act came into force, all employees working in positions in public administration institutions and fulfilling the general criteria (21 years of age, Estonian citizenship, secondary education, knowledge of Estonian language) became public officials without exams or other selection mechanism. The same had happened in the SAO.

Human resources development had not been a central management issue in the SAO during the first seven years of its existence. An aide of the Auditor General Meri was responsible for personnel issues. However, HRM was limited to training that took place on a rather unsystematic basis, routine hiring and taking care of necessary documentation. There was no systematic arrangement for training and developing the staff. The organization had not had a formal

performance appraisal system. Evaluation of performance had mainly taken place in the soft and irregular form of analysis and discussion of auditing acts.

Altogether, the situation was delicate. The new Auditor General was considerably younger than most of the auditors. Officials of the Office knew that he came with plans for challenging their habitual ways of work and questioning their professionalism and suitability for the Office. Some of the auditors knew Parts from an audit conducted in the Ministry of Justice, his previous place of service, and remembered his sharp remarks on the arrangement of their work.

Design of an Appraisal System

New management designed the appraisal system to be implemented. It was linked to an order of determining the officials who would attend a complementary training program for audit officials who were to take the auditor exam. In designing the appraisal system, the management of the SAO looked for inspiration in appraisal systems used in German ministries and adopted some elements from there. Although Estonia has in the course of its changes decided on a position-based public service system in the 1990s, the German legal system and its career-based public service model were often used as reference points and sources of ideas in Estonia.

In November 1998, after the new Auditor General (AG) had been in office for five months, the draft versions of the procedures (evaluation and training of Staff) were given for comment to the chief auditors and heads of departments. They used the chance to comment on the system and made their recommendations. The main concerns of commentators were related to the complexity of the proposed systems, their possible negative impact on the organizational climate and, most importantly, to the composition and qualification of the evaluation committee that was foreseen as a central player in the appraisal process. The draft procedure did not prescribe any requirements regarding the education or experience of the members of the evaluation committee ("SAO servants assigned by AG"). Several of the comments and questions were taken into account in the final decisions.

The system of performance appraisal of officials who performed audits (support Staff was not included) was adopted by the Directive of the Auditor General on 2 February 1999 (the Procedure for Performance Evaluation of Auditing Officials of the State Audit Office, henceforth the Procedure). Employees to be appraised with the help of the new system were 46 auditors, including the 6 chief auditors.[iii] The procedure also designated February 5th as the date of commencement of the performance evaluation.

The management had designed a sophisticated and comprehensive appraisal system that aimed to give an exhaustive overview of the audit officials' professionalism (audit skills) and personal characteristics. The appraisal process

relied strongly on complex evaluation forms that were expected to help in fulfilling this aim. There were four kinds of forms involved (see Annexes A-D). The direct superior (AG for chief auditors) and the evaluation committee had a central role in the system. Although the process took place only once in practice, it was designated as an annual procedure.

When looking at appraisal systems in general, it is possible to divide them into two general types - ones that "differentiate within people" and the others that "differentiate between people." The first are "softer" and target communication and development needs of staff (like improving performance through better understanding of one's role). The latter are "stronger" and create a basis for administrative decisions (like remuneration, promotion or dismissal). Related to the specific organizational situation, the designers of the appraisal system implemented in the SAO opted for strong administrative aims, meaning for "differentiation between people."

Implementation of the System

Next to design, implementation is another important characteristic of an evaluation process. Stronger appraisal systems are more difficult to implement, because they may challenge the self-confidence and positive self-image of employees and create organizational tensions. Designers must be aware of that and of possible consequences.

The Procedure fixed the purpose of the performance evaluation as "the appraisal of the work results of an official, assessment of his or her achievements and possibilities for the improvement of his or her performance, determination of the level of his or her competence and additional remuneration for effective performance." Besides this, the officials of the SAO were informed that the aim of the comprehensive evaluation is to "gain a picture of the organization and its workforce." They were also assured that "those who are good can stay in the organization."

The appraisal system was introduced to those who would be appraised in a few general meetings. The chief auditors were expected to discuss the evaluation procedure with their subordinates and in that way prepare the staff for evaluation. However, by that time there were already tensions and suspicion in the organization and evaluation was largely perceived as a threatening initiative that the new young management had taken towards the staff of the organization. That may have affected in a negative way the preparation of officials for evaluation and their expectations towards the process.

Process of Evaluation

The appraisal process was similar for the six chief auditors and their subordinates. The process started with the evaluation of chief auditors. Their subordinate audit officials were evaluated later. The performance appraisal process of 6 chief auditors began with their evaluation by their subordinate

officials. Officials completed a "Manager's evaluation form" (see Annex A) and submitted it to the Auditor General in a sealed envelope. This information was intended as information for the Auditor General only and was not forwarded to the evaluation committee. Evaluations submitted by officials working in audit departments were to help the AG to appraise management capacity and skills of chief auditors. After reviewing the opinions of staff, the Auditor General completed the same form and submitted it to the evaluation committee.

As a second step, a chief auditor and the Auditor General jointly selected two of the most significant audits managed by the chief auditor in the preceding year and considered "good work" by him/herself. They completed "Audit evaluation forms" (see Annex B) independently of each other and submitted completed forms to the evaluation committee. It gave auditors the possibility for self-evaluation. However, their evaluation was "for information only" and mainly intended to "determine the topics of an interview to be held between the chief auditor and the committee." Thirdly, after interviewing all chief auditors, the Auditor General completed the "Official's evaluation forms" (see Annex C) and forwarded the forms, again, to the committee.

For audit officials, the process began with the selection of the most significant audit assignment from among those performed in the preceding year ("good work"). They completed the "Audit assignment evaluation forms" (see Annex D) and so did their chief auditors. The self-evaluations of officials submitted to the committee were similarly for "information only." Secondly, chief auditors, as direct superiors, completed "Official's evaluation forms" (Annex C) regarding each official of their departments and forwarded the forms to the committee.

The evaluation forms completed by Auditor General (A, B and C) and chief auditors (C and D) forwarded to the committee were treated as "primary evaluator" proposals for the performance evaluation of chief auditors and officials respectively. All completed forms were considered confidential. They created the basis for the interview with the committee.

Role and Composition of the Evaluation Committee

The final evaluation was given by the committee, which, after interviewing the people being appraised, decided on the grades. The committee was chaired by the Auditor General. It was composed almost exclusively of representatives of new management. Chief auditors participated in the committee with regard to the evaluation of their subordinate officials. Four permanent members of the committee designated by the AG were all representatives of new management, brought to the office by Parts. The committee also comprised an external expert - a former colleague of Parts from the Ministry of Justice.

In contrast to the high average age of the people being appraised, the members of the committee appointed by the AG were very young. The average age of the committee (without participating chief auditors) was 27 (compared to that of 52 years of age for the people being appraised). Although the

members of the committee had previous public sector experience in demanding positions, none of them had conducted an audit or worked as an auditor before.

The committee examined all evaluation forms forwarded to it and also all materials related to the evaluated audits. Audits were divided between members of the committee, so that there would be an informed evaluator for every audit. After examining written materials, the committee interviewed all officials. The discussion was based on evaluation forms and addressed both the auditing skills as well as other work related issues like self-development or work practices.

After interviewing, the committee decided whether it agreed with the grades given by the primary evaluator (Auditor General or chief auditor respectively) and adopted a decision on the approval of the evaluation forms. The committee had the right to change grades given by the primary evaluator with a reasoned decision and used this possibility widely. With regard to the chief auditors, the committee found that one person being appraised deserved higher grades than given by the AG. In two cases, the committee lowered grades. With regard to the audit officials, the situation was somewhat different. In most of the cases, the chief auditors evaluated their subordinates more positively than was seen by the committee. Consequently, for almost all of the officials, the committee lowered some grades given by chief auditors. Raising the grades was very rare. In general, chief auditors evaluated their subordinates a couple of points higher than the committee.

Final Evaluation

After the approval of the evaluation forms, the grades were weighed and combined grades were calculated (see Annex E for methodology). The final evaluation of both auditors and chief auditors was reflected by the weighted average combined grade of the "Official's evaluation form" (Annex C), i.e., by a single number on a scale of 1 (does not meet expectations) to 9 (surpasses expectations to considerable extent)[iv]. The wider aim of the evaluation was to gain a picture of the human resources of the Office and their professional skills, training needs and development potential, and to make these evaluations comparable by expressing them on a unified scale.

The methods used in the weighting of grades were made known to those being appraised only after the completion of the appraisal. They represented a very complicated system of acquiring the final evaluation. The aim of the weighting was to increase "the share of the most significant skills, abilities and performance indicators" in the combined grade. When the evaluation forms were filled out, auditors did not know how different subject categories would influence the final grade. They did not know what characteristics would be regarded as the most significant by the committee.

The results of the appraisal of every official were expressed in a comprehensive evaluation act signed by all members of the committee. It justified changes made in the grades given by the primary evaluator, gave evaluations to "the developmental potential and training needs of a person being appraised", provided the weighted average combined grade and made recommendations to the Auditor General with regard to the officials evaluated and to the official him/herself.

A copy of the evaluation act concerning those being appraised was provided together with copies of the evaluation forms to them and to respective chief auditor (or Auditor General in case of chief auditors). It was expected that the chief auditors, as members of the evaluating committee, would discuss given grades and final decisions with their subordinates. However, it was not mandatory and, therefore, up to the will and initiative of the chief auditors. It was not determined whether the discussions actually took place or not. The chief auditors' motivation for discussion was also related to their own experience as one of those being appraised in front of the committee.

Results of Performance Appraisal

According to the Procedure, the results of the performance appraisal could have been a reasoned proposal to the Auditor General to change the salary level of the official or for his or her appointment to another position, or to release the official from the service because of unsuitability to his or her current position[v].

The final grades calculated by the committee varied between 4 and 6 (i.e., between "meets minimum expectations" and "meets expectations"). Three audit officials out of 40 were found to meet only minimum expectations. Most of those being appraised were found to meet expectations (24 officials, i.e., 52% received the grade of 6). Only one person out of the 46 got a final grade of 7 ("surpasses expectations") and additional remuneration. ten officials (22%) were directed to the complementary training program initiated in the same year. To 6 officials, the committee suggested listening to some specific lectures from the program, according to their personal development needs.

With respect to two persons, the committee recommended that the AG release them from service on grounds prescribed in the Procedure. With respect to six, the committee recommended that the AG have a conversation with them with regard to "the possibility of their continuation as officials of the SAO." The reasons for that were related to their performance, professional skills and ability to function as an auditor, as well as to their personal characteristics and ability to be a team member. Reasons for these recommendations were brought out in the final evaluations.

Chief auditors, the heads of the audit departments, received grades between 4 and 6 just like the rest of the Staff. Three were found to meet "minimum expectations" and three met the "expectations" level. In two cases, the committee

recommended that the AG demote these chief auditors to senior audit officials. Two were shifted to the higher salary level. The main problems of the chief auditors identified in the final evaluations were related to their performance as managers. The most serious deficit ascribed to the chief auditors was insufficient functioning as a supervisor. Other issues were related to coordination, creation and equipping of teams, and solving conflicts and deficiencies in the work methodology. As expressed by a member of the committee, thus far, they had been functioning as "senior audit experts and not as managers." The main problem identified by the committee in the performance of audit officials in general was the low quality in establishing standards for audit assignments. Although there were formal standards adopted by the AG Meri, these were not followed.

Evaluation of the Appraisal

Three months after the performance appraisal process, the human resources manager started to work in the organization. She performed a retrospective analysis of the appraisal. The human resources manager concluded that:

- the appraisal system was designed in a hurry and announced as a fact not to be questioned;
- officials were not motivated to take an active part in the process;
- considering the age and working practices of the officials, the evaluation would have presumed much more thorough preparations;
- the goals of evaluation were purely management oriented and appraisal process itself frightening for officials.

Although the process had fulfilled its aim and had given the new reform-oriented management a picture of the workforce of the SAO, its audit practices, problems and development needs, it had also created tensions and disturbed the work environment. Several people left the organization with negative feelings. Although the appraisal took place only once in practice, in the Procedure it was fixed as an annual activity to be taken every year and in that way appeared much more frightening to employees.

The human resources manager presumed that there were good grounds to suspect that implementation of a softer appraisal system in the future would need much more attention related to the officials' negative experience from the past. OECD/SIGMA experts who conducted the peer review of the SAO ordered by the new AG suggested that: "The Staff assessment process should be simplified and made easier to administer. It needs to be made less threatening and linked to personal development and training issues." (Peer Review of the State Audit Office of Estonia)

Questions for Discussion

1. What would you judge to be the successes and failures of the implementation of the performance appraisal system in this case?

2. What are the strengths and weaknesses of the performance appraisal system as it was implemented?
3. What do you think were the main motivations for implementing this performance appraisal system?
4. What would you do differently in developing and introducing a performance appraisal system in your organization?
5. How does the system implemented here compare with performance appraisal systems in other countries of the CEE region?
6. What would be the criteria for making choice between incremental and radical reform strategy in human resources?
7. What possibilities are there for the management of an organization to create the feeling of ownership of an appraisal system among employees?
8. What would be the advantages of using a direct supervisor as a main evaluator? An evaluation committee?
9. What issues are there to take into account when designing an appraisal system for a knowledge-intensive organization?
10. What positive and negative aspects are there in revealing the methodology of calculating grades to those being appraised?
11. What would be the criteria for evaluating the forms to be used in the appraisal process?
12. What would be an optimum period of time for evaluation? How do time considerations enter the process of implementing a new appraisal system?

Conclusion: The Situation One Year Later

Half a year later, the evaluation of audit officials was followed by a structural reform that was, according to the words of an official, "even worse than the evaluation." Nevertheless, compared to the performance appraisal, much more attention was paid to the communication, informing and management of change processes. The State Audit Office was reorganized into three audit departments – financial audit, performance audit and audit of operational risks. Such an arrangement is expected to foster teamwork and human resources development, as well as to create a basis for clear accountability relationships and specialization. Several people left the organization as a result of the reform. None of the chief auditors continued as head of a department. A comprehensive training program was initiated applying both to several members of the present staff and to new civil servants, most of whom came straight from university. The labor turnover of the SAO was 27% in 1999 and 36% in 2000.

Since 1998, when the new Auditor General Juhan Parts entered office, the SAO of Estonia has gone through considerable changes. Already in 1999, compared to the previous year, the budget of the Office increased 73 %, from 15 to 26 million Estonian crowns. Development projects undertaken can be divided into five fields: management, human resources development, development of auditing and audit methods, administration and communication, and foreign relations. Foreign experts have contributed actively to the training of staff and

organizational development. Besides the introduction of performance management at both the organizational and management levels and other innovations, the management accounting system has been designed and introduced in cooperation with foreign consultants. (See also Riigikontroll 2001)

Human resources are considered as the Office's primary asset. At the end of 2001, there are 93 people working for the SAO. The average age of the people in the organization has considerably decreased, being 37.5, 38 and 40.9 in different audit departments (Riigikontroll 2001). Nearly 90% of the staff has changed since the beginning of 1998. The majority of the officials are in their 20s and 30s. A new competencies-based appraisal system, worked out with the widespread cooperation of management and staff, is in the implementation stage in 2001. Human resources management issues enjoy the attention of the management as well as its commitment for improvement and better performance.

Acknowledgement

Notes

i   The State Audit Office was established on 27 December 1918. The new constitution of Estonia, adopted in a referendum on 28 June 1992, reflects the idea of legal restoration. It establishes the principle of legal continuity of the Republic of Estonia, which was proclaimed independent on 24 February 1918 and occupied by the Soviet Union on 17 June 1940.

ii Five in Tallinn and a Southern-Estonia Department in Tartu, the second largest city in Estonia.

iii The average age of those being appraised was 52, as in the organization in general (Riigikontroll 1999).

iv EvSaluation scale:

   9 (considerably above average) = surpasses expectations to considerable extent

   8-7 (above average)   = surpasses expectations

   6 (average)   = meets expectations

   5-4 (below average)   = meets minimum expectations

   3-1 (considerably below average) = does not meet expectations

v   Release was possible "If the combined grade of an official's evaluation form approved by the committee was 3 or below, or if three or more main indicators had been assessed by the grade of 1, 2 or 3, or if at least three indicators of abilities had been assessed by a C grade or at least two indicators of abilities by a D grade, or if three or more indicators on a manager's evaluation form approved by the committee had been assessed

by grade of 1." (Procedure) The official's results based remuneration was dependent on the combined grade: Grade 7 - up to 20 per cent of official salary, grade 8 - up to 30 per cent of official salary, and grade 9 - up to 40 per cent of official salary.

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ANNEX A
Procedure for Performance Evaluation of Officials of State Audit Office

MANAGER'S EVALUATION FORM

A. Information concerning the official evaluated

Name	
Position	
Structural unit	

B. Evaluation of manager according to management skills

Capacity	Evaluation criteria 4	Evaluation criteria 3	Evaluation criteria 2	Evaluation criteria 1	Grade
Initiative	Has ideas and seeks additional tasks	Resourceful and quick in performing tasks	Mainly performs tasks given from above	No initiative, expects orders	
Attitude to others	Positive and friendly	Pleasant and polite	Sometimes difficult to communicate with	Grumbling and unsociable	
Management	Strong personality, trustworthy and reliable	Gives competent and reasonable orders	Suitable as manager	Suitable as subordinate only	
Organizing	Excellent capacity to persuade people and justify facts in logical manner	Good organizing capacity	Average organizing capacity	Poor organizing capacity	
Decision-making	Makes quick, correct and bold decisions	Thorough, prudent and careful in making decisions	Makes quick but often mistaken decisions	Doubtful and fearful in making decisions	
Perseverance	Persevering and not afraid of difficulties	Does not give up easily	Moderately persevering, gives up easily if confronted by serious difficulties	Very little perseverance	

Delegation	Manager delegates tasks to employees reasonably	Delegates in satisfactory manner	Manager does not trust employees sufficiently and delegates too little	Unsatisfactory delegation due to delegation volume or unreasonable delegation	
Monitoring of subordinates	Manager monitors activities of subordinates reasonably and sufficiently	Satisfactory monitoring	Manager monitors too much: creates atmosphere of distrust	Manager does not monitor activities of subordinates enough	
Motivation	Manager motivates subordinates to work, promotions and recognition are justified	Satisfactory motivation	Manager uses incentives unreasonably and creates conflicts among subordinates	Manager does nothing to motivate subordinates	

C. Information concerning evaluator

Name
Position
Signature and date

Note: The evaluation form must be submitted to the Auditor General in a sealed envelope. The grades given by an official for the chief auditor on the evaluation form remain confidential.

ANNEX B
Procedure for Performance Evaluation of Officials of State Audit Office

Grades are given in a 9-grade system pursuant to evaluation procedure

AUDIT EVALUATION FORM
(concerning the two most significant audits managed by chief auditor in 1998)

A. Evaluation of management of audit by chief auditor (first selected audit)

1.   NAME OF AUDIT
2.   SETTING AUDIT ASSIGNMENT
2.1 Audit assignment was set based on the topical issues of the audited area.
2.2 Audit assignment is understandable.

3.   EVALUATION OF AUDIT PLAN
The audit plan raises clear and understandable issues and shows methods for resolution thereof.

4.   EVALUATION OF DECISION OF CHIEF AUDITOR
4.1 Decision concerns only issues raised in audit plan.
4.2 Decision sets out clearly and systematically all significant facts established and evaluations made during the course of audit.
4.3 Evaluations are justified.
4.4 Content of proposals made.

B. Evaluation of management of audit by chief auditor (second selected audit)

1.   NAME OF AUDIT

2.   SETTING AUDIT ASSIGNMENT
2.1 Audit assignment was set based on the topical issues of the audited area.
2.2 Audit assignment is understandable.

3   EVALUATION OF AUDIT PLAN
The audit plan raises clear and understandable issues and shows methods for resolution thereof.

4.   EVALUATION OF DECISION OF CHIEF AUDITOR
4.1 Decision concerns only issues raised in audit plan.
4.2 Decision sets out clearly and systematically all significant facts established and evaluations made during the course of audit.
4.3 Evaluations are justified.
4.4 Content of proposals made.

ANNEX C
Procedure for Performance Evaluation of Officials of State Audit Office

OFFICIAL'S EVALUATION FORM

A. ADMINISTRATIVE

GENERAL INFORMATION

1. Personal information concerning person evaluated

Name
Position
Structural unit

2. Evaluator

Immediate superior (name, position)

B. EVALUATION
I MAIN DUTIES, MAIN ACTIVITIES AND SET OBJECTIVES

Name, duties and audit assignments of person evaluated during 1998

Name and main activities of person evaluated in his or her position (up to 5)

Name, specific objectives and directions for professional development of person evaluated in 1998 if determined by immediate superior

II PERFORMANCE INDICATORS

Evaluation scale:
| | | |
9   (considerably above average)   = surpasses expectations to considerable extent
8-7 (above average)   = surpasses expectations
6   (average)   = meets expectations
5-4 (below average)   = meets minimum expectations
3-1 (considerably below average)   = does not meet expectations

1.1 PURPOSEFUL ACTIVITIES
Is able to distinguish that which is important from that which is less important and to
set accurate priorities. Activities are purposeful.

2.2 PERFORMANCE OF DUTIES NOT RELATED TO AUDITS
Content of materials prepared.

2.3 LEVEL OF AUDITS
(NB! Not applicable to chief auditors)
2.3.1 Level of preparation of audits.
2.3.2 Content of evaluations and conclusions made in audit reports.
2.3.3 Content of proposals made in audit reports.
2.3.4 Performance of duties assigned in audit plan.

2.4 LEVEL OF AUDITS
(NB! Only applicable to chief auditors)
2.4.1 Audit assignments are formulated clearly and understandably.
2.4.2 Evaluations and conclusions made in decisions are justified.
2.4.3 Content of proposals made in decisions.

2.5 GENERAL EVALUATION OF PLANNING DEPARTMENT'S WORK
(NB! Applicable to chief auditors only)
Department deals with topical issues. Chief auditor is able to justify choice
of audit assignments.

2.6 EVALUATION OF SIGNIFICANT AUDIT
(NB! To be completed by evaluation committee)
Weighted, combined grade from audit assignment evaluation form or audit evaluation form.

2.7 PROFESSIONAL DEVELOPMENT
New knowledge is acquired enthusiastically and the reliability of current
knowledge is assessed.

2.8 INDEPENDENCE
2.8.1 Work results are achieved without excessive guidance and monitoring;
2.8.2 Initiative: official shows initiative in issues related to his or her work and
       is not confined to execution of superior's orders only.
2.8.3 Resourcefulness: capacity to generate and implement new ideas.

2.9 WORK SPEED
Assignments are fulfilled quickly and smoothly; set deadlines are observed, deviations are justified.

2.10 RESPONSIBILITY
Responsible attitude towards work.

2.11 CO-OPERATION
2.11.1 Friendly and business-like operation, constructive team-work together with colleagues to achieve set objectives.
2.11.2 Timely and extensive communication of information.
2.11.3 Extensive co-operation with subject of audit or assignment.

2.12 WRITING SKILLS

2.13 SOCIAL COMPETENCE
2.13.1 Coping in conflict situations: in the case of conflicts, constructive solutions are sought and all parties are involved in implementing them. Constructive criticism, acknowledgement of criticism.
2.13.2 Communication skills and helpfulness: communications inside and outside the agency are friendly, helpfulness with respect to colleagues and third persons is taken for granted.

Summarized evaluation of official's work or potential for development

III INDICATORS OF ABILITIES
(mark with an "x")

Evaluation scale:

Cross out indicators of abilities which are not applicable.

A – particularly significant
B – significant
C – poor
D – not significant

	A	B	C	D
3.1 COMPREHENSION: understands the content of new things and relationships between things accurately and quickly.				
3.2 THINKING: analyses circumstances and problems independently and logically, forms correct opinions and justifies them convincingly and thoroughly.				
3.3 DECISION-MAKING: makes relevant decisions in due time, decides quickly and firmly in critical situations. Voices own position reasonably and gives arguments if opposed.				
3.4 MANAGEMENT: is aware of colleagues' abilities and engages colleagues successfully in the work process. Ready for trustful communication.				
3.5 STRESS TOLERANCE: is able to tolerate stress caused by time pressure, and changing and complex work situations.				
3.6 CONCEPTUAL WORKING: understands issues of principal importance, analyses and develops solutions based on practice. Develops long-term and systematic concepts.				
3.7 ORGANISING: ready to plan, co-ordinate and do work effectively and rationally.				
3.8 NEGOTIATION: leads interviews and negotiations in a business-like, convincing and strict manner, and achieves objectives or reasonable compromises.				

General or additional remarks on abilities of person evaluated

ANNEX D
Procedure for Performance Evaluation of Officials of State Audit Office

Grades are given in a 9-grade system pursuant to evaluation procedure.

AUDIT ASSIGNMENT EVALUATION FORM
(concerning the most significant audit assignment in 1998 performed by official, according to official and his or her immediate superior)

1. NAME OF AUDIT ASSIGNMENT

2. SETTING OBJECTIVES
Name, objectives set and duties specified in audit plan

Evaluations of audit

3. LEVEL OF PREPARATION OF AUDIT
3.1 Conduct survey
3.2 Content of main issues raised for audit

4. PERFORMANCE OF AUDIT
4.1 Justification for time spent on audit
4.2 Purposefulness and rationality of audit

5. PREPARATION OF AUDIT REPORT
5.1 Writing skills
5.2 Ability to set priorities and distinguish important from less important
5.3 Content of given evaluations
5.4 Skill to make summaries and conclusions
5.5 Content of made proposals
5.6 Accomplishment of objectives set and assignments specified in audit plan

ANNEX E

Calculation of combined grades

Annex A – "Manager's evaluation form." The combined grade of a manager's evaluation form was the arithmetic mean of the grades given for the manager's skills and abilities. The purpose of bringing out the combined grade on a manager's evaluation form was just to provide feedback to the chief auditor about his or her management capacity and skills.

Annex B – "Audit evaluation form" for chief auditors. To acquire it, first, combined grades were calculated for both audits evaluated (parts A and B of the form). The formula for that was:

Grade 2.1 x 0,21 + grade 2.2 x 0,09 + grade 3 x 0,2 + grade 4.1 x 0,05 + grade 4.2 x 0,125 + grade 4.3 x 0,125 + grade 4.4 x 0,2 = weighed average combined grade for audit.

Secondly, the arithmetic mean of the two weighted grades become the weighted combined grade for audit evaluation form as a whole. The weighted combined grade of the "Audit evaluation form" was inserted in row 2.6 "Evaluation of significant audit" on the "Official's evaluation form" and in that way become included in the final grade.

Annex D – "Audit assignment evaluation form" for auditors. First, the grades for the three parts of the form were achieved by calculating the arithmetic means of the parts. Secondly, the following formula was used

(Grade 3 x 0,2) + (grade 4 x 0,3) + (grade 5 x 0,5) = weighted average combined grade for audit (to be rounded off to a integer)

As in the case of chief auditors, the weighted combined grade of the "Audit assignment evaluation form" was inserted in row 2.6 "Evaluation of significant audit" on the "Official's evaluation form."

Annex C – "Official's evaluation form" (most important evaluation form). Different formulas were used for chief auditors and auditors.

a) First, the grades for parts 2.4, 2.8, 2.11 and 2.13 of the form were achieved by calculating the arithmetic means of the parts (to be rounded off to a integer). Secondly, the following formula was used

[Grade 2.1 + grade 2.2 + (grade 2.4 x 3) + (grade 2.5 x 2) + (grade 2.6 x 5) + (grade 2.7 x 2) + grade 2.8 + grade 2.9 + grade 2.10 + grade 2.11 + grade 2.12 + grade 2.13] / 20 = the weighted average combined grade of the "Official's evaluation form" for the chief auditors

b) First, the grades for parts 2.3, 2.8, 2.11 and 2.13 of the form were achieved by calculating the arithmetic means of the parts (to be rounded off to a integer). Secondly, the following formula was used

[(Grade 2.1 x 2) + grade 2.2 + (grade 2.3 x 3) + (grade 2.6 x 5) + (grade 2.7 x 2) + grade 2.8 + grade 2.9 + grade 2.10 + grade 2.11 + grade 2.12 + grade 2.13] 7 19 = the weighted average combined grade of the "Official's evaluation form" for the audit officials

Breaking Resistance to Organizational Change: The Experience in One Romanian Local Government

Angela Dobrescu*

Introduction

The transition period in the CEE countries involved a massive import and implementation of new organizational techniques in order to support the public administration reform in both clarifying the basic principles of the system and improving its functioning and efficiency. Often the strategy of the reformers was to confront the personnel of the administrative apparatus with a new system of formal rules that the latter had to observe, with little concern for helping them understand the change process in its purpose or its scope.

Addressing resistance to change in the initial phase of a reform process wasn't a real concern of the experts. The efforts to transfer expertise from professional consultants to an administrative body was often similar to a transplant, but the 'cut-paste' operation sometimes didn't fit the complexity of real life public institutions. The inertia or the more or less sophisticated rationales of various actors defending the status quo often hinder the development of a new organizational equilibrium.

The present case focuses on the experience emerging from the activity developed in Romania by an American consulting firm. The American firm collaborated with the local government in improving their organizational and management capabilities.

Passivity and resignation were very much characteristic of the public servants' attitude under the Communist regime. But a new administration needs proactive, innovative, and open officers, with a real comprehension for the needs and expectations of the community. Encouraging the staff to develop this constructive attitude and the related skills, as a sort of 'social competence' completing a narrow specialization, was the prime objective in the case presented. The premises of the organizational change effort presented was that, regardless of the hierarchical level, public employees should learn to overcome their sense of being unable to improve the system, as well as to overcome the condition of being passive recipients of orders and commands. Without addressing these two obstacles, any intervention/technical assistance (TA) process would not have any significant impact.

The proper transfer of such a social competence may take a long time. Often it goes hand in hand with the TA itself. The present change effort represents only the initial phase of a wider TA process - the phase of "icebreaking" and

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"unfreezing". The description below is drawn from the specific perspective of how the external consultants coped with resistance reflexes that characterizes the organizational behavior of the organization in order to prepare/facilitate the assimilation of further assistance projects that are still going on.

A preparatory phase consisted of a preliminary contact with members of the staff and was intended to identify some specific organizational characteristics with a summary screening of the organizations problems.

Further on, the activity was conducted in several sequences as follows:

A conceptual presentation followed by an applied discussion on issues such as personnel management and personnel performance evaluation. This part was intended to make the participants aware of the importance of work redesign and of integration among structures and people of the organization.

An organizational diagnosis was based on a multidimensional survey. This organizational analysis methodology was developed by Matyas Gaspar and was applied in several transition countries, including Hungary, Ukraine, and Kyrgyzstan to analyze the organization and functions of local government staff and departments. The methodology was described in an article by Matyas Gaspar and Glen Wright entitled "Organizational Culture Barriers of Local Government Management: The Hungarian Experience" published in the Fourth NISPAcee Annual Conference Proceedings (see references).

The steps of this process were collecting data on a questionnaire basis, processing them into intuitive graphic representations (star diagrams) and organizing debates focused on the output of the previous steps. This threefold sequence was meant to help the personnel think through the problem-solving activities of their departments in terms of alternative solutions.

The present case study addresses resistance to change as a reaction consisting of a grasping reflex that anchors people to the present state, due either to lack of imagination or to rejection of whatever is new. Even if initially the participants had a diffuse or skeptical attitude towards change, after the warm up phase, they succeeded in identifying several issues as problems, many of them being of great importance. The participative reaction of the participants in the final stage clearly proved that resistance to change, when properly addressed, could be diminished. The proper means to addressing this problem are building confidence, stimulating imagination, relying on abstract thinking and conceptualization, valuing the need for self-assertion and opinion sharing. This is a process-oriented approach. 'Process' here is understood to be the evolution of the participants from an inchoate and non-critical attitude towards a higher degree of self-awareness of them as responsible agents acting inside a coherent structure.

At the same time, the whole activity should be considered from another perspective. If the first approach was meant to measure the evolution of the participants, the second one considers the organizational diagnosis not as a

pretext for enhancing the self-awareness of the personnel, but as an effective rational instrument that would allow the participants to directly identify the problems and needs of the organization. This is termed a perspective results oriented approach because the outcome is relevant as a starting point for devising further assistance programs.

Background

The City

The city is one of the most populated in the country (more than 300,000 inhabitants). Its economy is dominated by heavy industry, which is in decline all over the country. This has generated many social problems. The city and its surrounding area have a history of international tourism, but this industry is in decline as well. The level of foreign investments places the city among the top ten in the country. These investments have not gone to the dominant industrial sector, but rather to light industries.

The infrastructure situation is average for the country. Public investments were made mainly in public transportation, public roads, and sanitation, but within the limits of an austere local budget. The maintenance of the public facilities is also a great problem. The water and heating systems are in poor condition. In their present state, they are ineffectual and produce large losses from a technological and financial point of view.

The city has a multiethnic, multicultural tradition and communication between the different communities is good. The great majority of the locals would not consider ethnic tensions as a problem. Local press and television are quite well developed and diversified.

The Mayor

The Mayor was first elected in 1996, and then re-elected in 2000 with a program that emphasized ideas of promoting the young, putting the institutions in the service and under the control of the citizens, efficiency and pragmatism. His approach to public management is very reform oriented and progressive.

After decentralization, the public services functions are under the authority of different bodies rather than the Mayor. One of the main concerns of the Mayor is that the legal authorities and responsibilities related to his office are too limited compared to its actual responsibilities and to the fact that the citizens constantly identify local administration with the Mayor.

In 1998, he promoted an initiative for measuring the time needed for an official response to citizen complaints or applications as an indicator of institutional performance. He also acted to reduce this response time by establishing strict procedures for the treatment of any application. Another notable project that he actively supported is the monthly magazine financed and issued by the city that

any citizen can receive for free. The magazine contains useful information related to activities and services provided.

The Mayor was facing local elections in May 2000, which was within a few months of the start of this organizational change program, and he was obviously interested in demonstrating that the employees were being trained to respond to the citizens' needs and that the city was providing quality services.

Challenges in Initiating Organizational Change

Introducing the Project and Consultant to the Mayor

The first important concern in the operation was to determine how best to approach the introduction of the activity and how to work with the Mayor and staff. The local program manager of the American firm established an appointment with the Mayor and discussed the experience of organizational change in other countries in Central and Eastern Europe. The program manager also presented the lines of the assistance program proposal, then introduced the consultant, who was going to work with the Mayor and the staff for the initial stage. He also mentioned the support that this consultant would have as part of the whole consultant team. The consultant was a young professional woman, which could be described as a double disadvantage (young + woman!!) from the point of view of the local culture. But she had the advantage of a specialized background in sociology (social research and survey methods, sociology of communication). The main point on the agenda of this meeting was to build confidence between the Mayor and the consultant. The Mayor valued this special background and skill of the consultant and trust was developed from the beginning.

In order to strengthen the confidence bond, the consultant made explicit that the interaction between the consulting firm and the local government should be based on complete transparency. In order to substantiate this principle, she asked the Mayor for feedback on the methods and survey tools that were prepared to conduct the initial organizational diagnosis which was, at that moment, in the preparatory phase. The Mayor didn't really give any substantial feedback at that time. But he was impressed by the fact that his authority and competence were recognized and respected and this seemed to motivate him to use his authority in support of the operation.

One of the most effective measures undertaken by the Mayor was to appoint the head of the Communication Department as a permanent contact person for the consultant and as an interface between the consultant and the personnel. This mediation was of great help in the process of organizing the sessions. This person also had a good knowledge of the organization and gave valuable insights for further development of the workshop agenda.

Observations on Organizational Culture

After obtaining the Mayor's support, the consultant initiated the preparatory phase of the diagnosis process. Some visits were necessary to establish the survey sample and these offered a good pretext for informal contacts and for making preliminary observations. The consultant began discussions with employees from the personnel department in order to develop a direct relationship and learn more, through direct and indirect questions, on the personnel policy of the institution.

The most significant element that was observed was that many of the people contacted practiced the discourse of self-victimization, complaining about the general situation of the local government and simultaneously manifesting a lack of propensity to formulate concrete problems.

Looking especially at some fields such as personnel management, the consultant learned that the personnel inspectors conceived their activity only within a legal framework defined as narrowly as possible. Claiming that their most important responsibility is to observe the law, they didn't develop any other personnel policies beyond explicit legal prescriptions. These were, in fact, limited to the technical elaboration of a job description and an evaluation of the personnel through a complex (but debatable) set of mathematical formulae. Since the wages of the civil servants were generally very low, the personnel inspectors thought it was their informal obligation to give the majority of the employees the highest possible score in order that all of them could get the maximum possible payment. Under these circumstances, the function of the complicated calculations of the personnel performance were purely ritualistic.

The consultant identified several difficulties encountered by the personnel due mainly to the ambiguous nature of their tasks and responsibilities. There was no clear distribution of the tasks. This created a situation in which the dedicated employees were overworked, while the others tended to lower the expectations connected to their activity as much as possible.

There was no concern for improving the working environment or for identifying and addressing the needs of the employees. The majority of the employees seemed convinced that changing the actual organizational situation implied too many uncontrollable factors and that any presumable improvements were distant and unclear. In support of this defeatist attitude, they generally invoked the turbulence and instability of the legislative milieu [1]. Nevertheless, the consultant quickly realized that many aspects of organizational life as well as many internal rules and procedures did not directly depend on the legislative framework and that they could be addressed autonomously.

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[1] It's true that between 1996-2000, 22 new laws that affected the local public administration were passed and enforcement objectively needed a substantial effort.

Selection of the Participants

Two elements were taken into consideration for the selection of the future participants:

- the sample was theoretically devised to reflect in a proportional way each hierarchical level;
- since further dissemination of the workshop ideas and practices was an important objective, the selection of the participants was based not only on their organizational position, but also on their communication skills.

The sample was developed in collaboration with the contact-person designated by the Mayor and the consultant, and was subsequent to the analysis of the organizational chart. From the 558 jobs that appeared there, many were unfilled, particularly at the lower levels. In some cases, the "manager" was the only employee in the department, having to do all the work. So the survey sample was initially established through a selection of the total number of 410 employees, considering four hierarchical levels:

- supervisory personnel
- management personnel
- professional personnel
- office/clerical personnel, technical/administrative personnel.

Finally the initial approach of proportional representation for each hierarchical level was altered due to the circumstances in the organization:

- Even though four supervisors were invited, only one of them participated. Eventually, there were only three levels taken into consideration: the highest level represented was considered as level I, and the only supervisor that participated was included here, together with the management staff. The professional personnel was designated as level II, and the lowest level represented became level III.
- At the last moment, the Mayor insisted that all the managers participate, as an apparent show of support and as a way to show off his personal authority. This decision couldn't be strictly carried out, but in the end nine more employees from the managerial level attended the workshop.
- The working sessions took place during office hours. This fact affected participation either by the absence of some of the selected public servants or by their premature departure because of some pressing responsibilities.

The final number of participants amounted to 20 managers, 14 experts and inspectors, and 7 members of the office/clerical personnel [2].

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[2] The weak representation of the supervisory level was detrimental to the discussions where the focus was on the gap in the relationship between the supervisory personnel and the subordinate staff: the supervisory personnel had mainly a political agenda (since it is common knowledge that in spite of some formal selection process, they are appointed politically), while the management staff was more task-oriented and more operational in their policy implementation work.

Building Self-awareness

The consultant team determined that the discussions generated by the presentation and application of the organizational diagnosis are a suitable approach to the objective of rethinking institutional functioning and behavior because of the inner complexity of this method. In their view, understanding and applying organizational diagnosis equates to an awareness campaign because it moves the participating public officers into reconsidering their own attitude and work ethic. The evolution of the self-awareness level goes hand in hand with the presentation of the organizational diagnosis method. At the same time, it is a prerequisite for the success of the last phase of the organizational diagnosis exercise when the participants were part of a debate focused on the processed results of the analysis.

Introducing the Reference Base for Organizational Analysis

The team considered that in order to be able to analyze the performance of an organization, it is necessary to make some distance from its regular functioning. Given the staff "addiction" to a very narrow perspective on the objectives and functioning of the organization, the key to the success of the diagnosis resided in making the participants relate to a virtual or "ideal" state of the institution.

According to this, the first session was given a twofold structure:

- imagining institutional change; and
- describing the complexity of the personnel management system (with two main topics: developing job descriptions and personnel performance evaluations).

Overcoming Initial Reluctance

Initially the participants directly and indirectly expressed their attitudes towards the training session. These attitudes can basically be structured into two groups:

- Some participants who had not attended training courses before manifested a conservative attitude particularly toward the interactive, informal, participative methods based on encouraging each employee to express his/her opinion;
- Some participants who had attended other training courses were skeptical of the new consultant (or even patronizing – especially if they belonged to the management), and suspicious that they would hear 'the same old stories' again. Occasionally, they seemed less interested and unwilling to participate than those with little or no training experience.

Involving the first category in feedback activities represented a solution for better participation. For the second category, the perspective of sharing their experience with others and to disseminate their knowledge was presented in an attractive manner, as a challenge, a persuasive device meant to convince them to become more positive and participative.

As stated above, the main focus was on getting the participants to believe that organizational change was possible and desirable, and in advocating for the utility of introducing the organizational diagnosis.

The Ideal Institution

As a first step, the participants were asked simple and familiar questions. They were asked to express their opinion on the major condition to be fulfilled in order to bring their personal life to an ideal state. Since their reaction couldn't be foreseen, (they could, for instance, be inhibited or irritated by what they could perceive as an intrusion in their personal life), they were asked to put their thoughts down on a small and unsigned piece of paper.

The consultant gathered the written answers and read them aloud. Fortunately, they expressed a remarkable diversity of ideas. Each of the participants had a distinct perspective and a personal choice. At the end of the exercise, the consultant oriented the discussion towards the conclusion that, given the incompatibility or even contradiction of the answers, we might conclude that there is a great difference between what we personally consider as "good" and a publicly acknowledged ideal. In order to obtain the latter, one has to open up and discuss his or her own aspirations with colleagues, and to negotiate the most consistent and encompassing model that could guide common actions. The consultant confronted the participants with the "puzzle metaphor": if everyone conceives his or her ideal in solitude, the representations are likely to collide, and individual efforts will never build up into something coherent. But if everyone conceives of his or her ideal as oriented towards public debate, the individual fragments are more likely to fall into place, in time, like the pieces of a puzzle game.

After this introduction, the participants were asked to express their opinion on their organization, their reference being not its actual state, but an "ideal" one. In spite of the previous ice-breaking exercise, they did not give up easily. A 'no-nonsense' reflex occurred: some of the participants argued fiercely that the state-of-the-matter is the only acceptable premises of any inquiry and that they see no point in mixing, so to say, business with play. The consultant argued that it is less likely to identify the weak points of a system if you don't try to attain a more detached and objective perspective on it and that the projective exercise of imagining the ideal administration could provide such an instance of objectivity.

Describing the Complexity of Personnel Management System

In the preliminary elaboration of this session, the consultant team reached the conclusion that personnel policy should be explicitly addressed in introducing the reference base phase, since it creates a bridge between the personal/individual/psychological characteristics of the employee and the organizational/structural features of the institution. This relationship was considered essential

for understanding the organizational dynamics, which was seen as an important element of enhancing the self-awareness of the participants as public officers and as very intuitive introduction to the method of organizational diagnosis itself.

Introductory Discussions

The preliminary discussions exposed a broadly shared set of preconceived ideas concerning personnel management:

- Hiring personnel and establishing the payment level were seen as being the only tasks for the personnel director;
- Evaluation methods and criteria were perceived as inherently subjective and thus arbitrary and flawed. Nevertheless, nobody argued that the evaluation process should be abandoned on grounds of its lack of relevance;
- The job description was perceived as purely theoretical. The participants found no difficulty in admitting that, in their current activity, they are not consciously guided by a set of strict and unambiguously stated duties.

The consultant presented a diagram with a detailed representation of a complex personnel management system as a model to be analyzed. All the components were discussed, together with the dependency/influence relations represented in the diagram.

Developing Job Descriptions

Another focus of the session was to establish through debate the essential elements of a job description starting from a clear understanding of the necessity to quantify the performance of various organizational agents.

Intending to generate a debate, the consultant acted in this sequence:

a) she asked the participants to identify elements of the job description pattern and then listed them on a flip chart.
b) she proposed an alternative job description model.
c) the participants were asked to discuss the common and distinctive elements of the two patterns and finally they agreed on the following pattern:

Task: objectives of activity
Method: how the job is done
Technology: equipment involved
Variety: how many activities are included
Sequencing: order in which activities are undertaken
Timing: time for completing the sequence (s) of activities
Pace: pace of work
Quality: standards required
Specialization: degree of specialization in the division of labor

Interdependence: relation of the activities to those undertaken by others

Partialness: relation of activities to completion of overall product

Performance: how is performance measured

Monitoring: who decides action in light of performance information?

Accountability: what happens if performance information shows good/bad performance?

In the end, the consultant stressed the importance of matching the structural and individual level by taking into consideration the relational variables, the communication flows, and the influence of the organizational incentives and values on individual commitment.

Personnel Performance Evaluations

The next discussion topic was the personnel performance evaluation, which, at the level of the organization, was perceived at that moment as a purely formal procedure without any effectiveness.

In order to make the participants familiar with some alternative procedures, the consultant exposed them to the presentation of some complex and very functional personnel evaluation forms used by an American municipal administration. Further comments and discussions were conducted on this basis. The consultant emphasized the importance of "objectivity" as an evaluation principle.

Conducting Organizational Diagnosis

In the first part of the intervention, the emphasis was on what in the introductory section was called the 'process-oriented approach' – a formula that describes the fact that the participants were supposed to gradually enhance their level of self-awareness as professional public officers. Even if, at first, they were continuously involved in the unfolding of the workshop, their basic status was that of recipients of information and skills. In the second part of the program, the perspective shifted to what was called the 'results-oriented approach' – a formula meaning that the emphasis is on obtaining actual results from conscious involvement in the process of an organizational diagnosis.

The multidimensional organizational diagnosis was conducted using a questionnaire. After the necessary data were collected, the results were further discussed with the group. It began with participants filling out the questionnaire and then the participants' status within the workshop shifted to one of equal and active partners of the consultant with a decisive contribution to shaping the final results of the investigation.

Administration of the Questionnaire

The participants had to answer 107 questions on the questionnaire. The 107 questions were grouped into 12 criteria "dimensions", each of them representing a distinct domain identified as important for an accurate profile of the organization.

Here is the list of the criteria dimensions included in the survey:

1. Political culture
Commitment of the councilors; Programs; Power balance; Freedom of information; Information support; Voter's connections; Interest group connection; Delegation of power; Council-office relations; Conflict of interest

2. Strategic planning
Institutionalization; Consensus on strategy; Environment scanning; Corporate strategy; Function strategies; Strategic communication; Operationalization; Managing projects

3. Closeness to citizens
PR function instituted; Civil strategy; Information to the public; Questioning, hearing people; Advising, helping people; Participation options, Supporting volunteerism, PR function instituted

4. Service orientation
Service spirit/philosophy; Register of services; Marketing; Analysis and development; Services alternatives; Service contracts; Relations with the providers; Complaint system

5. Organization culture
Type of culture; Analysis and development; Value system; Building self-image; Corporate/team spirit; Internal communication; Internal participation; Work environment/culture

6. Organization structure
Structure Development; Unity of leadership; Clearness of role division; Unit profiles; Self sufficiency guarantees; Function responsibilities; Coordination guarantees; Atomization and hierarchy; Providing inner services; Flexibility guarantees

7. Personnel management
Instituted personnel function; Selection and recruitment; Quality of given personnel; Clear mutual expectations; Appraisal system; Recognition and incentive; Remuneration; Staff training; Staff carrier development; Conflict resolution; Number of Staff; Redeployment/ termination

8. Control
Controlling - as a system; Strategic control; Performance control; Contract control; Task execution control; Cost control; General resource control; Process quality control; Legal control

9. Budgeting
Finance information system; Effective budgeting process; Finance data availability; Knowledge of real costs; Project budget/evaluation; Budget planning relations; Budget controlling relations; Budget analysis relations

10. Information technology
Information requirement study; IT development strategy; Development priorities; IT function instituted/performed; IT and office infrastructure; Database quality; External data connections; Technical culture; Systems/data/facility usage

11. Regulation
Regulation system; Regulation's quality; Regulation information access; Law knowledge and respect; Council regulations; Office regulations; Administration regulations; Process regulations; Job position regulations

12. Management strategy
Management system analysis; Development strategy; Consensus on development; Innovativeness; Process orientation; Methodology awareness; Organizational learning; Participation in development; Training relations

For the answers, a numerical scale was proposed:

0	1	2	3	4	5
Not relevant in our organization	Does not exist, isn't OK at all	Substantial problems	Middle, Uncertain situation	Basically good	Absolutely good, excellent

Gathering the Data

The participants received explanations concerning the importance of the multiple-criteria-organizational-diagnosis. The consultant tried to help the general understanding through an analogy with a medical diagnosis: "Take a headache, for instance. This could be generated by a number of causes. If we don't investigate all the possible explanations, we cannot dismiss the wrong reasons and retain the right reasons. Accordingly, for the diagnosis of an institution, we have to investigate its operation from different perspectives (which, in the present questionnaires, are called dimensions and criteria). Some organizational dysfunction may have complex causes that are neither apparent nor intuitive."

The consultant re-emphasized the importance of taking into account the ideal institution (with an optimal functioning) when answering the questions. The consultant explained, "without this effort of projecting opinions into a virtual, ideal world, we will always be inclined to give high scores to public institutions in spite of a lot of functional flaws that we would otherwise consider as hardly acceptable."

Last came the presentation and the completion of the questionnaire.

Filling out the questionnaires concluded the first workshop activities. The session produced a considerable amount of data on the basis of which a systematic analysis of the organization could be conducted. The target of this analysis was to identify those indicators that revealed significant problems and dysfunction.

The Feedback Session

After this process of collecting data, the results of the questionnaire were computed. Further efforts of the consultancy firm were to analyze and finally elaborate a friendly and easy way to read the star diagrams.

Starting from the output of the organizational diagnosis, the employees could engage, during the second workshop, in vivid, problem solving oriented dialogue. During the feedback session, initially, the discussion focused on organizational trends and further on the scores given by each of three hierarchical levels for various criteria.

Analyzing the Hierarchy of the Dimensions

For each dimension, a global average was calculated for all the corresponding questions, taking into account the average for the whole organization, i.e., for all hierarchical levels (See Appendix no. 1). This dimensions hierarchy became a basis for further discussions. Following the presentation of the results, the emphasis in discussions was on the evaluation criteria that ranked as the best three (criteria number 4 with a score of 3.59; number 8 with a score of 3.49, and number 5 with a score of 3.39) and the worst three (criteria number 1 with a score of 2.62, number 7 with a score of 2.65, number 2 with a score of 2.77)

For instance, the lowest average of the scores was attached to political culture – a dimension that offered a synthetic evaluation of the skills and values of the actors involved in the political process at the local level. Even if no representative of the local council was present, this sensitive issue was briefly discussed and the conclusion was that the local council members should take some training courses on decision-making, negotiating, teamwork, and communication.

Organizational and Hierarchical Trends

To facilitate an analysis of organizational trends, further representations were made for each of the three hierarchical levels considered.

The consultant's choice was to begin the discussions with a global perspective on the organization assuming that a logical transition from the general problems of the institution to the specific ones would substantially facilitate the comprehension of the diagnosis principles and results.

Discussion topics:

- The lowest scores were consistently given by the second level (the professional personnel), with only two exceptions, those of the 7th and 9th criteria (personnel management and finance management). Apparently, the professional personnel tended to develop a more critical attitude because, being involved in the direct implementation of the local policies, they were actually overworked with regular tasks and, consequently, may have more directly resented the dysfunction of the institutional mechanisms.
- With the exception of criteria 9, the perceptions of the third level personnel consistently rated higher than those of the two other levels considered. The employees placed at the lowest hierarchical level appeared as less creative and less innovative. This might be connected to the fact that they work within a rather restrictive framework, which mainly means obeying orders. They generally lacked the perception of the global institutional processes, and, consequently, of their malfunctions. On the other hand, for this category of personnel, identification with the institution was a key component of their sense of personal prestige. The combination of lack of perspective and 'prestigious identification' determined an increased tendency towards an overvaluation of the performance of their institution.

Sector Diagnosis

After discussing the general problems of the functioning of the organization as a whole, the second phase aimed at involving the participants in a more focused and analytical debate over the dysfunction of their current activity.

In order to facilitate a sector diagnosis of the organization, for each of the 12 criteria a chart was made, in the form of a star diagram, i.e., a radar type of chart. The radial axes were graded on a scale of 0 to 5. On each axis, there was a triple representation, for each hierarchical level (for a better distinction between the representations of the scores, three different colors were used). (See Appendix no. 2)

Some of the participants experienced an initial difficulty in understanding the representation method. When they first saw the diagrams, they were actually confused. Accordingly, the consultant had to explain the methodology and the significance of different parameters, with special attention on avoiding technical language and on keeping the explanations as simple and familiar as possible. These explanations had an anchor-effect, since, after understanding the graphic representations, the participants became quite enthusiastic about the materials. They started to give interpretations, and had no difficulty in identifying the interesting topics for the following debates all by themselves.

Since the results were computed separately for each hierarchical level, the charts offered the possibility to compare the perceptions of the institution by the three different hierarchical levels for each indicator of the 12 criteria.

Together with the participants, the consultant listed the topics for the debate. The selection was made starting from the 12 star diagrams. The participants had to analyze the sets of criteria specific to each domain and to focus on two types of situations, presumed to lend interesting debate subjects:

1. criteria-related questions that demonstrated significant perception differences between the different hierarchical levels. Related to these situations, the consultant formulated some additional questions: How could these differences be explained, and how could they be adjusted, in order to obtain a more consensual perspective.[3]
2. criteria-related questions that indicated a consensus between levels, showing that the participants were sensing a malfunction in that criteria. In this case, further discussions were focused on finding possible solutions to raise the score for those criteria.

A sample of the criticism and recommendations expressed during the debate is systematized in what follows.

Results of the Group Discussions

To illustrate some of the debate results, the following section presents a selection of those issues addressed in the discussions that were directly or indirectly related to human resources management. They are followed by an evaluation of the measure in which later on (one year after the diagnosis) these turned into actual initiatives of the staff.

Extrinsic Rewards

• The extrinsic rewards (money, career development) were lacking or were negligible, so that most rewards were supposed to be intrinsic. There were no criteria for granting supplementary financial incentives, i.e., the 2% bonus allowed by law for those with special working performances. The amount of money directed toward the stimulation of professional performance was extremely low and was traditionally shared on an equal basis among all staff members. Rewards were not substantially connected to the actual level of performance.

Due to the lack of career management, there was a high level of personnel turnover. This is especially the case with the younger personnel who left after 2-3 years, using their position as members of the staff as a social launching pad.

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[3] It is worth mentioning that, while the present case studies illustrates the situation of the big municipalities, for the municipalities of small cities the diagrams showed a dominant tendency of convergence of the perceptions concerning the organizational issues at the four levels analyzed. In these cases the relationship between the public servants remains basically a relationship between community members. The amount of information is rather low. People interact directly and personally to a much larger extent than in big cities. Hierarchical positions are less important than good personal contacts, and are, consequently, less emphasized.

Recommendation: The actual state of the situation was considered preferable to a manipulative use of rewards. But the symbolic dimension of extrinsic rewards was obviously sacrificed without any compensatory efforts to develop a good environment for the utilization of intrinsic rewards. The conclusion was that the symbolic dimension should be valued and enforced even if financial rewards were negligible; some other symbolic recognition forms could and should be developed.

Present situation:

Unfortunately, there were no significant efforts in improving the symbolic recognition of personal performance.

Coreer Management

- Concerning career management, the representatives of the Human Resources Department among the participants argued that no strategies could be developed in this area due to the ever-changing legal framework. An initiative promoted by the present leading party was to establish proportionality between the number of the civil servants from the local government and the number of the local population. Under these circumstances, the number of employees of the City is expected to dwindle to around 350, which means that some of the present employees will probably lose their jobs.

Professionals were supposed to design alternatives to local policies, based on a cost-benefit and impact analysis. Obviously, these elements require special training in the field of local public policy. Since a political agenda interferes, as a rule, with personnel selection procedures, the employees that should count as professionals sometimes lacked the adequate level of education/skills and they were not fully aware of the importance of mastering specific know-how. Thus, for example: the need-assessments were not based on professional research; the documentation for decision-making was sometimes inadequate.

Recommendations: Further specialization of the personnel, especially the supervisors and the professionals, through refresher courses was recognized as a necessity.

A search for a modality of asserting the importance of professionalism in making a professional needs assessment should be done, and the idea that a needs assessment is a crucial instrument for the public administration should be highlighted. The research activities involved in such an undertaking could be subcontracted.

In order to institutionalize a better functioning of the organizational mechanisms, (i.e., introducing pace and effectiveness on a permanent basis), training on specific matters such as, for instance, strategic planning and public relations, would be of key importance.

Present situation:

Due to the legal restrictions imposed on the activities of the personnel, it is most likely that in the future many activities will be subcontracted. The managerial staff began to understand this idea and accept it as an effective solution.

Personnel Recruitment Policies

- The general personnel recruitment policies were especially seen as qualifying for major improvements. The participants mentioned the inappropriateness of the personnel selection policies. They argued that the present prerequisites of personnel selection focusing on judicial and administrative knowledge might be necessary, but they were far from being sufficient. According to them, the main weakness of the present selection policy is its lack of any form of testing practical skills and know-how.

Recommendation: Substantial adjustments should be brought to the content of the personnel recruitment policy. Besides testing the legislative knowledge of the candidates, which is the current practice, the introduction of psychological tests was seen as very relevant.

Present situation:

There are changes in the selection process. There is a greater dissemination of the information concerning the jobs, and the content of the selection policy is improved. In addition to the test of legal knowledge, candidates also have to prove their professional skills and go through an interview. Still, psychological testing hasn't been introduced, and this is true even for the jobs that imply working directly with the public.

Communication Unit

- The creation of a permanent structure in the organization functioning as a communication unit that should provide an interface with NGOs was considered to be very necessary and was seen as an incentive for civic participation. This structure was felt as an opportunity to enable the citizens to have a dialog with the counselors. Another important conclusion was that it is essential for the interface to be citizen-friendly; otherwise, it will be only a waste of time and money.

The relationship between the political and the professional aspects of local governance was considered very problematic. The majority of the legal initiatives come from the executive, the local councilors being thought to lack the expertise and the political and conceptual consistency that would enable them to make competent suggestions or recommendations. Discretionary decision-making was perceived as a major problem. A stronger pressure coming from the voters, exercised in a more sustained manner, and not just once in 4 years, as is the case, was considered as an essential way to improve the present situation.

Among the external factors considered to directly affect the activity of the municipality, the most frequently mentioned was the lack of interest and weak

participation of the citizens. Local NGOs were described as "insufficiently active" from the point of view of their connection with the municipality, and "rootless" as regards to their connection with social, political, civic, educational or cultural life. The perception was that no initiatives worth mentioning ever came from this sector.

Recommendation: From the very beginning, the above mentioned communication unit should be conceived and perceived as a proactive initiative. It could also provide a permanent basis for the citizens to make their own suggestions for the functioning of the municipality. The organization of this structure should be accompanied by an active media promotion designed to improve civic participation and civic rights awareness.

Present situation:

New offices are created:

1. The Office of Relations with NGOs has been created with the mission of promoting a set of eligibility criteria for NGOs in order to simplify the actual procedure requested for a public-private partnership. Until now, no partnership agreement could be concluded unless the Local Council discussed the proposal. This new initiative will probably encourage NGOs to cooperate with the City.
2. The Office of Relations with the Members of the Local Council has also been created. This functions well, but all the information available to the decision-makers comes from the executive. There was a request from the citizens for direct contact with the commissions, but only two commissions responded and fixed a schedule for such meetings.

Communication Interface

• Most of the problems identified appeared at the interface between two hierarchical levels, and they seem to be related to issues of communication. At the same time, the information flows between different departments required closer analysis and improvement. A concrete analysis will show where and why the current activity gets obstructed. For instance, many of the internal documents were considered redundant or unnecessary, and as a consequence, should be eliminated or replaced by more functional ones.

Recommendation: Training courses centered on techniques of efficient communication would be useful. This could also provide benefits in terms of the working environment by generating a further improvement of the collaboration between departments and co-workers.

Present situation:

Each office/department has what is called a 'communicator' who is in charge of offering all the information related to that department. This category of officers, constituted as a network, will further participate in training courses.

Bottom-Up Feedback

- Operational information circulates primarily from top-down. Bottom-up feedback is neglected and the innovative spirit is discouraged by the fact that suggestion letters often remain without an answer even if they could bring about a real improvement in the activity of the supervisors.

Recommendation: the Municipality should experiment with two-way interaction. The institutionalization of bottom-up feedback could bring a real improvement in the activity at the supervisory level.

Present situation:

Nothing significant has as of yet happened from this perspective.

Evaluation / Monitoring

- There was no objective evaluation/monitoring of the activity of each department. Thus, the evaluation of the personnel, even if theoretically based on scores obtained according to indicators that might appear as clearly objective, was, in fact, predominantly subjective.

Recommendation: Monitoring the activity of different departments through relevant indicators can provide a more objective basis for the personnel evaluation.

Present Situation:

Beginning the year 2001, after a sustained technical assistance program delivered by the American firm, the Municipality has a budget structured on programs, with evaluation indicators and this will probably constitute a basis for evaluating personnel performance as well.

Organizational Culture

- There was no consistent organizational culture in the City Hall. Each department had formal and informal rules, and understood its own priorities as the only legitimate ones, with a very weak perception of the importance of other departments/units. In some cases, the employees assumed this attitude in a self-conscious manner, claiming that they were forced to practice this kind of assertive lobbying because of the extreme scarcity of the resources. Problem solving processes still preserve a predominantly informal status.

Recommendation: Adopting a cooperative organizational culture for the institution as a whole could improve its effectiveness. Strong and largely shared values and organizational norms could bring about an increased performance.

Present situation:

The organizational culture still remained weak, unstable, and divided. Further assistance seems to be needed in order to facilitate the rise of a unified culture.

Supervisors Complaints

- The supervisors complained that they are overworked and that nobody was helping them in activities such as fundraising or program design. In fact, their efforts couldn't be supported because of the lack of accurate information on their current activities with their collaborators at the lower levels. In the actual situation, even if the Internet connection became indispensable for effective information traffic, only a few offices could use it on a regular basis.

Recommendation: It's necessary to open up web access for the other departments at least according to a daily or weekly schedule.

Present situation:

Internet access has improved. The staff still lacks information management skills. Another priority need now is to train the staff in fundraising and project management.

Conclusions

The fact that the results monitored might be looked upon as inconclusive should not make us skeptical of the efficiency of such programs. It should be kept in mind that administration reform and, accordingly, technical assistance provided for administration reform, are long term processes. In the present case, some of the lines were followed though quite a few were not. The technical assistance program is still going on, due to the sustained request advanced by the Municipality, which is now more open to implementing change.

Positive thinking on the evolution of the program described here should be centered on the evidence that a positive and supportive attitude toward change can be achieved through rational persuasive means.

The quantity and quality of the participant intervention summarized above should be interpreted as the final outcome of the two different lines of interest followed in this program. From the point of view of the process-oriented approach, the level of sophistication of the responses of the participants is relevant for the degree of professional self-awareness that they acquired. From the point of view of the results oriented process, the package of observations and recommendations made by the participants, as full partners of the consultant in the organizational diagnosis process, represents a substantial basis for any future reform initiatives or assistance.

Questions for Discussion

1. Please analyze the obstacles identified in the process of organizational analysis.
2. Can you detect any inconsistencies in the observations and recommendations that resulted from the final group results session?
3. Is the restricted participation in the workshops of the supervisory personnel relevant? If so, in what ways and to what extent?
4. In the given situation, would you consider that the over-representation of the top management compensated for the almost complete absence of supervisors?
5. Do you agree with the consultant's interpretation that making the participants think in terms of a virtual, ideal institution was the key to the success of the training session? What alternatives would you have used in order to attain this objective?
6. Do you agree with the conclusion in the final session that the institution has no organizational culture? Could you describe the hypothetical organizational culture of the municipality that was here under scrutiny?
7. Please comment on the attitude and solutions of the consultant. Did she make any mistakes? What are the limits of consultants in the process of organizational change?
8. Who were the main beneficiaries of the organizational analysis?
9. What should be considered when using foreign models for personnel management?
10. How would you explain the role of the Mayor in the process of organizational analysis? What would you do differently in his place?
11. What did you learn about the "process-oriented approach" to public personnel management?

References

Gaspar, Matyas and Glen Wright, Organisational Culture Barriers of Local Government Management: The Hungarian Experience in Developing Organisations and Changing Attitudes: Public Administration in Central and Eastern Europe, Jak Jabes, ed., Proceedings of Fourth NISPAcee Annual Conference, March 28-30, 1996, Bratislava: NISPAcee, 1997

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Appendix 1
The dimensions hierarchy

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Rank	Dimension No.:	Dimension	Score
1	4	*Orientation towards services*	3.59
2	8	*Control system*	3.49
3	5	*Organizational culture*	3.39
4	11	*Regulations system*	3.37
5	10	*IT*	3.35
6	3	*Closeness to citizens*	3.30
7	6	*Organizational structure*	3.20
8	9	*Financial management*	2.87
9	12	*Management development*	2.83
10	2	*Planning*	2.77
11	7	*Personnel management*	2.65
12	1	*Political culture*	2.62

Appendix 2

Star diagram for the dimension "Management development"

Management development

We analyse systematically the quality of the management system
99

We have an overall strategy for management development.
100

The strategy of management development is based on political and professional consensus.
101

Within the framework of local administration reform, creativity and innovation are encouraged and stimulated powerfully by management.
102

In our practice for management development we wish to be labor-oriented.
103

The awareness of methodology represents one of the main features of the practice for management development.
104

Efficient methods and mechanisms for organisational learning are institutionalised and are effectively used in our local government.
105

Generally, the organisational changes enjoy wide support, involvement of members and employees.
106

In our organisation, the in-service training programmes represent organic components of the management development process.
107

CHAPTER FOUR

Budgeting and Financial Management: Methods and Techniques in CEE Countries

Budgeting and Financial Management: Methods and Techniques in CEE Countries

Juraj Nemec*

The public sector reforms in the Central and Eastern European (CEE) region have achieved important results, particularly for the EU accession countries. These include the creation of new democratic systems and a more decentralized public administration. New systems of relatively independent local units and, in most countries, regional self-governments with numerous responsibilities were created and these have brought decision-making processes closer to the citizens. Most of the necessary legal documents have been adopted enacting the basic principles of a modern democratic administration. These include Civil Service Codes and modern administrative procedure laws. Political processes have become more transparent and open to citizens. The role of the civic sector and its participation in governing the society is increasing.

The international community has recognized these changes and the EU will increase its membership with new members from the CEE region. By the end of 2001, all accession countries, with the exception of Bulgaria and Romania, closed between 16 and 20 chapters of the "Acquis". However, much still remains to be done in all areas, including the modernization of public administration. Important weaknesses still persist, especially concerning implementation of approved legislation, and some important legal changes have also not yet been approved.

The system of public financial management that will allow for better use of resources and higher performance of the public sector, and the economy as the whole, represents one area, where both legislation and processes have to be much further improved. Progress in this area is relatively slow, and as we will discuss in this chapter, old centralist budgeting methods are still in place. The old style incremental and "brutto" budgeting, compliance methods of control, subjective allocations, centralized management of finances, and the lack of understanding of the principles of public-private mix (and co-operation) represent the main obstacles to improving the quality of management of public organizations and of the public sector as a whole.

The lack of progress from the old "budgeting systems" described above, to modern financial management at the macro- and micro-levels, is acknowledged by the EU, which is carefully evaluating these developments, especially in the accession countries of the region. One of main indications of this lack of progress in managing public finance reform is the refocusing of the SIGMA OECD program (financed via Phare) toward supporting public administration

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reforms in this region. From 2001, most of the traditional areas of SIGMA activities were closed, and, for example, in Visegrad countries (Czech Republic, Hungary, Poland, Slovakia), SIGMA now focuses almost entirely on improvements in public financial management, especially issues of financial control. This recognizes the area of financial management as one of the least developed subsystems of public administration reform, and represents an important barrier in being able to effectively participate in the use of EU accession and later structural funds.

The topics of this chapter are intended to reflect and to react to this existing situation. After this brief explanation of the limited progress towards more economical, effective and efficient use of public resources, we will more directly focus on selected basic public management concepts and the main current problems of public financial management in the transitional, and predominantly accession, countries. Building on this description and analysis, we also present some important ideas and directions on how to create and implement modern public financial management systems in CEE. An important part of the chapter are the case studies that document some current "bad" practices, but also some progressive trends in the region, including implementation problems and impacts.

There are several areas and levels of public financial management. Due to considerations of length and taking into account the existing sources and the purpose of this text, we cannot deal with all of them, at least not at the same level of detail. The macro-level issues of management of public expenditures at the national (national budget) level in CEE are very well developed in a recent study published by the SIGMA OECD (Allen and Tommasi, 2001). We will touch on these very briefly and mainly with one mini-case from Slovenia. Concerning the micro-level, we will primarily focus on the general principles and basic techniques for modern public financial management, and on management of expenditures. We will not focus so much on the revenue side of budgets. These mainly "fundraising" techniques are well developed by a number of studies focusing on the for-profit and private non-profit sector, and these are almost fully applicable to the conditions of public non-profit organizations, when the appropriate environment is created.

I. Public Financial Management – Key Area for CEE Public Administration Reforms

The public financial management system in the CEE has a very difficult role in providing and managing resources to achieve better administration and better public services delivery. This role is played in an environment in which the GDP of the most developed CEE countries (on a per capita basis) does not reach much more than 50% of the EU average. Coping with this situation and obtaining the maximum effect from the limited amount of resources is one of the critical points of the reform development. The lack of public resources to

realize effective government policies severely limits progress. For example, in many cases there are no resources to invest toward human capital developments, which are crucial to achieving a competitive level with the CEE and EU countries. The objective of public financial management is to achieve the maximum achievable level of allocation and technical efficiency of public expenditures (Stiglitz, 1989). The amount of resources available to cover public expenditures is almost entirely limited by the performance of the economy. Some of these resources may be lost because of ineffective collection methods. Therefore, what is available has to be used very effectively, efficiently and economically. However, this has not occurred yet, and we are able to prove, with many examples, that available resources are not

- allocated effectively, to activities where most needed (optimal allocation); or
- used in economic and efficient ways (wasting of public money).

This situation represents the outcome of the fact that during the first public administration reform phases most, if not all CEE countries, did not focus very much on public financial management issues. There are several reasons for such a situation. We can identify three of high importance – national reform priorities, and subjective and objective factors delaying the start of public financial management reform. In the following text, we will explain these factors in a more detailed manner in order to be able to understand the reasons for this current situation and why the topic of public financial management has become the critical issue of public administration reforms in all CEE countries.

I.A   National Reform Priorities Postponed Financial Management Reforms

There is no doubt that the first dominant issue for the political agenda and for the reforms were democratic elections, division of political, administrative and juridical powers, creation of new local self-government structures, privatization and deregulation in the private sector, and later the decentralization of government responsibilities. With the establishment of these basic preconditions for the functioning of a democratic and market-based society, there were also other high political priorities and areas to present to the voter and to demonstrate to the Western partners a willingness to change.

However, because of more subjective and objective reasons, the transitional countries, to a lesser or greater degree, missed the opportunity to start important public financial management reform initiatives. This slowed down real reform progress in a more and more dramatic way. The emphasis on political and institutional changes was the political necessity, but in the late 1990s the ineffective use of public resources started to limit the progress of transforming the public sector.

I.B   Subjective Factors Delaying Financial Management Reforms

In spite of an increasing body of evidence proving that old (more or less socialist) approaches to public financial management should be replaced by modern mechanisms similar to those currently in use in the West (but modified for local conditions), the progress was and is still very slow. The government and politicians on all levels, and especially central government bureaucrats, are not willing to loosen their remaining scope of control over organizations and structures and, thereby, decrease the possibility to utilize monopolistic powers (Niskanen, 1971). This was especially true concerning the systems for allocation of financial resources.

Modern financial management is mainly based on principles of delegation, decentralization, and outcome control. This approach shifts the division of power and this is not favored by some who see the possibility of misusing their respective position for private benefits. As Allen and Tommasi say "It is difficult to change the system from an internally controlled culture to an externally controlled culture, ... there is little advantage in introducing swathes of new rules and regulations if compliance is poor." (Allen and Tommasi, 2001, p. 4).

We also have to identify here the reluctance to introduce best practices in fiscal and budgeting transparency. This is a major concern of such organizations as OECD and the International Monetary Fund (IMF) in dealing with the development of financial reforms in the transition countries. In public management, we can speak of two aspects of fiscal and budgetary transparency. The first is the transparency of the budget and the budget process to the citizens for their input into local decisions. The OECD and the International Monetary Fund, have issued publications on best practices in budgeting and fiscal transparency. These can be found on their websites. The IMF issued the Revised Code on Good Practices on Fiscal Transparency, updated February 28, 2001, and this is summarized in the appendix to this chapter.

A great effort in the past decade was made, through international donor programs dealing with local government budgets, to initiate the public budget hearing for citizens to have an opportunity to voice their opinions on local budget and tax issues. These have succeeded in many countries of the region to make a more open budget process. But, as shown by the case study from Slovakia on local service delivery, local financial decisions are still closely guarded by many local councils.

The second area is simply with the budget and fiscal accounting and procedures that need to meet internationally accepted accounting and financial reporting standards. These accounting systems are still not well developed in many of the countries, particularly in the public sector, and greatly impedes the development of effective budgeting and financial managements systems. A further impact is that viable municipal credit markets require full disclosure of local government financial conditions based on accepted methods of reporting

and auditing of the local government finances. Without more transparency and accountability in the financial systems, the opportunity to fully utilize local revenue sources based on the methods described in this text will continue to be hindered.

I.C Objective Factors Delaying Financial Management Reforms

With the exception of the above subjective factors slowing down the processes of public financial management reform, we also have to stress the problem of the lack of local experience, which causes an objective obstacle for faster reform. In the early 21st century, there are still very few highly qualified local experts focusing on public financial management issues and who are able to support processes of change. It is also generally recognized that transformation processes in CEE countries cannot be based just on a simple transfer of "Western good practice" (Coombes and Verheijen, 1997). The successful implementation of new approaches is based on an effective combination of Western and local expertise and the ability to predict to the extent possible the impact of new mechanisms in specific transitional conditions. But, the group of experts that is able to be involved is too small and frequently excluded from these opportunities. The reasons for this could be from both the side of Western advisory bodies and institutions, and on the side of local politicians and bureaucrats who lack understanding of the complexity of problems, financial reasons and an unwillingness to realize real reform.

II. Current CEE Practices in Financial Management

After more than ten years of transition, the quality of public financial management has not reached an acceptable level, comparable to progress in some other areas of public administration reform and transition. In all countries, many former traditional public budgeting approaches still dominate the systems of public financial management of resources at the institutional and microeconomic level. According to Allen and Tommasi, "Even after ten years of transition, many fundamental (public financial management) reforms remain to be completed in these (CEE) countries. The hurdles facing countries in transition that strive to achieve an acceptable standard of performance in budgeting, accounting and auditing become even higher, as OECD countries modernise their own systems." (Allen and Tommasi, 2001, p. 3).

The main features of CEE public financial management are still similar to the "socialist" time, causing excessive inefficiencies in the public sector. The main problems of the current CEE financial management practices, especially on expenditure side of budgets, are identified in Table 1.

Taking into account the very broad possible audience of this book, we will examine the indicated problems in the following manner:

Table 1

Current public financial management practices in CEE versus modern approaches

	CEE countries	Modern approaches
Methods of budgeting	Dominant incremental and short-term budgeting	ZBB, programming budgets, medium term-budgeting
Income "freedom"	"Brutto-budgeting" still important	"Netto-budgeting", agencies
Management/execution of the budget on the organizational level	Centralized, input based	Decentralised, outcome based
Allocation of resources	Subjective, non-transparent	Transparent, where possible formula-based
Audit/control	Compliance, ex-ante control	Outcome based, ex-ante and ex-post control
Delivery of public services	The state monopoly is slowly abolished, non-systematic approach	Pluralistic public-private-civic sector mix

a/ In this section, we introduce the main current practices of public financial management in selected areas, and problems connected with them in the CEE region and with some theoretical concepts to familiarize the reader with these methods.

b/ In the next section, we introduce modern public financial management trends that may, if properly implemented, serve as possible solutions to current problems, and replace old-fashioned public financial management practices in CEE conditions.

c/ Mini-cases included in these sections and some case studies at the end of the chapter further develop ideas and concepts developed in both sections.

II.A   Methods of Budgeting

A budget is usually defined as a financial plan, especially in its classical form as an annual revenue-expenditure budget. At the institutional level: "Any budget is a plan (usually in financial terms). It is also a document which can be used to control cash-flow (income as well as expenditure) by informing personnel who have to manage finances when deviations from the plan occur, and, thus affording the organization the chance to take suitable corrective action" (Jones, 1996, p. 44). On the national level: "Budgets evolved in two directions. At first, parliaments fought to take control of the budget and make governments accountable for the use of resources. In democratic societies, approval of the budget is the main form of parliamentary control of the executive. In later years, the role of government budgets became more complex. Today, government expenditures are aimed at a variety of objectives, including economic development, and social goals, or redistribution objectives" (Allen and Tommasi, 2001, p. 43).

Budgets in all their forms serve several main purposes:

a/ Planning document – statement of expected patterns of income and anticipated expenditure. Planning process takes place before the budget is implemented.

b/ Control device- after authorization, and especially in the more detailed line item forms of budgeting.

c/ Policy document and communication tool to explicitly inform those interested in what the government is doing.

Institutional budgets, as operating financial plans, should be real and accurate. They should include at least yearly comparisons, indicators of financial performance of budgeted to actual data, indications of performance via activity statistics (unit costs, service output measures), and projections of future operating expenses of the investment budget. In principle, all spending must be within the limits provided in the budget and its sub-budgets. Any differences between actual and planned spending are known as variances, and usually represent underspending or overspending. The control process takes place while the budget is being realized.

Most public sector organizations still create yearly budgets. To ensure timeliness of this process, they establish a regular cycle of activities, usually codified by internal procedural norms. This budgetary cycle is repeated every year and may be driven either by a top down or bottom up approach (or a mixture of both).

The typical budgetary cycle (for incremental budgeting) is described by Jones (1996, p. 48) in Figure 1.

Figure 1
Budgetary cycle
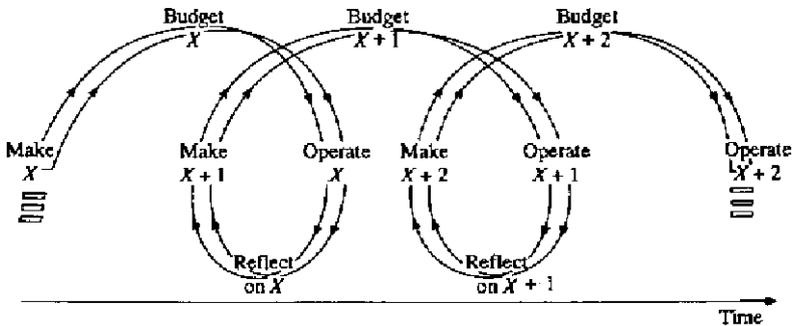
The top down approach to the budget cycle is where the main decision-making body establishes broad budget parameters, like:

• expenditure targets;
• income strategies (level of used charges, fees, expected grants);
• use of reserves (increase or decrease of the scope of reserves);
• key priorities for the organization;
• the expected budget limit for all budget departments.

Having these parameters, all departments develop their budget proposals.

The bottom up approach starts by departments preparing their budget proposal, according to organizational priorities and their individual plans and

targets. These proposals are submitted to the organizational level that evaluates all proposals to ensure that the total organizational budget will be realistic. Changes are referred back to departments. This process continues until the organization achieves a budget that reflects its plans and agreements are reached with departments on the level of resources allocated to them.

Both approaches have their advantages and disadvantages. The top down process decreases transaction costs of preparing the budget, and the bottom up increases freedom, but also responsibility on the departmental level. In the CEE conditions, where the lack of resources is a more dominant factor compared to developed countries, the top down process, especially on the national level, and the top down or mixed approach within larger organizations, might be a more effective alternative. For example, in the Czech Republic, a two-stage top down approach to approve the national budget is being discussed, and expected to be applied, to solve problems of large budget deficits and to improve the budget preparation process (Nitschova, 2001).

We will deal mainly with the organizational level and in the next mini-case we present the methods of establishing the state budget in Slovenia. This is a very complex example presenting the main ideas connected with budget preparation, budgetary cycles and other related items. Similar to other countries, as previously mentioned about the Czech Republic, Slovenia is starting to apply a two-stage top down approach to prepare the state budget and will incorporate several modern methods to improve its contents and structure.

Mini-case 1.
The System of Preparing the State Budget in Slovenia
(S. Setnikar-Cankar and M. Klun)

The reform of budget preparation and implementation is among the processes of ongoing reforms in Slovenia. This reform is one of several being undertaken in the public finance area. Its main goal is the better management of public finances. The following case describes the stages in the budget reform process and presents how these changes affect the preparation of a budget proposal by a selected ministry.

Traditional budgeting process

Until the 1995 budget, the budgeting process in Slovenia was traditional with all the weaknesses that entails with incremental budgeting approaches, gross budgeting, centralized management and dominance of the state. The Ministry of Finance managed the entire budgeting process and implemented budget control. The ministry specified all expenditure rights and approved expenditures for all budget beneficiaries. It also controlled the use of public resources in a legal and economic sense. It was obvious that reform was necessary if Slovenia was to become a modern democratic state and part of the EU. In 1994, therefore, the first budget reform was implemented and this was followed in 2000 by a second reform.

The first budget reform – budget planning

The traditional budgeting process was not compatible with ongoing reforms in the public sector, which required implementation of new public management. The traditional budgeting approach didn't allow budget beneficiaries to reallocate their revenues according to their needs. In practice, for example, the exact amount for salaries for every budget beneficiary was predetermined. If the number of employees decreased, the budget beneficiary should return the resources to the budget and if the number were to increase, the beneficiary could not get additional resources from the budget. Therefore, the main aim of the first reform was to introduce a more flexible approach to the budget, which included long-term planning of beneficiary needs. The Ministry of Finance prepared the long-term plan of revenues using different documents and data.

From 1994, the concept of a four-year budget has been in use in Slovenia. Every year with the passing of the budget for the following year, a projection is made of budget revenue and expenditure for that year and the following three years. In this approach, only the budget for the following year is allocated in detail for various items and beneficiaries.

The key documents used for budget planning are:

1. State of the economy – the starting points for preparing the state budget is a document based on findings on the existing state of the Slovenian economy. Certain parameters are defined that are considered when drawing up a budget memorandum and proposed budget.
2. Spring report - the spring report is a professional document. The content is adjusted to the needs for several years of the planned budget beneficiaries and expenditure.
3. Budget memorandum - the budget memorandum is a government document. It defines the basic developmental, macroeconomic and social policies with which the government will support the realization of its development goals in the following year as defined in economic development strategies.
4. Budget proposal
5. Autumn report - the autumn report informs the government of the latest movements in the Slovenian economy. It provides additional information for preparing a corrected budget proposal for the following year. The annual budgetary cycle begins in March and lasts to the end of December; it covers 10 months.

Slovenia, as yet, has no documents showing long-term budgetary projections. It would be useful for budgetary projections to be shown in a special budget document in which the picture for the following several years could be portrayed. As required, the documentation for the past period would also show a longer series of data. Projections for the next three years would be divided such that the document showed:

- the principal sources of revenue, the dynamics of basic economically targeted budget use for salaries, material costs, individual social transfers, subsidies, investment, etc.;
- a basic projection for financial accounts;
- the forecast allocation of funds to individual ministries according to principle targeted use.

The second budget reform – results oriented budgeting or performance budgeting

As mentioned above, the first reform was not sufficiently successful in that almost none of the weaknesses of traditional budgeting were abolished. The government, therefore, began a more radical budgetary reform starting with passing of the Act on Public Finance in 2000. Preparation of the state budget for 2001 already included some principles of results oriented budgeting, but reforms really began to be implemented with the preparation of the 2002-2003 state budget, which is now in the parliamentary phase.

The Ministry of Finance has prepared a macro-fiscal scenario and budgetary starting points for the period 2001-2004. The document provides the basic goals of macroeconomic policies, defines central development tasks and shows the possible global framework of public finance for the following four-year period. The strategic public finance goal of the government in the following medium-term period is the gradual elimination of the public finance deficit.

The program-oriented approach to budgetary planning is based on the transition from supervised sources of revenue and use to the supervision of operational results and the monitoring and evaluation of the success or failure of implementing the budgetary resources. In accordance with this, the indirect budget beneficiaries are given the task of preparing a report on results achieved and goals realised in the area of their competence (performance/result oriented budgeting).

The program-oriented budget should provide for transparency. Up to now, the Slovenian budget has been based on approximately 3,000 budget items. The program-oriented budget will enable concentration on results and goals in comparing costs and performance. This enables the transfer of authority with increased responsibility for success and efficiency at all levels of decision-making. The program managers must constantly monitor and report on the success of their supervision of the efficiency and success of using budget funds. The eventual effect will be a greater understanding and ability to review the budget.

Budget beneficiaries must, in the new system, also submit plans for developmental programs. The state budget will then be composed of:

- a general part (balance of revenue and expenditure, accounts of financial debts and investments and a financial account);
- a special part (divided by budget beneficiaries with respect to areas of use, principal programs and subprograms and items);
- development program plans (together with procurement and building plans and employment plan).

At the end of the year, budget beneficiaries must submit a report on goals and results achieved.

From performance/result oriented budgeting in Slovenia several achievements are expected:

- The traditional approach to budget preparation was based on a cumulative principal (bottom-up process), which led to poor fiscal discipline. The amount of planned expenditure was the result of adding all individual expenditures. The

consequences of such a budget process were cumulative inefficiency, an increase in the budget deficit and an increase in public expenditure. Results oriented budgeting will give the responsibility of allocation of resources to the budget beneficiaries (ministers). Ministers (or managers in institutions which are direct budget beneficiaries) should reallocate resources within their financial plan (received revenues) and at the same time consider government priorities for macroeconomic development.

- Budget beneficiaries will freely dispose of resources within the main fields of public expenditure (main programs).
- Budget beneficiaries will be obliged to report to the ministry of finance on development of projects and plans for which they received revenues. If resources are not used efficiently, the minister (or manager) will take full responsibility. At the same time, such a budget beneficiary unit will not receive approval for all planned projects and activities for the next period. This will lead to better fiscal discipline.
- Every program and task of the budget beneficiary will need financial evaluation.
- Definition of main programs, sub-programs and activities will lead to better co-ordination in the public sector and abolish duplication of tasks and their financing.
- Budget beneficiaries have the opportunity to form private/public partnerships to carry out their tasks.
- Control of inputs will be diverted to control of outputs and outcomes.
- Result oriented budgeting enables cost analysis of different areas of public expenditure.

II.B Main Problems of Incremental Budgeting in CEE

The budgetary approaches, as applied in the CEE region, represent in most cases incremental budgeting (historic budgets). In using incremental budgeting, the main base for next year's budget is the previous year's budget and its outcomes. The process of incremental budgeting might be characterised in the following figure:

Figure 2
Incremental budgeting

Changes of external environment

Budget 2000   + (-) increment   =   Budget 2001

Changes of internal environment
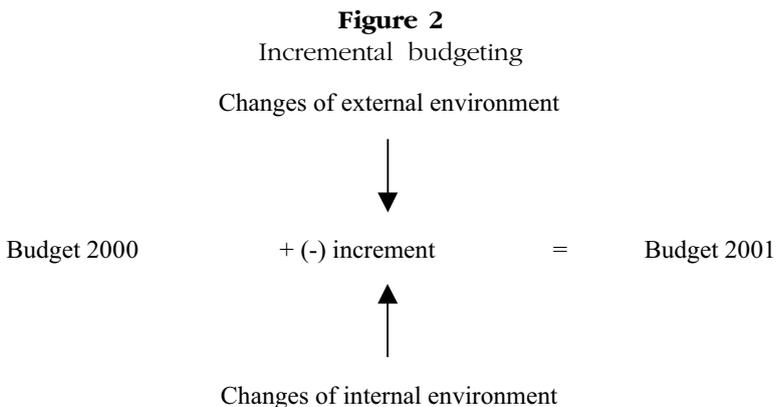
In principle, incremental budgeting is a simple and quick process. This is its main advantage, especially when there are few or limited changes in the external and internal environment. But, it is connected with important deficiencies since it creates incentives to spend, limits the possibilities of real structural changes, assumes that the base is accurate, may compound historical errors, and is unlikely to adapt to large future changes.

With these deficiencies, the incremental budgeting method creates many problems for CEE reforms. It allows for continuing old expenditure patterns, and especially motivates and allows managers in public organizations to adopt classical budgetary strategies:

1. Ask for more resources than you need assuming that the proposed sum of money will be cut.
2. Spend all your allocations before the end of the budgetary period as there is no provision to transfer resources to the next budgetary period, and in case of under spending, the spending limit for next year will be lowered.
3. Lobby during the year to increase the budget.

In such a situation where this strategy actually works in CEE conditions during the first decade of the 21st century, there is no doubt that both technical and allocation efficiency of public expenditures cannot be achieved.

Problem of "Brutto" Budgeting

The idea of brutto and net budgeting is still very important in the CEE region. In most of these countries, there are many types of public sector non-profit organizations. Their main function in fulfilling respective roles of the government and legal forms can be divided into the following main groups (for government roles, see for example Stiglitz, 1989):

1. Administrative institutions – predominantly focusing on the regulative role of government (administrative offices, courts, police, etc.).
2. Service delivering institutions – predominantly responsible for executing the allocation and redistributive role of government, many of them converted to semi-public or semi-private bodies (schools, health care establishments, etc.).
3. Agencies – usually responsible for the regulative or stabilization roles of government, but given special status of semi-independent body.

According to the level of freedom in financial management, especially on the income side of the budget, all these organizations can be subdivided as follows:

1. Brutto budgeting organizations, with a strict boundary between incomes and expenditures. The incomes of such organizations are direct incomes of respective levels of state budget and expenditures cannot be covered from such incomes.

2. Net budgeting organizations manage the total budget and are connected to the respective level of state budget by operating loss or surplus.
3. Mixed type organizations.

Under the old regime, brutto budgeting organisations dominated the public sector in CEE countries and this remains more or less the reality today. For example, in Slovakia in 1997, there were still 4400 brutto budgetary organisations, and only 1351 semi/netto budgetary organisations representing the public non-profit sector. Agencies did not exist.

With the continuing transformation, most organisations should be moved to the mixed or net budgeting type in order to allow them more freedom in managing incomes and providing this will have a positive impact on performance. The brutto type of budgeting is today acceptable only in cases where income incentives could have a pervasive impact on the quality of delivery of services (motivation of police or courts to increase their own incomes might be possible examples; so that police will not watch the most dangerous, but rather the most "profitable" areas). Also, in this case the mixed form of allowing a special regime for approved activities is more suitable.

The purposes for moving away from brutto budgeting will be clearly highlighted in the next mini-case from Slovakia. In spite of the fact that the processes of transformation are well known, they are still too slow, and the scale of "brutto" budgeting is too large in CEE conditions. In many CEE countries, there are still several service producing organisations, like universities in Slovakia (untill April 2002), which belong to the first group that are slowly converting to the mixed type of organisation. Mini-case 2 highlights the impact of brutto budgeting on a specific service delivery organization.

Mini-case 2.
Impact of Brutto Financing on the Financial Performance of State Institution (J. Nemec)

This case describes the financial performance of one selected university faculty in Slovakia. The state was not able to increase its contributions to the faculty during the periods evaluated, and with inflation, the revenues of the faculty significantly started to decrease. The standard possibility to cope with the decreasing state contributions would be to increase its own income from commercial activities (advisory activities, training, etc.) and compete for grants. This straightforward solution has important limitations in the brutto budgetary environment, and in the situation where the range of possible grants is very limited. This was the case in Slovakia in the late 1990s.

With the brutto system of financing and the risk of not retaining generated income, the faculty management was motivated to try to find a more effective solution. In the existing environment, the faculty management decided that the simplest alternative was to create a semi-independent legal body, or non-profit organization, as the main platform to realize commercial activities and to collect (officially prohibited) student fees. Despite the fact that such a solution is on the

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margin of legality and is non-transparent, within a few years the non-profit started to generate approximately one third of faculty incomes, paying part of the salaries of teachers and most of the capital investments and travel costs. This saved the faculty from financial collapse, as shown by the following Table 1.

Table 1
Financial flows in the faculty

	1998	1999	2000
Budget expenditures	22 656	23 940	22 389
Budget incomes	1 550	1 593	1 393
Incomes from commercial activities	4 196	547	876
Net profit from commercial activities	1 388	- 195	201
Incomes via non-profit organizations	3 487	7 823	12 486

This example clearly underlines the inadequacy of "brutto" budgeting in a typical service delivering public organizations (Slovakia is probably the last CEE country with "brutto" budgeting at the university level), and the creation of disincentives to generate its own incomes and motivations to find specific, less transparent alternatives in order to balance the budget.

II.C Management/Execution of Budgets on the Institutional Level

After the budget is approved, it has to be executed to reflect actual operations, and to prepare the basic preconditions for the subsequent year's budget. The basic issues and steps of managing a budget that we will discuss in this part are as follows:

a/ monitoring the budget;
b/ checking accuracy of actual income and expenditure;
c/ comparing actual income and expenditure with the budget;
d/ comparing actual and expected outputs;
e/ identifying trends;
f/ highlighting areas of over or under spending processes;
g/ reacting to problems, corrections.

These are realized in all organizations with similar basic approaches in Western and CEE countries. However, because of the dominant incremental budgeting approaches, many aspects in the execution of budgets do significantly differ between CEE and developed countries. In the following text we discuss some of them.

Variance Analysis and Management

Variance analysis and management represents one of the most important issues of budget execution shown in Table 2. Variance analysis and management is identifying and managing differences between actual and expected figures.

Table 2
Variance analyses with a profiled and non-profiled
budget for month ten (October)

Item	Annual budget	Monthly budget (profiled)	Monthly budget (non-profiled)	Cumulative budget (profiled)	Monthly expenditure	Cumulative expenditure	Monthly variance	Cumulative variance
Salaries	60 000	5 000	5 000	50 000	5 200	51 000	+ 200	+ 1000
Heating	3 600	500	300	2 400	480	2 350	- 20	- 50

There may be many different reasons for a variance to be identified, such as:

• technical mistakes and errors in calculations (miscoding, incorrect figures);
• delays (some data did not enter the system in time);
• mistakes in profiling the budget (more on profiling in section III.B);
• mistakes when preparing the budget;
• unplanned changes (in internal and external environments);
• cost-ineffective management of the organization (inefficiencies causing higher costs or lower incomes).

The success of budget management, and to some extent the financial performance of the organisation, depends very much on the existing external environment and, especially, on valid budgetary rules. Current trends are to allow increasing freedom in the area of managing the budgets to the organisational level in order to encourage better use of public resources.

II.D Problems with the "Old-fashioned" Budget Management

The new concepts of managing institutional budgets are very slowly being adopted in CEE conditions, and this is especially true in "brutto" budgetary organisations. The budget setting procedures are done mostly at the central level of the organisation, which frequently limits the motivation of lower organisational levels. Compared to the Western situation, CEE bodies have less discretion to use available tools to react to results obtained via monitoring, which is the main way to obtain information necessary to manage the budget. Although there are many forms of possible action to ensure a balanced budget, such as virements, staff slippage, temporary staff, contracts, bonuses and overtime, stock reduction and control, and the sale of property, almost none of these can be used as a standard method under CEE conditions.

Virements

One of the main problems is the limited right for virement, which is moving resources between budgetary heads and/or items. In cases where the budgetary statement shows a mixture of under and overspending in respective items and these variances are not because of misprofiling and misrepresenting expenditures, the possibility to vire from one head to another should be considered. But in CEE conditions, at a minimum level, the possibility to transfer salaries and capital expenditures from one to the other is not allowed in most cases.

More and more countries allow virements between years (underspending or overspending in one year can be balanced by shifting between yearly budgets). This is partly the result of introducing medium term budgeting. Such arrangements combine annual appropriations control with multi-year flexibility in implementing budgets. In some countries, such spending flexibility is regulated by allowing agencies to earn interest on funds carried forward and charging interest on pre-spent funds. As mentioned, under CEE conditions, especially in "brutto" budgeting organisations, yearly budgets are usually connected via the incremental system of budgeting, and the shifting of unspent resources is very limited, if not impossible.

Staff Slippage

The situation of staff slippage arises when a member of the staff leaves. In this situation, it is quite common to delay the filling of the vacancy for a certain period to save in case of other over spending, or to use these resources for other benefits. A similar tool is to hire contracted staff in which salary and total costs should decrease. This "game" might be too risky in CEE conditions. This is because of the classic, rigid incremental budgeting "general safety rule" that the salary part of the budget has to be spent and vacancies filled immediately.

Property Sale

The sale of property is the least recommended tool to balance cash budgets. Property sold cannot be recovered, and the total ownership of the organisation decreases. The sale of property is a real and important problem, especially at the local self-government level in the CEE. Because of a permanent lack of resources, many municipalities balance budgets by the sale of property, despite this having more negative consequences, like:

- using capital revenues for current expenditures (living on the costs of future generation);
- the sale of property is frequently not transparent;
- not only "unnecessary" property is sold as in some cases municipalities had to buy/rent the same property back in a few years, and at a much higher price.

There are some rare examples of public administration organizations running modern decentralized financial management schemes based on decentralization of power (cost-centre management). Also, in cases where cost-centres are created and data collected, the use of information obtained is rather limited. The local state administration offices in Slovakia operate on the cost-centre basis in exactly this way.

II.E Allocation of Resources

The allocation of public resources is predominantly based on political and administrative decisions, realised by politicians and public servants (bureaucracy). It is generally expected that politicians frequently maximise certain individual or pressure groups interests (Buchanan, 1968) and bureaucracy tends towards allocation and technical inefficiency (Niskanen, 1971). To prevent such inefficiencies, resource allocation processes in Western countries have become more transparent and formula based.

Main Problems with Subjective Allocation of Resources in CEE

The allocation of resources is realized at all levels of the public sector including allocation between the central state and regional and local self-government (fiscal federalism – intergovernmental allocation), allocation from respective ministry to subordinated units, and allocations to and within public sector organizations. To follow the main stream of the chapter, we focus in this part on these processes.

One of the main problems in the CEE conditions is the non-existing system of allocation of resources from the higher to lower level. Modern formula based, or a better formula and negotiation based, system of allocations is of limited use under these conditions. In many cases, the yearly budget is determined by two factors:

a/ the expenditure level in the previous year (incremental budgeting);

b/ good connections of top managers of the organization to those who decide on yearly appropriations and their changes (subjective allocation).

This connection of incremental budgeting and subjective allocation is very dangerous in many aspects as it creates an ideal environment for corruption, and does not motivate organizations to better performance. There are many examples in the CEE of the higher level of the state misusing its allocation power for specific purposes.

Several studies have shown (like Miller, Grodeland, Koschechkina, 1998) that officials in all CEE regions (to a greater or lesser degree) are use to benefiting from the right to decide on resources in monetary or intangible ways (the percentage they get differs according to the case and the conditions). Transparency International (for example Transparency International Slovakia serial "A bude svetlo", 2001) studies provide many examples of politicians and bureaucrats becoming significantly richer than possible from regular incomes.

II.F Control and Audit in the Public Sector

The formal systems of public sector control in CEE were extensively developed under the old regime, and they continue to exist today, and to deliver both internal and external control. The word control is used rather than audit, as control is more the purpose than validating the correctness and legality of

financial transactions in the CEE. National audit offices are established everywhere and are responsible for external control in the public sector. The system of internal control is usually very comprehensive and realised by cross-sector ministries, especially the ministry of finance, the sector ministries, as well as regional and local public administration. It is developed internally within public sector organisations, and by bodies specifically designed for this type of control by specific legislation (office for public procurement, etc.). However, the ways in which the control is performed does not reach the current standards of the developed countries.

Auditing in the public sector is usually connected with three dimensions (Jones, 1997, p. 81):

a/ Checking and validating the accuracy and integrity of the financial practices, records and reports of an organization.
b/ Ensuring that expenditures financed via public funds have been spent on those purposes, and only for those purposes, approved when the legislative branch voted the funds.
c/ Ensuring that, in addition to the financial probity aspects, organization seeks value for money in the form of economy, efficiency and effectiveness (3E) in pursuing agreed upon policy objectives.

Considering these dimensions, it is possible to distinguish the following types of audit:

1. Probity (compliance) audit and value for money audit.

A probity audit concentrates on the conformity of financial transactions to rules and systems. Every organisation has to have a set of rules to which its financial operations shall conform in order to execute its budget. Such rules or standards defines the roles of respective levels in financial decision making, systems of financial planning and budget management, tendering and contract issues, accounting, audit, banking, insurance, inventories, payments, salaries and expenditures issues. There are important basic principles to be followed with a system of rules, like (Jones, 82):

• A payroll system designed to insure that the right people get paid the right amount of money on time and consistently with other systems such as for tax, national insurance superannuating and the banking system.
• An expenses system designed to ensure that employees who incur expense in the course of their duties can be repaid promptly on receipt of appropriate authorisation.
• A requisition system designed to ensure that authorised people order goods and services at competitive prices, with the system being linked to inventory and stock control/stores system.
• A petty cash system designed to ensure that a limited amount of money is available for immediate purchase of small items that are urgently required without offering the potential for abuse or major theft.

- A budgetary control system designed to ensure that managers are clear as to the extent and limitations of their spending/authorisation powers and that they have accurate and up-to-date information as to how close they are to their targets so that remedial action can be taken if necessary.
- A financial accounting system designed to produce accounts of records mainly for external audiences.
- A management accounting system designed to produce figures of value to managers for control purposes.

Value for money audit is concerned with 3E aspects of conducting financial affairs of the organization (see next part).

2. Ex-ante audit and ex-post audits

An ex-post audit is more focused on ensuring that resources have been spent for the purposes defined and that outputs and results expected were obtained.

3. Internal and external audit

An internal audit is realised by the respective organisation and through the internal audit department/structure, which shall be as independent within the organisation as possible. An external audit is realised from sources outside of the organisation and is usually provided by a national public sector audit organisation (National Audit Office, Audit Commission), ministries of finance, or branch ministries in some cases.

Problems with Control/Audit in CEE

The system of control/audit in the use of public resources in CEE is still very far from meeting modern audit standards and practices as applied in the West. In CEE, both the internal and external audit (control) is primarily executed by the function of the probity (procedural) audit, which is done in the ex-post manner. This leaves opportunities for much inefficiency when using public resources. This is described by the mini-case on the Czech Supreme Audit Office and highlights problems connected with ineffective approaches to auditing in CEE.

CEE control people lack the education and experience to conduct modern outcomes and value for money audits. They tend to focus on details and non-important procedural mistakes, which has a negative impact on incentives to effectively manage very limited financial resources.

Mini-case 3.
Procedural Versus Outcome Based Control: The Case of the Supreme Audit Office of the Czech Republic
(František Ochrana)

The Supreme Audit Office (SAO) body is the highest public resources control/audit body in the Czech Republic. The President of the Czech Republic appoints the president as the head of the SAO, on the basis of the proposal of the Chamber of Deputies. The Act 166/1993 provides the status and activities of the SAO.

The SAO is responsible for auditing/controlling of the management of the state ownership and of public financial means, except for the proprietary incomes of the local self-governments, the Final State Account of the Czech Republic, and the fulfilment of the state budget of the Czech Republic. This also includes the management of resources provided to the Czech Republic from external sources and of resources guaranteed by the state, the management of government bonds, and public procurement.

The law 166/1993 Sb. provides that the SAO "checks if controlled activities are provided according to the law, verifies the factual and technical aspects of controlled activities, and assesses effectiveness and efficiency of the use of resources". In reality, most of the control/audit activities of the SAO focus exclusively on process aspects of controlled activity. Aspects of "3E" are not incorporated as the control services delivered by the SAO.

In 1999, the control of financial means came to a total value of 269,747 million Czech crowns (1 USD = 38 Czech crowns). From this amount, the errors or inaccuracies were established at the level of 118,282 mil. Czech crowns. The errors to be refunded represented 0.65 % of the total value of the errors identified.

It has been indicated that the control performed by SAO is a control of the conformance of procedures, and has an ex post character. The basic indicators mentioned do not highlight the purposes of the allocation of public sources, nor the effectiveness of the allocation. This fact is apparent according to the results of selected control activities of SAO, which are detailed.

The Control of Grants Given to the Mining Industry

This control was targeted toward evaluation of the provision of grants to the mining industry, which were focused on supporting the industry, and realised at the Ministry of Industry and Trade of the Czech Republic and the level of the respective mines.

The system of grants directed to supporting the process of diminishing the industry started in 1993 (for 14 areas) and was expected to end in 1996. This was expanded by adding an additional 22 areas, and extended to the year 1998. The decision in 1999 extended the deadline for 20 areas after 2001 and it is expected that for 14 areas, the program will continue until at least 2005. All resources for the grants are from the state budget.

This situation is a typical example of the Czech reality. At the start of the program no economic analysis was performed and no strategy formulated. The process is

managed on an "ad-hoc" basis with a number of substantial changes during the program and with the consequences of an ineffective use of public resources. The decision to start the program was based on pure political reasons with no ex-ante cost-benefit analysis to prove the effectiveness of respective government intervention to be realised.

To provide for social and other problems connected with the process of the closing of several mines, a great amount of money was spent, as highlighted by Table 1.

Table 1

Financial resources to support diminishing of coal mining industry (mil. Kč)

| Year | State budget grants | | | | Proprietary resources of mines |
	Technical liquidation	Diminishing of environmental impacts	Social and health-care obligations	Total	
1993	1 119	537	1 109	2 766	580
1994	1 347	840	1 158	3 345	441
1995	1 173	784	1 330	3 287	838
1996	1 291	878	1 423	3 591	975
1997	652	713	1 363	2 727	1 460
1998	640	861	1 404	2 905	1 189
1999	504	702	1476	2682	1106
2000	527	602 (expectation)	1 565	2695	X
Celkem	7 253	5 917	10 828	23 998	6 589

Source: The SAO Bulletin 4. Praha 2000, p.231

In reality, the processes of diminishing the industry is connected with following main problems:

1. The program of restructuring was not realised on the basis of a real strategy, and clear definition of the state's participation. The process was chaotic. No economic evidence to prove the effectiveness of the use of resources existed. On this basis, the demand for state grants is constantly on the increase.
2. The privatisation of coal companies was not finished. The scope of the state's participation is not clear.
3. The grants were frequently used to continue to support the industry, and not to close the mines. An increasing share (58% in 2000) of the resources is used to cover obligations to social and health care insurance funds, and not for the original purposes of the funds.
4. The goals of the ecological grants are not clearly stated, and such grants are used, in reality, for different purposes (fly-paper effect).

Some of these problems were included in the control report, but much other inefficiency remained hidden. From the point of view of typical procedural (compliance) control, no problems exist. The grant is accounted for according to the rules in the organization. The fact that resources are used for a different purpose is not visible and cannot be prosecuted by any controlling body. This situation is the result of an underdeveloped system of financial management and accounting in the public sector.

Other Cases Presenting Deficiencies of "Compliance" Control

"Hidden Institutions"

This first case is from the defense branch. The facts are based on personal experience of the author while participating in implementation of PPBS approaches in this branch.

As a part of the preparation of the necessary program structure, the "Generální štáb" was asked to provide a list of all the organisational parts of the branch. During this inventory, a total of 45 bodies were not included on the list, and the responsible general was really surprised that such bodies exist. This meant that 45 institutions existed and were financed from the public budget, but did not deliver any outcomes. These 45 bodies were small legal groups created to manage privatisation of army deposits. After they were created a new decision on centralised privatisation was adopted, but these bodies were not abolished. Lawyers and other personnel remained employed by the army for the next two and a half years. They were coming to the office and doing private work, but were being paid from public resources. Pure "compliance" control in the branch was not able to uncover this inefficiency until the PPBS preparation started. It is also a reflection of the system that nobody was punished for this case.

Control Motivating Inefficiencies – Public Procurement Cases

The second case is also from central level of state administration and occurred in 2000. Because of more comprehensive external control, the case became public.

The system of control in public procurement and based on pure "compliance" in reality creates too many inefficiencies. The common approach is to procure goods and services "part by part" by direct selection of supplier. This is despite the fact that the real total amount requires competitive tendering procedures. In such cases, the "economics of scale" principle is not only undermined, but also opportunities for several other inefficiencies exist.

In this actual case, the respective ministry procured a set of technical services, not by one competitive procedure, but by direct award of many small-scale services. The person responsible for the procurement accepted an invoice for cutting trees. Because of the pure "compliance" approach, the internal control bodies within the ministry did not discover any problems, and the invoice was paid to the supplier. Later it was established that in the respective area there were never any trees. The misused funds were distributed between the firm and the respective person and it was learned that the firm participated in building this person's private house without charge.

Cases of this type are very frequent in the Czech situation and at all levels of public administration. This represents to some extent the direct result of inappropriate control mechanisms. There are many other cases highlighting the complete failure of the system of public procurement control in the Czech

Republic. But there are certainly similar cases in other countries. Because no real price or cost of goods, services and works delivered is compared to results obtained by tendering, many organisations "adopt" an approach that allows firms selected in advance to win. Being corrupt from the beginning, managers channel public money to the selected firm, frequently on a large scale, and use several tools to do this, such as:

• charging higher than the competitive price for what was delivered;
• paying for non-provided deliveries, as in the previous case;
• paying for services delivered not to the organisation, but to managers responsible for processes (repairs of private cars or private computers of these managers, or work provided in their flats, etc.)

From accounting and compliance control all is correct, only real outcomes control (not existing, yet) can discover such cases in a regular way.

II.G Delivery of Public Services

As the consequence of managerial changes in the public sector, the developed countries have moved from classical systems of delivery of public services, which is characterised by full state involvement in financing and producing services, towards enabling the private (and also civic – non-profit) sector to be involved in all processes connected with the provision of public services, and to some extent with the provision of social welfare. The state limits its participation in financing of public services, where possible and appropriate (NISPAcee, 2001). This to a large extent creates pluralistic "markets" consisting of public, private and non-profit organisations producing respective public services and competing for public money allocated to finance these services (Lane, 2000).

There are many forms of alternative service delivery (Bailey, 1999, OECD, 1993, Nemec-Wright, 1997), from simple contracting out of internal supporting services to large BOT (concession) schemes, like "Eurotunnel" between France and UK. Most of these are widely used in all developed countries. The pros and cons of competition and contracting will be discussed in more detail later. Based on the concept of the purchaser/provider split the UK introduced in the 1980's, some systems of compulsory competitive tendering and internal markets were established later in such sensitive branches as education and health care.

Problems of Implementation of the Public – Private – Civic Sector Mix in CEE

Experience from the CEE shows that alternative service delivery arrangements are a reality. However, there is not much evidence based on comprehensive data from the CEE countries that demonstrate how public services are delivered. Data from the Czech Republic and Slovakia (Nemec, 2001, Merickova, 2002) prove that contracting is frequently used in various forms in the region as shown in Tables 3 and 4.

Table 3

The frequency of use of contracting out support services – Slovakia and the Czech Republic (figures describe number of organisations), year 2000

Branch	Slovakia		Czech Republic	
	Total number of organisations	Total number of contracted services	Total number of organisations	Total number of contracted services
Education	14	4	11	6
Health care	10	10	4	8
Culture	4	0	5	6
Local government offices	4	1	17	16
State administration offices	8	6	19	11
Total	40	21	56	47

* Internally: by its own Staff or in budgetary/semi-budgetary organisations
Source: research done by author

Table 4

Internal versus external delivery of local public services in selected municipalities in the Czech Republic

Public service	Total number of analysed municipalities	Number of municipalities delivering the service internally*	Percentage of municipalities delivering the service internally
Waste collection	42	5	11,9
Management of cemeteries	31	11	35,5
Public green	40	15	37,5
Maintenance of public roads	35	12	34,3
Public lighting	22	8	36,4

Source: Merickova, 2002

The existing information indicates that the problem of the public-private-civic sectors mix in the delivery of public services in CEE is not so much the persisting dominant position of the state, but much more the way in which private and non-profit sectors participate. At least two main problem areas have to be identified:

1. Contracts are not prepared and managed in systematic and effective way.
2. The "market" of potential suppliers, and their ownership forms, do not have a really pluralistic character.

The first problem is very well documented in the case study from Slovakia at the end of this chapter. It shows that in many cases contracting public or support services to private suppliers is not based on economic evaluations, but on other purposes, including corruption and "channelling". This occurs as well in other CEE countries.

As for the second issue, we may conclude that the private and civic sectors are not regularly used as equal partners of the state, thus helping to develop the level of democracy, improve social welfare and deliver public services. Frič (2001) argues that during the entire transition years, the Czech governments were not willing to accept the non-profit sector as a real partner in the delivery of services, and state owned bodies were usually preferred. The system of

competition, in any ownership form, from public finance allocations to the delivery of public services is still in its early phase of development in CEE. It is not effectively organised or transparent. This results in great inefficiencies and creates an environment for corruption; especially in the area of subsidies provided to non-profits for their activities. Many specific cases of non-transparency and corruption connected with allocation of public resources to the private for profit and not for profit sector could be found in national reports on developing the civil society and have been published in most countries (like Slovakia 2000 or 2001).

Progress in this area is relatively slow, but does exist. For example, in 2001 the Slovakian Parliament approved a new law on financing elementary and secondary education and treated all ownership forms equally. According to this law, all schools get the same amount of core subsidy per pupil, and when student fees are collected, this subsidy is proportionally decreased. However, because of limited management freedom of state owned schools (brutto budgeting as described above), such a system is in reality unequal, and works against the state sector.

III. Modern Public Financial Management Tools

The New Public Management "revolution", as well as other less radical approaches to changing public financial management, has been under way for the past fifteen years in all developed countries. This has radically changed many practices and approaches in public finance. In the following sections we will focus on selected practices, which have delivered in most cases positive results in the West. We will examine these concepts and implementation problems in CEE conditions. Many of the strategies discussed are part of the accession agenda, and because of this, should be implemented relatively soon in some of countries in the CEE region.

III.A Methods of Budgeting

To overcome limitations of incremental budgeting several other budgeting methods were developed, mainly:

- zero-based budgeting (ZBB);
- cash-limited budgeting;
- resource restricted budgeting;
- contingency budgeting;
- planning, programming and budgeting system (PPBS);
- performance budgeting.

In the following section we focus in more detail on ZBB, PPBS and performance budgeting that represent a new philosophy of budgeting. The other three methods are more technical concepts with the following characteristics:

- cash limited budgeting is used in cases where the limit of total expenditure is set. In this situation, the main principle is to identify expenditure items

that cannot be changed or reduced and then balance all other items to achieve the budget at the level of the limit set.

- resource restricted budgeting represents situation where resource restrictions are set, such as a limitation on number of staff.
- contingency budgeting is characterised by limited effort to establish detailed estimates for each budgetary item. Within the budget a contingency is provided to take account of poor estimates, changes in demand, and insufficient resources.

Zero-based Budgeting

The zero-based budgeting method assumes that the budget is derived from a "blank" piece of paper or that no previous base exists from which to build the requested funds. The base results from the approved objectives for the respective budgetary period. The basic steps may be characterised as the following (Bean and Hussay, 1996, p. 32):

1. State the objectives to be achieved by the service.
2. Identify the actions needed to achieve the objectives.
3. Establish the costs associated with each action and the costs of any supporting service required.
4. Use the costs to formulate the budget.
5. Review the budget for duplication and accuracy.
6. If revisions to the budget are necessary, then first consider changing the actions being taken to achieve the objectives (can things be done differently?), and secondly, change the objectives and then repeat stages 1 to 5.

Zero-based budgeting is frequently used to calculate budgets for non-regular activities. Its advantage is that it can produce a realistic and accurate budget linked to business plans. On the other hand, this method is time consuming and requires the ability to set clear objectives.

PPBS

Program budgeting, such as PPBS, organizes proposed expenditures according to output or contribution to government objectives. Programs are constructed on the basis of contribution to those objectives. The budget places together programs, which contribute to a similar objective so that competition for funds occurs among real alternatives. The PPBS approach is very comprehensive and difficult to implement as is apparent from the experience in developed countries. It is still very rare in the CEE, but there might be future implementations. The techniques of PPBS, its philosophy, potential and problems are described in detail in the case study from the Czech Republic at the end of the chapter.

Performance Budgeting

Performance budgeting emphasizes agency performance, objectives and accomplishments and not the purchase of resources used by the agency. The budget process has the dual role of providing funds and establishing performance objectives. We will look at performance indicators later. The principles of performance budgeting have been formulated as follows (Mikesell, 1986):

1. Budget choices and budget information should be structured in terms of activities rather than individual line items.
2. Performance measurements should be collected, associated costs should be reported for those performance categories, and efficiency in use of resources should be evaluated.
3. Performance reports comparing deviation of actual cost and accomplishment from planned levels should be monitored for each agency to focus management attention on problems, which might arise.

III.B Modern Techniques of Financial Decentralisation

The shift from simply executing a budget to managing the budget resources is a typical feature of public financial management changes in the developed world. Several approaches and techniques are used for this purpose. In the next section we detail some budget management techniques, such as profiling, commitments, and cash flow budgeting. We also present other important and connected concepts including discounting, costs analysis, capital budgeting, accrual accounting and devolved (cost-centres) financial management.

Budget Management Techniques

In this section we deal with three concepts: profiling, commitments and cash flow. All of them are routinely used in the CEE, but some readers might not be fully familiar with them.

Profiling involves estimating how income and expenditure will occur over the year. Profiling is to some extent similar, but conceptually different from cash flow analysis (see later). Profile budgeting is a necessary precondition for effective control and management, and is extremely important in cases where expenditures for respective budgetary unit significantly vary during the year. A good example is for heating where no costs arise in the summer, but can be very high in the winter. Another example might be salaries that are usually a stable expenditure item, but the government may decide to increase basic salaries within the year. To get an exact figure on total expenditures for salaries, the budget must be profiled with respect to the date of the expected announced salary increase.

The principle of commitments is narrowly related to profiling. Budget managers should know what they have "promised" to spend. This is apparent in the case of expenditures for capital items, like copy machines. In many

public organizations, which use current and not capital budgeting, the capital expenditure limit (if imposed) may allow buying only one or two more expensive equipment items per year. In this case, cumulative under-spending may grow until the moment of purchasing, and in this situation cannot be misused for reallocation of "savings" or to decrease the budget as a whole.

Another example of the necessity to apply the profiling and commitment techniques might be the rehabilitation of heating system in a school. Because of the organization of the school year, there are only two months for such an activity – July and August. The school manager has to know this and accumulate funds to be able to finance rehabilitation during this period. This may be necessary because in the existing environment, the possibility to borrow may be very limited.

Figure 3
Cash flow budget

Month Item	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
Incomes												
-												
-												
Total												
Expenditures												
-												
-												
-												
Total												
Deficit/ Surplus												

Cash Flow Budget

Cash flow represents another planning method where incomes and expenditures are compared. This has become more and more important in the public sector, as it has in the private sector. For any organisation, especially a self-managing type of public organisation, it is important that its global expenditures are matched in quantity and phasing to the global receipts of the organisation. Good quality cash flow management limits the problems to manage payments of all expenditure items on time, and allows for careful use of temporary "free" resources.

To create a cash flow budget the following steps are necessary:

1. prepare detailed pattern of expenditures;
2. prepare detailed pattern of incomes;

3. enter income/expenditure patterns into the schedule, indicating phasing of both incomes and expenditures;
4. derive a cash flow forecast from this schedule.

Costs Analysis

The effective management of budgets requires more than simple incomes/expenditures comparisons. There are many standard approaches for a more detailed analysis of the situation, especially in the area of expenditures/costs analysis.

Expenditures are a cash reflection of costs. There are many different perspectives in analyzing costs, such as the following:

1. economic structure of costs;
2. absolute, average and marginal costs;
3. direct and indirect costs;
4. fixed and variable costs;
5. operating and capital costs.

1. According to the **economic structure perspective**; costs are usually classified into the following main groups:

a/ cost of labor
b/ cost of materials and services
c/ cost of capital
d/ overheads

The economic classification of cost represents a basis for classification of budgetary items that can be used as the binding document for accounting purposes. An example of such income/expenditure classification is provided in Figure 4.

2. The difference between **absolute** and **marginal** costs is especially important for an economic analysis of costs. Marginal costs are used, for example, when analyzing a supply curve, and are calculated as an increase in costs when production rises by one unit.

3. The principle of **direct** and **indirect** costs is very simple – costs of labor, or material costs represent basic examples of direct costs, while overheads are typical example of indirect costs. Some direct and indirect costs can be directly calculated in monetary units, but some may have a non-monetary character (costs of time).

4. The difference between **fixed** and **variable** costs is important for the financial management of any organization, and is frequently used to develop a "break-point analysis". The analysis of the break-even point answers many questions, which managers solve in any organization:

• What is the minimum production level which secures a profitable running of the organisation?

Figure 4
The binding budget structure of public organizations in Slovakia

Revenues			Expenditures		
Group	Category	Title	Group	Category	Title
200		Non-taxed revenues	600		Current expenditures
	210	211 Revenues from non-financial institutions		610	611 Basic salaries
		212 Revenues from financial institutions			612 Salary increments
		219 Revenues from other institutions			613 Compensations for emergency service
	220	221 Administrative fees			614 Rewards
		222 Duties and penalties			615 Other salary items
		223 Revenues from non-industrial sales		620	621 Contributions to the General Health Insurance Company
		229 Additional administrative and other fees			622 Contributions to semi-private health insurance companies
	230	231 Revenues form sale of capital property			623 Contributions to branch health insurance companies
		239 Other capital revenues			625 Contributions to Social Insurance Fund (pensioners and sickness benefits)
	240	242 Interest from bank accounts			626 Contributions to National Labour Office
		243 Other interests		630	631 Travel
	290	Other revenues			632 Energy, water and communication
300		Grants and transfers			633 Material and other supplies
	310	Current grants and transfers			634 Transport
	320	Capital grants and transfers			635 Maintenance
					636 Rentals
					637 Other goods and services
				640	642 Transfers to private persons and to non-profit organizations
					648 Transfers abroad
			700		Capital expenditures
				710	711 Procurement of land and non-material property
					712 Procurement of buildings
					713 Procurement of equipment
					714 Procurement of vehicles
					715 Procurement of machines
					716 Project documentation
					717 Construction work
					718 Reconstruction
					719 Other capital expenditures
				720	721 Capital transfers of a horizontal character
					722 Capital transfers to private persons and to non-profit organizations

- What is the minimum utilization of the production capacity without being unprofitable?
- What is the maximum production expense of one product without being unprofitable?

Break-point Analysis

Break-point analysis is becoming more frequently used in CEE, and especially in service delivery organisations, as well as for preparing and organising different activities such as concerts and expositions. For example, Stritecky and Pubal (2001) describe the use of this method in the situation of a district hospital in Jindrichuv Hradec (Czech Republic).

Technically, break-point analysis (Figure 5) is based on these values: the amount of product q, the product prices p, product variable costs b, fixed costs FC (e.g. energy, water, wages), total costs TC and revenues R. For the break-even point with a constant price and linear costs:

1. The revenues develop according to the following equation:
$$R \quad p*q$$

2. The expenses develop according to the following equation:
$$TC \quad FC \quad b*q$$

3. The profit is the difference between the revenues and expenses:
$$P = R - TC$$

When R = TC, there is neither profit nor loss. The amount of production when this situation occurs is called the critical amount of production, or the break-even point (the dead point, the critical point of profitability), and is calculated by the following equation:
$$q \quad \frac{FC}{p \quad b}$$

5. **Operating** costs represent the pay items of the budget; **capital** costs are an important part of non-pay items of the budget. In a classical cash budget, the capital items (mainly depreciations) do not appear. This allows for several "budget tricks", and especially in CEE, most of the public bodies transfer their capital costs into current expenditures (by sale of assets, or simply by under-spending for recovery of capital items). To solve this problem, more and more countries are changing from cash budgets to accrual accounting and use capital budgeting. In 2001, the full accrual basis of accounting was applied for budget approval by the legislatures and was used in Australia, New Zealand and United Kingdom. And more countries are using this at the departmental or local self-government level.

Figure 5

Break – point analysis with linear development of expenses and revenues
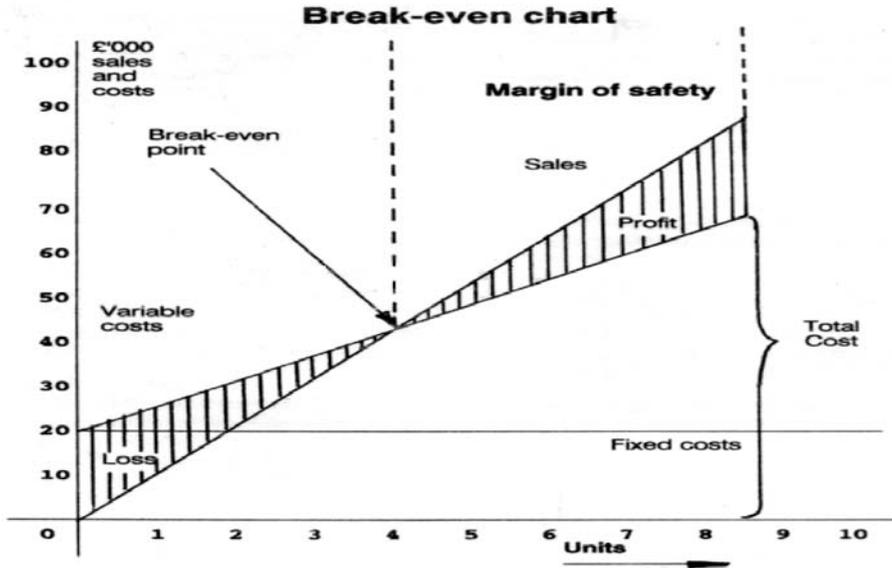
Capital Budgeting and Discounting

Capital budgeting is a standard private sector method of financing non-current projects with long-term service flows. It should be used in the public sector not only with regards to production of free market services (accrual accounting), but to attain a greater degree of transparency of public financial flows.

There is no doubt that capital budgeting may improve all aspects of efficiency in public budgeting. Maintaining two different budgets certainly seems to make a substantial contribution to improved fiscal choice at the state and local level (Mikesell, 1986). Capital budgeting can improve both the efficiency and equity of provision and finance of non-current projects with long-term service flows. A separate consideration in a budget where deficits may be financed, rather than having to be balanced, provides an important opportunity to improve equity between generations and between local citizenry pools. Capital budgets can stabilize tax rates when individual capital projects are large relative to the tax base of the host government. Capital budgets are valuable tools for management of limited financial resources, particularly in light of the special care required to plan activities which necessitate long-term drains on those resources.

Capital budgeting is the tool to separate operating and capital expenditures and to present to the public in a more transparent way the expenditures for

current operations and the long-term investments that the community is making. It should help to prevent some "bad" practices frequently used in the CEE region. This is particularly the case at the municipal level with such activities as the sale of property or using credit to balance the operating budget, which could create serious problems in later years.

Discounting is a necessary technique for developing long-term capital budgeting, and its use in the CEE will certainly grow. By discounting we establish the future utility of present investments. This approach, along with other methods, should be used in CEE to improve decisions.

The most important feature of discounting is that future incomes and expenditures are discounted to obtain the real (net) present value. The idea that future income is of less value than the same income today is based on real economic conditions. This is especially true because of interest paid on borrowing or received for savings. Inflation might be included in the analysis using standing instead of nominal prices.

Multi-year Budgeting and Investment Programming

The concept of multi-year budgeting is also closely related to general operating budgeting and budget preparation issues discussed earlier. Because of its important links to modern budgeting techniques and interconnections with investment decisions and investment programming, we discuss it in more detail in this section. On a national level, the multi-year budgeting in OECD countries became almost universally used by the end of 20th century.

Multi-year estimates are rolled over each year. The first year is fully consistent with the annual budget and expenditure forecasts for the next years are indicative. Medium term expenditure forecasting with estimations of future budgetary revenues and expenditures and expenditure planning, which includes formulations of goals and policies, increases financial discipline and provides better information about the future situation.

Basically, the multi-year estimates should show (Allen and Tomassi, 2001):

- the present level of expenditure
- the additional expenditure needed to provide the same level and quality of service in the future
- the additional expenditure or savings, if the level or type of service is to be changed.

The costs of an existing program include:

- the costs of maintaining the current level of service and taking into account changing numbers of users or beneficiaries, and other possible variables;
- the recurrent costs of investment projects that will be completed over the planned period;
- the forward costs of ongoing investment programs;

- the future costs of entitlements programs based on decisions already taken and on the influence of exogenous factors.

Estimating costs of existing activities over a multi-year period requires adequate information. For example, determining future costs of primary education for the municipality requires data on the number of children in the relevant age group, participation rate, migration estimates and standards of teacher and student performance.

Programming and Budgeting Investments

Programming and budgeting investments is part of the expenditure management process, and requires the interplay of the following procedures (Allen and Tomassi, 2001):

- Project preparation, appraisal and screening.
- Investment programming and budgeting.

Once the priorities among strategic areas are established, investment programming and budgeting consists of:

- balancing requirements for investment expenditure against those for current expenditure;
- identifying investment projects and programs;
- making choices among projects already identified and reviewing ongoing projects.

Projects usually have a common life cycle, called "the project cycle" (EU, 1993), which consists typically of the following phases:

- analysis of objectives and determination of needs;
- identification of potential projects;
- pre-feasibility studies and preliminary selection of projects;
- feasibility studies and detailed formulation of selected projects;
- technical appraisal of the projects and investment decisions (see also Nemec-Wright, 1997);
- implementation of approved projects;
- evaluation.

Accrual Accounting

Performance based accountancy began to be used for public utilities services and other similar service production units. It can be used in cases where a civil service department with the main function of producing services free of charge or to cost recovery pricing decides to start producing services based on charging at the free market. It is also used in other cases where there is a need for increased transparency of public finance. The prices of products or services delivered in the public sector are by this means based on cost estimates of commercial bookkeeping. In addition to the immediate expenses created by cash payments for the use of production, it can also take into account sales and marketing resources, and include as well the share of costs created by the price

of capital and property. It may possibly also include the share of costs based on the price of overhead costs of the civil service departments (Joustie, 1996).

Allen and Tomassi state, "All transition countries should improve their accounting for liabilities, according to accrual accounting principles" (Allen and Tomassi, 2001, p. 297). This process has to be realized both at an institutional and national budget level to make public finance more effective and transparent.

Compared to cash accounting, which recognizes transactions and events only when cash is received or paid, accrual accounting according to IFAC (International Federation of Accountants) recognizes transactions when they occur, irrespective of when cash is paid or received. Revenues reflect the amounts that are realized during the year, whether collected or not. Expenses reflect the amount of goods and services consumed during the year, whether or not they are paid for in that period. The costs of assets are deferred and recognized when the assets are used to provide the service (IFAC, 1991).

Financial statements produced under full accrual accounting systems cover revenues, expenses (including depreciations), assets (financial and physical, current and capital), liabilities, and other economic flows.

Cost-centres Approach, Devolved Financial Management

The cost-centres approach represents a specific step in implementation of a former solely private management practice into the public sector by supporting change from simple budgeting to modern financial management, wherever appropriate. As a part of a continuing decentralization in the public sector, local (institutional) managers shall be given:

- a rounded and comprehensive range of responsibilities;
- authority and accountability;
- the necessity to think for themselves;
- trust;
- payments depending on performance.

These are the requirements to increase effectiveness and efficiency of public service delivery on the part of the public manager.

Cost-centres might be defined in several ways, but in principle they represent the lowest practical level of a defined managerial unit. There is a common trend to establish costs-centres representing production units in public bodies that deliver defined and specific public services. Examples could be in education. There are cost-centres such as university departments, health care offices, various hospital departments, and similar identified units for housing and social services. However, it is possible and advisable to create cost-centres within solely administration units with the main goal of increasing transparency and identifying administrative expenditures in order to know much more about the costs structure and to be able to link it to cost-centre unit performance. Since

2000, the Slovakia local state administration offices have used the cost-centres schemes.

Costs-centres should represent a concrete form of devolved financial management and have the following basic characteristics:

1. Cost-centre manager will be responsible and accountable for the budget and spending within the budget.
2. Cost-centre manager shall be simultaneously responsible for the services and activities to which the budget heads relate. In this way the connection with responsibility for service delivery and financial results of the operation is created.
3. Cost-centre must be more than a simple accounting device; it must represent a self-managing unit.
4. Cost-centre managers shall increasingly exercise genuine control and be delegated the freedom to apply the resources at their disposal.

The basic steps to introduce devolved financial management and to create cost-centre systems within the organization might be characterized as the following:

- define internal units according to core values of the organization;
- designate managers to lead these units;
- establish responsibilities and functions of these managers:
    what is expected of them
    what is the extent of their authority
    what is the manner in which they will be assessed
- establish monitoring system;
- continuously review and redefine if necessary.

In establishing cost-centres as a relatively independent production unit, a system to calculate full costs and allocate all revenues for the respective centre shall be created. It is usually more complicated to determine the attributions of costs because of different types of costs within the organization.

In considering the difference between direct (pay) costs and overheads, three processes are included in the total system of designating costs as follows:

1. Allocation – this system distributes all direct costs of the organization to the cost centre by some method, such as by simple coding of orders and invoices.
2. Apportionment – this represents the process of dividing overhead costs, which cannot be directly allocated to any cost-centre, such as for heating, electricity, or water consumption costs that cannot be directly measured. There is a trend to try to improve possibilities for direct allocation of some currently overhead costs, but such attempts are limited by costs of measuring devices or by other technical and financial purposes. For example, a cost-centre scheme applied in some Slovak hospitals attempts to calculate direct costs for any electricity-consuming device and to allocate it directly to the

cost-centre. However, this scheme is not applicable for large hospitals because of presently under-developed information management systems.

3. Reapportionment – this is the process of taking costs allocated and apportioned to non-production centres and dividing them between production departments by rational means. This part of cost-centre management must not be applied in every type of organization, but it is necessary if the full costs of a public service delivered are to be accounted for.

Indirect costs (overheads) are appropriated according to a defined allocation basis (parameter), as presented by following examples:

Indirect cost (if applicable)	Allocation basis
Energy	sqm, qm, "passportisation" of devices, number of patient days, number of staff, salaries ....
Repairs	direct internal fees, number of staff, and value of assets....

The reapportionment of costs of administrative departments may be calculated on the basis of scale output indicators (number of patients, number of students, turnover), or input indicators (number of staff, salaries).

Cost-centre management is a primary standard approach in all developed countries and leads to increased efficiency and effectiveness. It also improves transparency in public finance decisions. It is being applied more and more in CEE countries, especially in "self-managing" institutions like hospitals. If it is properly used, it can deliver important results. As previously mentioned in the text, the cost-centre system was successfully introduced in Slovakia at the level of local state administration offices. The next mini-case describes its introduction in these offices.

Mini-case 4.
The Introduction of Cost-centres in Local Offices of State Administration in Slovakia
(Peter Bercik)

The first experiment with cost-centres based financial management was organised in Slovakia in the regional office of state administration in Banska Bystrica as a part the of Phare "Public administration reform" program beginning in 1998. In spite of this being a very "primitive" beginning, this experiment brought a lot of positive improvement at the level of the internal management of finances in the office.

Based on this positive experience, and taking into account the necessity to obtain more precise figures of the real costs of administration and of delivery of selected public services, which was one of the preconditions for planned decentralisation of responsibilities from state administration to self-government, the costs-centres system was introduced beginning in 2001 in all the district and regional offices of state administration.

The system is based on the following parameters:

- the list of cost centres – there are a total of 36 cost centres according to activity, including "non-productive" cost-centres, like head office, and the offices must not use all of them (joined cost-centres are allowed for smaller offices)
- software – the software program IBEU supports the calculation of data, but is not fully integrated with existing information systems in the offices and, thus, requires that some data be inserted manually or by floppy discs,
- guidelines on how to allocate costs

The allocation of costs is based on the following principles:

- salary and related costs are allocated directly to respective cost-centre (via software);
- costs for material and services are allocated directly to respective cost-centre (via coding of orders and invoices);
- internal transportation costs are applied to main cost-centres on the basis of kilometers traveled by staff of cost-centre in office cars;
- costs of management and maintenance of buildings are allocated on the basis of number of staff in cost-centres or sqm of effective space of cost-centre;
- other indirect costs are applied on the basis of number of staff in cost-centres or sqm of effective space of cost-centre;
- capital costs are subdivided into four categories (70-public works, 71-information technologies, 72-vehicles and 74-others), and are allocated on the basis of number of staff;
- costs of non-productive centres are not re-apportioned.

All data are used for internal management purposes within the respective offices and there is a consensus that slightly increased transaction costs to manage the office are out weighed by the benefits in the form of increased transparency of allocation and use of resources, and the increased motivation to find reserves and to use resources in a more effective way.

The data are also analyzed at the central level and provide a more transparent picture of real structure of costs to deliver respective public services. Until 2002, for example, all primary and secondary education was financed via state administration offices.

The data collected are used also within the frames of the pilot project "Assessments of Quality and Performance of Local State Administration", which focuses on the increase in quality and efficiency of state administration. The "costs per product" are calculated and compared between offices. A product means, as an example, birth certificates, or any other identifiable output of the organizational unit of the office and responsible for its delivery based on the law.

Despite the fact that the cost-centre system in regional and district state administration offices in Slovakia is not supported by sophisticated information management systems, the outcomes prove that cost-centre based financial management delivers important benefits; provided the system is not overly detailed. It also demonstrates that there are no significant barriers to introducing it in CEE transitional conditions.

III.C Allocation of Resources

As mentioned in section II, allocation processes at all levels in the CEE need to be improved. In this section, we mainly focus on two closely interrelated concepts available at the organizational and intermediate level. These are formula based financing and performance financing, which have the capacity to improve the current situation when resources from a higher level are frequently allocated in subjective and non-transparent ways. The same is true when allocating them within the organizations and between respective budgetary items.

To prevent the subjective allocation of resources and, thus, limit the risks of non-transparency and corruption and to also motivate organizations and inter-organizational structures to better performance, formula based allocations are used in the West and to a limited extent in the CEE region, too.

The principle of formula based (objective) allocation is very close to the concept of performance (outcomes) financing and represents an additional step forward with associated pros and cons.

There are many possible forms of outcomes management and financing in the public sector that are currently being used in developed countries. One possible example might be the system of public agencies, which in theory are connected to respective branch ministry by grants to balance the budget (public orders) and by control of actually achieved outputs and outcomes.

Among the many countries using this method, New Zealand has achieved the closest link between performance and budget resources. It budgets and appropriates by object class rather than by line item expenditures, and it provides for planned outputs to be specified in purchase agreements between agencies and ministries.

Internal markets, based on the principle of the purchaser/provider split (LeGrand, 1990), such as for health care or education in a quasi-market in the United Kingdom, might also be counted as a specific form of formula based performance financing. Formula based financing of local schools in UK was introduced with the expectation that some degree of competition between schools could be created, and the schools would compete for pupils on the basis of quality of performance. By the rational parent's choice, the pupil will be attracted to the best school available, and with this the number of pupils might serve as an effective performance indicator.

The changes in the education system in UK started with the adoption of the 1980 Education Act that stopped education authorities from restricting pupils to the secondary schools in their area. This allowed pupils to choose their school and schools to choose their pupils. The 1988 Education Reform Act made the management of schools more independent from local authorities by transferring the financial management to schools and allowing them to opt out completely from local authority control. With this, the system of self-managing schools was

introduced and boards of governors established. A high proportion of grants to schools started to be allocated on the basis of a formula and with a higher number of pupils and effective financial management the better schools became winners. The state maintained its control over the contents of education via establishing compulsory national curricula (Flynn, 1997).

As with any change in the public sector, the new internal markets in education delivered positive and negative results. From the point of view of this part of the book, it serves as an example that formula based performance financing could be introduced to increase transparency and, in appropriate cases, the efficiency of service delivery.

The main problem connected with outcomes/performance management and financing is the problem of quality of indicators to be used and not creating negative motivations. There are at least three basic criteria for good performance indicators (Jones, 1996):

1. Performance indicators shall be numerical.
2. Performance indicators must be used in a valid comparison situation.
3. Performance indicators shall be specific enough to enable the appropriate level of management to improve the respective indicator.

The implementation of formula based or performance financing will not be a simple process in CEE. The establishment of indicators/variables is a rather difficult process and needs a lot of experience and sensitivity to local specific conditions. Poorly constructed systems may lead to perverse effects, especially when motivation toward more outputs, like fee for service system in health care, has proven to fail in most of the CEE countries at the early stage of its introduction. The problem was that it lead to simply increasing declared outputs, and by this resulted in increased costs.

III.D Control and Audit in CEE

Control and auditing represent one of the main concerns of the EU in relation to transitional CEE countries. There are many concrete messages from the EU level calling for immediate preparation and implementation of at least ex-ante and value for money based audit procedures as the necessary preconditions for accession countries to use EU pre-accession and later structural funds.

Value for Money Audit

The introduction of a value for money audit, by checking to see if the organisation conducts its financial affairs in an economic, effective and efficient manner, is the reaction to the deficiencies of the probity audit, which ensures to a great extent that processes are run correctly, but says nothing about real results.

Value for money (best value, or other names) audit deals with the following main concepts and topics:

- Economy, concern with the conversion of inputs to outputs and attempting to ensure that minimum inputs will be used to achieve defined outputs.
- Efficiency, analyzing the ratio between inputs and outputs.
- Effectiveness, aimed at ensuring that efficiently produced outputs are directed toward achieving the desired outcomes.
- Inputs: represents all resources used to produce expected outputs, outcomes and impacts.
- Outputs: represents goods and services delivered from inputs. Outputs are usually measured by quantitative non-monetary figures (number of surgical operations).
- Outcomes: represents a more difficult concept and are used to measure what was really achieved. By this, outcomes include both quantitative and qualitative dimension (number of surgical operations and their success). Compared to inputs and outputs, outcomes are very difficult to measure especially if we want to calculate them in monetary terms, for example, to conduct social cost-benefit analysis.
- Impacts: represents the most complex measure to evaluate real achievements over a long-term period such as the decrease of unemployment in a respective region as the result of some macroeconomic program.
- Performance indicators. Performance indicators may be divided into groups, especially:
    Cost (input) indicators, closely related to unit costs.
    Output, outcomes, and impact indicators used to quantify achievements of the organisation or public project/program. All these indicators shall be used under the system of EU structural funds project management system.
- Quality indicators. Since there are many concepts/dimension of quality, the methods and tools to measure quality and to establish quality indicators have several possible dimensions, such as:
    fitness for purpose, querying whether something is suitable for the task it has to perform
    standards: by standards it is possible to check if the product is delivered as expected, and if the process of delivery is as expected
    consistency: is to achieve all standards and provide the same or almost same service at any time
    customer satisfaction – satisfaction by people for whom the good is produced or the service is delivered
- Equity. The concept of equity in this sense is focused to ensure that any service targeted to a special group (people who need such service) will be delivered to these who need it most, rather than being delivered on a strict equality basis.

Outcome Based Audit

The outcome based audit is a concept closely interconnected with value for money auditing with similar concepts, and includes at least three dimensions:

- To observe the extent to which the tasks were completed.
- To investigate control effects from accepted measures.
- To investigate the relationships between the inputs, outputs and outcomes.

In the first stage, it is expected to learn to what extent the obtained results respond to initial aims. By performing a control activity, it is expected to determine the answer to what extent (e.g. how many %) the intended goals were reached. The disadvantage of this control procedure is that relevant corrections, or at least the effects, are delayed because the process of correction is realized after divergences are found. This problem can be solved by the introduction of a system where the process of correction uses current and immediate information about events and is accessible by management. This is what is called forward feed back control.

A system with feedback gains necessary data by measurement of values at output stage and then retrospectively introduces corrections at the input stage and, thereby, aiming to achieve changes of values of output. This compares to systems with forward feedback, which monitors inputs during the processes and finds out if they respond to the planned quantities.

The control of effects, which comes from the measures taken, identifies the results of present measures and compares them with that which was projected. This control can have various forms, for example:

- Comparison of two real conditions – starting condition (state before measures were taken) with the condition after activity, which arose after the measures were taken.
- Comparison of the real condition after the measure was taken with the condition that could arise without taking measures.
- Observation of how the intended result was completed when compared with the real result set in the beginning.

The highest level of control observes economic relations between the input and the outputs and outcomes, and the respective impacts (Figure 6).

Figure 6
Control matrixes for outcome audit

	Control of the attainability of aims	Control of accepted measures	Control of 3E
Small scale activities			
Large scale activities			

Notice: 3E – efficiency, economy and effectiveness

The matrix links individual levels of control/audits and methodologically solves the problem of the link-up between these levels. It provides the basic framework for the creation of the methodology of public expenditures audit in CEE countries.

Transparency of Public Finance: the Most Effective Way of Control (?)

Except in the situation of public administration controlling itself, there are other important players able, at least to some extent, to control public expenditures and this is especially true for private sector entrepreneurs, third sector institutions and citizens. The powers of these players in controlling the state should be continuously increased, especially because these represent the source of money from the taxpayers, which are used by the state.

Current data indicate that the level of corruption in the CEE region (Table 5) is relatively very high and in many countries is still increasing, in spite of many

Table 5

The 2001 Corruption Perceptions Index* in selected CEE countries

Country Rank	Country	2001 CPI Score	Surveys Used	Standard Deviation	High-Low Range
1	Finland	9.9	7	0.6	9.2 - 10.6
2	Denmark	9.5	7	0.7	8.8 - 10.6
3	New Zealand	9.4	7	0.6	8.6 - 10.2
28	Estonia	5.6	5	0.3	5.0 - 6.0
31	Hungary	5.3	10	0.8	4.0 - 6.2
34	Slovenia	5.2	7	1.0	4.1 - 7.1
38	Lithuania	4.8	5	1.5	3.8 - 7.5
44	Poland	4.1	10	0.9	2.9 - 5.6
47	Bulgaria	3.9	6	0.6	3.2 - 5.0
	Croatia	3.9	3	0.6	3.4 - 4.6
	Czech Republic	3.9	10	0.9	2.6 - 5.6
51	Slovak Republic	3.7	7	0.9	2.1 - 4.9
59	Latvia	3.4	3	1.2	2.0 - 4.3
63	Moldova	3.1	3	0.9	2.1 - 3.8
69	Romania	2.8	5	0.5	2.0 - 3.4
71	Kazakhstan	2.7	3	1.3	1.8 - 4.3
	Uzbekistan	2.7	3	1.1	2.0 - 4.0
79	Russia	2.3	10	1.2	0.3 - 4.2
83	Ukraine	2.1	6	1.1	1.0 - 4.3
84	Azerbaijan	2.0	3	0.2	1.8 - 2.2

* *2001 CPI Score relates to perceptions of the degree of corruption as seen by business people, academics and risk analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).*

Source: www.transparency.org

formal proclamations, measures and activities organised by all levels of government. As an example, the formal anticorruption government initiatives in late 90's nearly completely failed in both the Slovak Republic and the Czech Republic.

Miller, Grodeland, and Koschechkina investigated the problems of corruption and its sources in selected CEE countries in 1998 with very interesting results, which highlight important sources of corruption.

Table 6 indicates that politicians and officials might behave as rent-seekers, and not be responsible for promoting national interests. In such conditions, the capacity for preparation, approval and, more importantly, implementation of effective anticorruption measures is limited.

Table 6
Respondent's view regarding the behaviour of politicians and officials

	Czech Republic	Slovakia	Bulgaria	Ukraine
Most politicians behave worse now	65%	82%	40%	87%
Most officials behave worse now	47%	66%	45%	89%

Source: Miller, Grodeland and Koschechkina (1998)

The high level of corruption is to a large extent also caused by specific citizen behaviour with most of them not adapting to the changing situation. Generally, people seeking some benefit or privilege to which they were already entitled by law still believe that they have to offer money or other benefits to get the service and the expected quality. This problem is highlighted in Tables 7 and 8.

Table 7
The need to use contacts, presents, and bribes

	Czech Republic	Slovakia	Bulgaria	Ukraine
Approach officials through a contact	76%	87%	86%	90%
Offer a small present	62%	80%	84%	91%
Offer money or an expensive present	44%	62%	72%	81%

Source: Miller, Grodeland and Koschechkina (1998)

In this situation, the transparency of public finance represents one of the main tools facilitating effective "public" control over the use of public funds. There are more instruments supporting it, such as:

- publishing and distributing financial reports of all public organisations;
- compulsory private audit of public accounts;
- laws on free access to any public information;
- laws and regulations motivating citizens to report about any malpractice of public administration;

Table 8

Likelihood that bribes must be offered to different officials

	Czech Republic	Slovakia	Bulgaria	Ukraine
Officials in state ministries	70%	85%	82%	87%
Hospital doctors	47%	89%	93%	94%
Customs officials	53%	71%	92%	86%
Court officials	44%	75%	80%	87%
MPs	54%	74%	74%	80%
University staff	34%	78%	73%	89%
Officials in local government offices	49%	58%	79%	87%
Police officers	42%	64%	72%	89%
Elected officials on local councils	44%	52%	69%	80%
People working in the private sector	42%	55%	63%	61%
School teachers	10%	36%	45%	68%

Miller, Grodeland and Koschechkina (1998)

- ombudsman;
- Internet, etc.

Transparency is mainly pushed by third sector organisations, like Transparency International and very much through outside external pressures. Thanks to continuing progress, citizens have started to learn quickly and politicians and bureaucrats more slowly, about the introduction of necessary legislation. This is the case at least in accession countries, which must adapt to EU standards as the precondition of accession.

Implementation is the hottest issue in accession countries that begin to have the basic legal preconditions for a more transparent public sector with such laws as free access to information and compulsory private audits of public bodies of larger scale. For example, the comprehensive municipal audit is compulsory in the Czech Republic, as well as is the existence of an ombudsman, and laws on public disclosure of assets of public officials and their relatives.

Examples of limited implementation and penalisation are still very frequent. This includes instances such as:

- public organisations traditionally prepare annual reports, but these reports are still not generally accessible by the public;
- some municipal assemblies in Slovakia voted to declare minutes from assembly sessions as secret or any financial information and, thus, are exempted from public control as a reaction to the law on free access to information;
- the minister of defense in Slovakia was found to not be able to provide sources for funds he used to build his new house, but the only penalty was his transfer from minister to MP position.

On the other hand, in Poland and in the Czech Republic, some cases of top-level corruption are very heavily investigated by the courts and remedies become a reality.

In spite of important progress in some CEE regions, the non-transparency of public finance is still one of the main problems of public financial management to be solved by reforms in CEE. Progress in this area, even with pressure from abroad and by third sector bodies, like Transparency International, is still too slow, especially at the implementation level.

III.E Delivery of Public Services

The current approaches to delivery of public services, but also other government functions, are increasingly based on the public/private/civic sector mix, and on public/private/civic sector co-operation. This principle is of increasing importance in the CEE as demonstrated during the NISPAcee conference of 2001 in Riga, Latvia.

The private sector participation and mechanisms that can be used are many. The arrangements being used more and more in the public sectors include (OECD, 1993) user-charges, co-payments, contracting, internal markets, vouchers, BOT schemes, agencies, establishment of ownership rights, and in some cases privatization.

User-charges are increasingly being used as the form of citizen participation in covering the costs of public services. In case of excludability and possibility to measure consumption, user charges have many advantages (Nemec-Wright, 1997).

Co-payments, commonly used in health care, are expected to have similar positive impacts, especially from the point of view of allocation efficiency in the delivery of public services.

Vouchers are mainly used as tools of social policy and attempt to combine advantages of an in-kind benefit form of redistribution and of increased consumer choice.

BOT (concessional contracting) schemes allow for full involvement of the private sector, particularly in the public infrastructure investments.

The experience in use of Market Type Mechanisms (MTM) in the public sector of developed countries is generally positive, but there still exist many examples of problems and failures connected with the use of them in developed countries. This situation calls for a very careful implementation in transitional CEE countries, where several conditions are different from the so-called "standard" situation. In the following text, we highlight this with the example of a very controversial use of competition and contracting.

Competition and Contracting

Contracting is one of the main forms of applying private market ideas in the public sector through the use of competitions via contracts, and for contracts to increase quality and efficiency. The broadest concept of contracting is linked to the idea of internal markets (quasi-markets), as is practiced on a large scale in health care and education in UK (LeGrand, 1990). Contracting in the narrower sense represents more possible processes, from (1) contracting the delivery/ production of the entire service out to one or more private or non-profit organisations within a given area to (2) contracting/contracting-out supporting services within public organisations (cleaning, catering, information technology, etc.), and (3) including contracting between internal units and for respective work positions within the office.

There are many factors influencing the possible success of competition and contracting. Lane (2000, p. 216) provides a clear identification and separation of the purchaser and provider by assuring that both purchaser and provider have self-interest in finding and implementing optimal contracts, and that the purchaser and provider have conflicting interests in how to divide the mutual gain from arriving at optimal contracts, which may be fully appropriated and internalised.

The possible impacts of competition and contracting differ based on the most important dimensions that might be evaluated, including:

a/ Individual choice – competition and contracting might, but do not necessarily, increase the individual choice of the consumer. In some services, like refuse collection, the characteristics of the service are, in principle, determined by a collective decision, and consumer choice cannot be increased by the use of these approaches. In other services, like sport and leisure activities, the outcomes heavily depend on the behavior of private producers.

b/ Cost-effectiveness – the idea of decreasing costs is probably the main idea behind the use of competition and contracting in the delivery of public services. It is expected that the private sector will be more effective, and be able to offer lower costs per unit (and maintain or increase quality). However, real evidence on cost-effectiveness of private production of public goods is not so straightforward. The costs per unit savings, if any, might be offset by an increase in transaction costs, more complicated management, and failures in contract specifications.

c/ Quality – the impact of competition and contracting on the quality of delivery of public services could be very different and real outcomes heavily dependent on the quality of contract arrangements. Quality and costs are to a large extent contradictory factors. It is difficult to increase quality and, at the same time, it needs more resources to undertake such development.

d/ Expenditure control (allocation efficiency) – there is no evidence or reason that competition and contracting should have a positive influence on total public expenditure control at any level of government.

Competition and contracting, when used in the public sector in developed countries, don't just have only positive impacts. The situation in CEE might be more controversial because of several important specific features concerning external and internal environment in the public sector.

Competition and Contracting Environment in CEE

The current situation in transitional CEE countries is still very different from what we observe in developed democratic market based societies. Several existing differences limit the possible positive impact of competition and contracting and exaggerate the negative features in all respective dimensions. This has to be taken into account whenever implementing competition, contracting or other MTM instruments in transitional countries. In the following text, we present the most important specific features of CEE environment related to the potential of competition and contracting to improve public sector performance.

When implementing competition and contracting based approaches in CEE, it is necessary to consider that the most potentially competitive markets in transitional countries in CEE are still not well developed. There exists substantial evidence on this as described by G. Wright (in Nemec and Wright, 1997). In this situation where many partial markets in CEE are still characterized by monopolistic or oligarchical structures and behavior, it is rather too optimistic to expect a comprehensive supply of competing bids. Further, the argument of possible unit costs savings is far more controversial than in developed countries.

The NGO´s share in the economy is constantly increasing in all CEE countries. There are still significant obstacles to using them regularly in the delivery of public services. Some of these obstacles, such as allocation, were discussed earlier. The lack of professionalism and universalism need to be added to this list of obstacles.

Several important problems are connected with the quality of financial management in the public sector. As mentioned earlier, current systems of public sector controlling/auditing in most CEE countries are based on the old-fashioned administrative procedural type of control. There are no effective mechanisms to control/audit real efficiency, economy and effectiveness (nor quality) of public sector institutions and processes. People involved in the processes of public sector control/auditing are not always real professionals. Frequently they are not able to understand all details of the respective problem. It often happens that they claim as non-legal acts some acts which are fully within the frames of respective laws. This seems to follow the old socialist principle of "what is not allowed is prohibited" and this still persists in the minds of many controllers.

Most of the public sector organizations run old style financial management schemes that are based on "pre-historic" budgetary rules, which create incentives to spend and not to save. Modern cost-centre, outcomes based financial

management is very rare, if it exists at all, and capital budgeting/accrual accounting methods face the same situation. The tools do not exist to calculate the real costs of providing services.

Making "quality of democracy" comparisons among developed Western countries and CEE countries in transition is very difficult. Democratic institutions cannot be fully developed during the very short period of ten years that has been available for transitional countries. Citizens are not able, and many of them are also not willing, to really control political processes in their country. Under these circumstances, most public sector decisions are political decisions that do not include the necessary proportion of economic evaluation of the situation, and respect different criteria, such as rent seeking.

The media and non-profit sector are just beginning to exercise their crucial role in supporting democratic processes in transitional countries. Their current role, when compared to Western standards, is very limited.

The potential success of competition and contracting is built on high quality legislation and regulations. These preconditions frequently do not really exist in the situation of transitional countries. Even if they exist, they are not implemented in a comprehensive way.

Also, in the simplest case of contracting out, the existing public procurement laws defining only the procedure of awarding the contract are the only existing legislation in most countries. There is no special legislation defining the other steps of contracting out. High quality regulations and guidelines are not available at all. Under these circumstances, all public sector institutions willing to contract have to rely on individual knowledge and experience, which is very limited.

The general situation of "the state of law" is not supportive, too. The legal side of the "business environment" is very weak and there are real problems in enforcing the law.

However, current evidence shows that competition and contracting are being regularly used in CEE in both the delivery of "full" public services and in delivery of support services in public sector organisations. The approaches and results are, as they must be in such specific conditions, very controversial. Because of this specific situation and specific environment, the systems based on compulsory competitive tendering seem to be more appropriate than straightforward pressure for contracting.

Compulsory Competitive Tendering

Compulsory competitive tendering (CCT) represents one possible tool to support development of pluralistic delivery of public services and focuses mainly on the level of internal and local services. This system was used for several years in UK. It was replaced by the "Best Value" approach, which gave a higher level of freedom to public bodies. We mention this competition and

contract tool of modern financial management because it may play an important role in CEE as we have described the specific environment limiting potential of competition as used in the public sector.

Under the rules of CCT, any public organization is obliged to compare effectiveness of internal delivery of all supporting services to bids from private sector. The advantage of compulsory tendering to compulsory contracting is that the service may, but must not necessarily, be contracted out. The actual decision is based on specific conditions.

This approach of providing just for compulsory comparison of all existing alternatives might be appropriate in CEE and applied to "full" and supporting services because of at least two main arguments:

1. On one hand, it obliges public organizations to compare all possible alternatives in how to deliver the service.
2. On the other hand, it provides the possibility to decide freely, on the basis of concrete conditions, as well as on the basis of concrete results by necessary comparison of its indicators.

Procurement and Tendering

Procurement and tendering represent the most important mechanism in defining how to organize and manage contracts. It is the necessary precondition for developing a pluralistic service delivery, and equality of all sectors in delivery of public services, in doing business with the government.

Public procurement laws, forcing principles of transparency, economy and non-discrimination of any government purchase by open competition is a standard public sector financial management tool and this is the case in CEE countries, or at least in all accession countries.

In spite of the existence of national laws on public procurement in CEE from the beginning of the mid-1990s, the public procurement system in these countries is still not fully developed. According to OECD (1997) the accession countries shall:

1. Design a legal and administrative framework that facilitates the integration of various procurement entities throughout the public sector into a functional and coherent network with high professional standards, and that is consistent with international obligations. Such a framework should define the financial and legal responsibilities of all participants in the procurement process, including suppliers and procurement entities in central and local governments.
2. Ensure that government purchasing entities employ trained personnel who understand the need for efficient procurement systems.
3. Invest heavily in systems which provide adequate access to data and information, and which facilitate professional networking within the public sector.
4. Give suppliers access to training and information that promote their competitiveness, which in turn strengthens the market economy.

5. Design and implement effective mechanisms to curb fraud, waste, and abuse and corruption all of which threaten public procurements systems in all countries and impede competition.

The objective of procurement via competitive tendering is to ensure that a contractual relationship is formed with the most suitable supplier in the market for the goods or services required. According to Behan (1994) the most suitable supplier is the one who:

- is financially sound;
- is technically and commercially capable of providing the goods or services required;
- submits the best offer in value for money terms;
- is likely to execute the contract efficiently and effectively based on their track record.

Public procurement might be realized by many different and specific forms of competitive tendering such as according to the concrete conditions and amount of contract, or by direct award in specific situations, for example, by a single-source supplier, in an emergency case, or a small purchases category. The main standard procedures are open and limited/restricted competitive tendering.

The basic steps of open tendering are as follows:

- submission and publication of contract notices;
- response suppliers, asking for tender documents;
- sending tender specification to all applicants;
- sending tender documents by participating suppliers;
- opening tender documents;
- evaluation of tender documents and selection of supplier;
- awarding contracts; and
- submission and publication of the results of the tender.

The processes and results of tendering are controlled by the state, but the most effective way to control the process and results is by other suppliers being involved in the process. To facilitate this control, as much transparency as possible should be incorporated in the public procurement system in any country.

IV. Conclusions

Public financial management in its modern and developed form has a great potential to make the use of public resources more economic, effective, efficient and transparent. This is very important in the CEE region, which is still suffering from the heritage of the old regime, from limited economic performance in these countries, and where the public sector has much fewer resources compared to developed countries.

Despite this potential, the main features of the present public financial management system are still similar to the "socialist" time and are causing excessive inefficiencies in the public sector. The first part of this chapter identified some reasons for this situation including the priorities of the political agenda in CEE, and the most important subjective and objective factors causing this delay.

In the second part of the chapter we examined the current public financial management practices, primarily at the institutional level in CEE and highlighted the most important weaknesses of these practices. The specific focus was on problems of incremental and short-term budgeting, brutto budgeting, centralised and input based execution of budgets, non-transparent and subjective allocation of resources, an ineffective public sector audit based on compliance and ex-post approaches, and the lack of real, systematically supported pluralism in the delivery of public services. Some basic theory was also discussed in this part to provide readers with basic knowledge about necessary concepts. To further illustrate the current CEE public financial management practices in a more realistic way, several mini-cases were included.

The third section introduced selected modern public financial management trends that have been applied in developed countries more or less successfully. Instruments, concepts, and techniques, like zero-based budgeting, performance and program budgeting, decentralization of management/execution of budgets, cash flow, break-even, capital budgeting, accrual accounting, cost-centres, formula and performance budgeting, value for money audit, ex-ante audit, outcome based audit, transparency of all public financial operations, competition and contracting, and procurement and tendering methods and processes represent the main parts of this section.

All of these methods are beginning to be implemented in CEE conditions. To make them work effectively, it is necessary to use them in appropriate conditions and manner. The implementation of some of these techniques, like cash flow and discounting, is relatively simple with limited possible adverse effects. Generally, the adverse problem might be an increase in the costs to run the system. Many other methods, like competition and contracting, are connected with important pros and cons, even in developed countries. Their possible impacts and effects have to be discussed before their implementation can become a successful reform agenda.

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Appendix A
Revised Code of Good Practices on Fiscal Transparency

Clarity of Roles and Responsibilities
1.1 The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.
1.2 There should be a clear legal and administrative framework for fiscal management.

Public Availability of Information
2.1 The public should be provided with full information on the past, current, and projected fiscal activity of the government.
2.2 A commitment should be made to the timely publication of fiscal information.

Open Budget Preparation, Execution, and Reporting
3.1 The budget document should specify fiscal policy, objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks.
3.2 Budget information should be presented in a way that facilitates policy analysis and promotes accountability.
3.3 Procedures for the execution and monitoring of approved expenditure and for collecting revenue should be clearly specified.
3.4 There should be regular fiscal reporting to the legislature and to the public.

Assurances of Integrity
4.1 Fiscal data should meet accepted data quality standards.
4.2 Fiscal information should be subjected to independent scrutiny.

Source: IMF Website

Introduction to Case Studies

In this concluding part on financial management and its current specific problems in CEE conditions, we include three main case studies, which provide additional information about the current situation. The cases are selected from different areas that highlight some good and bad practices in the region and in specific areas of budgeting and the public/private mix issue.

The Implementation of PPBS in the Czech Department of Defense

Frantisek Ochrana, from the University of Economics in Prague, the Czech Republic, prepared the first case. This case deals with two main ideas:

1. It develops in more detail the PPBS budgeting method as one of the modern budgeting approaches and briefly described in the core text.
2. It demonstrates that under certain circumstances there is the possibility to implement, under CEE conditions, a set of very complicated and comprehensive financial management techniques. However, it also shows that such processes need, as well as a high level of intellectual capacity, the effective political support and appropriate implementation environment in order to succeed.

After the Czech Republic Armed Forces began to exist officially on January 1, 1993, a set of goals for the economic transformation of the Department and of the branch was established. These goals were oriented to the following areas: changes in the system of economic management of the Department of Defense sector, changes in the department's budgeting and financing system, changes in the department system of property planning and acquisition, and changes in the area of property registering and accounting.

The new allocation system in the Department of Defense was expected to meet important criteria, such as enabling an immediate control of the army by the Parliament of the Czech Republic, to separate military from political decisions in the army and, thus, eliminate a risk of irregular practices in the military forces, to create a budgetary system in order to make all financial flows transparent, and to create conditions to optimise decision-making procedures and the allocation of resources. The PPBS system was proposed to do this.

The author describes the processes of preparation and implementation of PPBS in the Czech Ministry of Defense and highlights the main component of PPBS budgeting. The reader should focus in the case on the following issues:

- concept of PPBS;
- changes in public resources allocation that can be achieved via PPBS budgeting approaches;
- preconditions for implementation of PPBS,
- barriers to implementation of PPBS (political and administrative will, capacities, training, motivation);

- possible future of PPBS in the Czech Ministry of Defense as well as its possible use in a broader application to public sector budgeting.

An intriguing aspect of this case that the reader should examine is the manner in which PPBS was introduced into the Ministry of Defense in the Czech Republic. Particular attention should be given to the apparent resistance to its implementation and use of an outside team coming from a background in the education system that reveals the extent to which new thinking had to be introduced into the military branches.

The case writer reveals a number of situations where the top-level policy officials had to impose the decision to implement PPBS. There are instances indicated where the relationships of policy makers in the Ministry played a critical role in forcing the PPBS to be implemented. All of these reveal the tensions inherent within organizations having to undergo strategic and fundamental changes. The reader should carefully examine these instances in terms of what was required to gain acceptance and implement this new decision-making system.

It is necessary to stress that the PPBS method is very rigorous and demanding. Its main advantage is the necessity to calculate, every year, all development activities, which gives not only the overall view of new programs, but also the overview of the older programs and activities. Because of this, it might be effective to use PPBS in transitional countries or at least some of its elements, to cope with this common problem. That is, the necessary changes in public resources allocation that cannot be achieved via classical incremental short-term budgeting approaches

Higher Education in Slovenia: Methods to Greater Efficiency in Education Programs

The second case, prepared by Stanka Setnikar-Cankar and Maja Klun from the School of Public Administration in Ljublana, Slovenia, describes the system of higher education in Slovenia. It presents two important issues:

1. The acceptance of principles of the public/private/civic sector mix in Slovenia with the example of a step-by-step process in creating a pluralistic higher education services market in Slovenia with all kinds of ownership.
2. The changes in the system of financial management of public higher education institutions and allowing for much greater freedom in creating and using resources, and their impact on financial and general performance of higher education establishments.

Originally, there were only two state universities in Slovenia. Some independent institutions of higher education on the basis of concessions can also provide the national curriculum of higher education. Concessions are granted on the basis of written orders from the government of the Republic of Slovenia. Private institutions of higher education can be financed from the

budget where the education is provided on the basis of these concessions. Other private institutions of higher education providing valid study programs can obtain finance through public tenders for development commissions. An institution can form a fund for managing all funding. School fees and other contributions for studies based on publicly recognized study programs form the income of the institution. With these conditions, a pluralistic higher education "market" was created. In 2000, there were seven independent institutions of higher education in Slovenia of which two are considered faculties and the remaining five are higher specialist schools.

The reader should examine the fundamental changes in the delivery of education services in Slovenia as described in this case. The case illustrates how both private and public institutions can provide educational services in a newly competitive environment. The long term implications of these changes are yet to be discerned, but the reader should give considerable thought to imagining what will happen to the education system in Slovenia in the next decade and beyond as a result of these changes; both positive and negative changes can be imagined.

The reader should focus on the following issues in this case:

- The impacts and outcomes in the creation of a pluralistic service delivery environment, particularly concerning access, quality, etc.;
- The impacts of the introduction of a new financial management system in state owned universities, for example, on the structure of revenues;
- The question of why in Slovenia, contrary to the previously mentioned case of Slovakia in the core text, the state allowed for the changes in the financial management system in the universities;
- The problem of equality of access to the university education, and the problem of freedom of choice (additional reading would be suggested, such as Friedman, 1968);
- The impact of changing enrollment into the university education based on the socio-economic development of the society.

The Delivery System for Local Public Communal Services in the City of Turzovka, Slovakia

The third case study was prepared by Beata Merickova from Matej Bel University in Banska Bystrica, Slovakia and focuses on the processes of contracting public communal services. The author randomly selected one smaller scale city in Northern Slovakia and analyzed the systems of delivery of selected communal services to investigate the following dimensions:

1. The scale and scope of contracting the delivery of communal services in the selected city.
2. The processes of contracting services in the selected city, and to a limited extent, the specific impacts from contracting.

The case analyses the systems for the delivery of selected communal services in the city of Turzovka. The small town of Turzovka is situated in the northwest part of the Slovak Republic and is not far from the border with Poland. It is 35 km^2 and the number of inhabitants is about 8000. The main activity focuses on services contracted to private sector suppliers. Considering the limited possibilities to obtain necessary data, at the time of preparation of this case, the law on free access to information was not valid in Slovakia and the city mayor applied an "information embargo" in the city hall, the author examines several selected communal services, including the maintenance of local communications, maintenance of public lighting infrastructure, management of cemeteries, waste collection and waste disposal, and the management of public parks and green areas.

The reader should focus on the following issues in the case:

- the scale of contracting selected communal services in the city in terms of what services are appropriate to provide from the private sector or should be retained within the public sector organizations;
- the forms of delivery of selected communal services in the city in terms of whether all delivery options where explored prior to decisions being made on what form of delivery would be utilized;
- the openness and transparency of the decision making process for contract arrangements and the possible consequences for the use of public funds to be given to private contractors;
- the contract preparation, awarding, and management, with special emphasis on compliance with valid legislation (public procurement law).

The Implementation of PPBS in the Czech Department of Defense

František Ochrana*

Introduction

The PPBS budgeting approach has been used in the US Department of Defense since 1961 and it is replete with both positive and negative experiences. It is still in place in this Department even though other methods, like ZBB, have been used in the intervening period. This experience from the USA inspired, through the existing theoretical and practical information, PPBS implementation in the Czech Republic.

This case focuses on the deficiencies in the management of finances within the defense branch of the Czech Republic, which has resulted from the limited changes during the transformation from the previous regime. The introduction of PPBS was chosen as a means to improve the situation.

Management of the Ministry of Defense Finances in the Old Regime

In the old regime, all of the important decisions on defense were always prepared within the narrow circle of the Presidium of the Communist Party Central Committee. The issues for decision were never put on the agenda of plenary sessions of the Committee. The decision-making process was hidden from the wider public. Questions of defense and security spending was always at the centre of the Communist Party. Of course, when the proposal for the national economic plan (five-year plan, operating plan) or the state budget were submitted to the Parliament (Federal Assembly) for discussion and approval, the document also had to include the drafts of all the department budgets. Then, the defense and security budgets would be reduced by at least 20 percent.

Various categories were used to classify defense expenditures, including:

a) spending on defense and security;
b) defense spending;
c) military spending.

Spending on defense and security was the sum of all state budget spending, which included the armed forces spending (Ministry of Defense) and spending on security (Ministry of the Interior and Prison Guards Corps).

Defense spending was composed of expenditures of the armed forces, expenditures on preparation for economic mobilization, the Railway Troops of the Ministry of Transport expenditure, "Union for Co-operation with the Armed

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Forces" expenditure and spending on some state research and development tasks.

Military spending consisted of the Ministry of Defense spending, which was spending on the armed forces "proper". Data for all the three above given categories were marked as "Top Secret - Especially Important". Relations between these categories are made more apparent from the data in Table 1.

Table 1

Defense spending, military spending (Mod spending) and shares of defense spending in national income and the state budget in ČSSR 1961-1989 (in CZK mil, current prices)

Year	Defense Spending	Military Spending (MoD)	Produced National Income (PNI)	Share of Defense Spending in PNI (%)	State Budget Spending (SB)	Share of Defense Spending in SB (%)
1961	9 841	9 011	172 021	5,72	111 915	8,79
1962	10 816	9 920	175 378	6,16	123 201	8,78
1963	11 821	11 013	172 883	6,83	125 815	9,39
1964	11 990	11 021	169 713	7,06	130 318	9,20
1965	10 700	10 001	173 519	6,16	116 138	9,21
1966	10 910	10 296	195 576	5,57	154 795	7,04
1967	12 875	12 103	233 992	5,50	147 193	8,74
1968	15 062	13 890	257 797	5,84	151 393	9,94
1969	18 007	15 624	293 717	6,13	176 942	10,17
1970	18 997	16 233	312 959	6,07	194 313	9,77
1971	19 806	16 900	327 915	6,03	148 043	13,37
1972	20 470	17 543	346 333	5,91	142 318	14,38
1973	21 056	17 750	363 204	5,79	157 705	13,35
1974	21 989	18 715	380 663	5,77	175 389	12,53
1975	22 233	19 045	409 970	5,42	273 774	8,12
1976	23 077	19 714	418 182	5,51	290 071	7,95
1977	24 014	20 633	414 990	5,78	278 301	8,62
1978	23 988	20 801	438 015	5,47	283 912	8,44
1979	25 102	21 866	460 667	5,44	292 403	8,58
1980	25 941	22 582	486 281	5,33	304 182	8,52
1981	27 353	23 045	472 003	5,79	207 823	13,16
1982	27 710	23 999	496 035	5,58	314 046	8,82
1983	29 430	24 851	507 325	5,80	213 598	13,77
1984	33 508	30 066	541 461	6,18	222 373	15,06
1985	31 491	27 808	59 974	5,62	233 402	13,49
1986	32 250	29 750	570 064	5,65	235 226	13,71
1987	34 185	30 385	587 056	5,82	245 191	19,94
1988	37 727	32 877	606 269	6,22	258 400	14,60
1989	38 675	35 062	619 405	6,25	263 107	14,70

Source: Budget Annex (Annex C (of Special Parts of State Implementation Plans for areas of Defense and Security for given years. Archives of the former National Planning Board. Quoted according to Fučík, J.: Budget Spending on Defense in Warsaw Pact Countries 1955-1989. In: Krč,M. et al: Military Expenditures During and After Cold War. Prague, Institute of International Relations, p. 56

The economic management of the Department of Defense was based on principles typical of centrally planned economies. At the same time, in accordance

with valid legislation, the system of economic management and use of resources in almost all areas was based on exceptions from general laws and decrees. The responsibility for resource use was delegated to so-called "material asset managers". These were the top functionaries of the Ministry, like food supply officer, quartermaster officer, signals officer, etc. They were relatively independent, which allowed them to choose their own priorities and objectives without having to pay much attention to the objectives of the department as a whole. At the same time, there was no attempt to track the relationship between costs and benefits.

To simplify the situation, we can say that each of these functionaries was, in effect, a holder of his "own" budget. The budget was divided into separate items in accordance with the budget structure of the Ministry of Finance. It was prepared on an "item by item principle". Since such subjective methods of economic management had long-term consequences, for example, in the area of equipment, some of the negative effects are still felt in the conditions of armed forces today.

A characteristic feature of these methods of economic management was the lack of comprehensive and reliable information with respect to the methods of allocating the budgetary means and determining the efficiency of their use. The non-transparency of this management system was exacerbated by many partial facts, like:

- the financial means for the so-called "Construction and Accommodation Service" were planned without providing the necessary information to the commanders of the units concerned. Many important factors were not reflected in the budget proposal, such as the actual size of material stocks, total property, actual allocation of material, etc.
- only "building investments" were included in the category of investments, with the consequence that the total investments appeared smaller than they actually were. Some investments were hidden in the category of material costs (e.g., repairs).
- the budget structure was very opaque in that the structure of the budget was not very informative and even confusing. The specific structure of the budget reflected the command structure of the armed forces.

The budget proposal was prepared by subjective methods of costs calculation, which did not respect the objective distinction between current (operating) costs and capital (investment) costs. That is why it was not possible to answer such questions as why, by whom, when, to what purpose and with what effect the budget funds were allocated and spent. This situation was a result of the fact that the budget was broken down into elements that, without being addressed to specific purposes, were assigned to elements within the organizational structure of the armed forces. This was the so-called disposal method.

We may summarize the situation in the following. Before the PPBS system came, resources were subjectively assigned by and to the main managers of the Department of Defense, who had a large amount of discretion in their use. Everyone could choose his own targets and priorities. At the same time, there was no attempt to track the relationship between costs and benefits. The overall Department of Defense targets were not pursued as the main interest. It was impossible to answer questions like the why and for whom the costs were appropriated, and how they were realized. The Department of Defense was very often criticized by the Parliament for its inability to make spending more transparent, explain it in more detail, calculate the effectiveness in the allocation of resources, and set priorities for allocating scarce resources.

Changes in the Economic Management of the Military Forces 1990-93

To change the inadequate financial management approaches in the defense branch required several activities. From the point of view of PPBS, the starting point was an analysis of the situation. The first study was prepared in 1990, which only described the state or condition of the situation and made no suggestions for further steps. The people who had created the existing condition were the ones who considered the report.

It was obvious that the changes in this situation had to be done by specialists who hadn't previously worked for the Ministry of Defense. In 1991, the analytical-economic unit was established at the Ministry of Defense of the former Czechoslovak Federation. The task of the unit was to support processes of innovation in the economic section of the Ministry of Defense and to change the existing conditions. The unit on its own initiative developed a new analysis of the existing economic situation in the Department of Defense.

To support the principle of objectivity, three specialists were employed in the unit and none of them had previously worked for the Ministry of Defense. Two of the specialists came to the Ministry of Defense from the education branch and were not connected by any personal relations with people who had worked for several decades for the Ministry of Defense.

The analysis of these specialists highlighted a shocking disorder in the allocation of resources. As a reaction to this, the unit, on its own initiative, proposed alternative changes and presented that document to the deputy for economic management of the Department of Defense. He accepted the document, but many of his subordinates were afraid of changes. The deputy didn't have enough courage to make the changes, in spite of increased pressure from the Parliament on the Minister of Defense to make the budgeting more transparent. The delay caused by this waiting occurred during the whole year of 1992.

After the Czech Republic Armed Forces began to exist officially on January 1, 1993, the situation changed. The new deputy minister of defense responsible for economic management realised that the existing condition had to be changed, and soon a set of goals for the economic transformation of the

Department and of the branch was established. These goals were oriented toward the following areas: changes in the system of economic management of the Department of Defense sector, changes in the department's budgeting and financing system, changes in the system of the department's property planning and acquisition, and changes in the area of property registering and accounting.

The above goals were created as "first level" goals. From these "first level" goals, a "second level" of goals were derived as follows:

a/ In the area of changes in the system of Department of Defense economic management:
  - To introduce the Planning, Programming and Budgeting System, and based on this, optimize the processes of resource allocation with respect to the Department of Defense goals and priorities.
  - To radically change the Department of Defense operating cost/investment spending ratio in favor of investment. The existing ratio of operating cost to investment of 9:1 threatened to lead to a total collapse of the armed forces within several years.
  - To start building an information system to support the above described changes in the system.

b/ In the area of changes to the system of budgeting and financing:
  - To make the process of budget proposals an integral part of the Planning, Programming and Budgeting System. The budget proposal should take into account all risks representing potential threats to state security and provide for the means leading to their elimination. To this objective, main programs, programs and program elements, should define an adequate program structure for the Army of the Czech Republic. The budgeting process for both investment and non-investment expenditures should reach down to the program elements level; that is, to the lowest level of military budget holders, e.g., regiments.
  - To link budgeting to the long-term planning in the creation and use of resources, and to define an optimum long-term proportion of investment to operating costs.
  - Operating costs must be planned for and allocated to specific purposes and "spending subjects". Specific relations and contribution of individual "spending subjects" to the total mission of the Department of Defense must be taken into account, and "institutional financing" representing the existence of "spending subjects" as ends in themselves must not be allowed.
  - To introduce the system of territorial financial branches with the aim of providing for effective and efficient use of budgetary means and preventing any subjective decision-making about payment.

c/ In the area of property planning and acquisition:
  - To set up Acquisition Centres – a professional centre for transactions and procurement.

- To introduce obligatory tender procedures for selecting contractors or buyers, so that the most favorable terms will be negotiated when purchasing or selling assets.
- To define development and modernization projects in the form of a comprehensive document, the Acquisition Plan.
- To define, on the basis of quantified risks to the state security, a system of priorities in the area of property acquisition.

d/ In the area of property evidence and accounting:

- To introduce an accrual accounting system, and, within that system, to register the costs of individual program elements and activities, and to monitor the effectiveness of the use of resources.
- To determine the value composition of the Department of Defense property and its specific material content with respect to the defined goals, and to control its changes.
- To transform the system of property evidence to be compatible with the accounting system.
- To create a unified catalogue of both tangible and intangible assets with the new structure of the catalogue being compatible with the system used in NATO.

With regard to the transformation, a political decision was made that the new allocating system of sources in the Department of Defense shall meet the following criteria:

- To enable an immediate control of the army by the Parliament of the Czech Republic.
- To separate military decisions from political decisions in the army and thus eliminate a risk of irregular practices in the military forces.
- To create the budgetary system making all financial flows transparent.
- To work out conditions to optimize decision-making procedures and the allocation of resources (PPBS).

With this background, a decision to introduce PPBS was realized in early 1993 after a very short time in which the new leadership of the Ministry was in their positions. The main driving force behind this decision was the new deputy minister using his own experience and deciding to introduce PPBS into the Department of Defense. Based on his friendly relationship with the new minister of defense, he gained the support of the minister of defense.

The speed of the decision and the preparation of the new strategy are interesting, but typical for many changes in CEE where to a great extent individuals or small groups decide on future plans. A quick decision on implementation of PPBS is symptomatic, especially since PPBS is a complicated and difficult financial management method, even when applied on a very small scale in developed countries. This serves to highlight dimensions of policy analysis and decision-making as applied in CEE at this stage.

The PPBS Preparation Processes

With the support of the deputy, the analytical-economic unit finished the development of all core documents for PPBS introduction and submitted them to the Department of Defense in April 1993. The documentation was approved at a session with the minister of defense in July 1993.

However, even after approval by the minister, the opponents of PPBS introduction succeeded in delaying the preparation phase for an additional half year. Only in December 1993 when the minister summoned a meeting of the top managers of the Department of Defense and fixed the timetable for the introduction of PPBS introduction did the preparation phase begin.

As the result of the limited capacity of the responsible unit and over great opposition, the program of implementation of PPBS in the Department was finalised only in spring of 1995.

Main Characteristics of the PPBS in the Czech Ministry of Defense

The purpose of the PPBS was to produce a plan, a program, and finally, a budget for the Department of Defense. The budget is forwarded to the Parliament for its approval, authorisation and appropriation. The PPBS processes are based on and consistent with objectives, policies, priorities and strategies derived from the National Security Policy. The PPBS has a central position in the managerial systems in the Czech Department of Defense as expressed in Figure 1.

Figure 1
The management sub-systems in the Czech Department of Defense
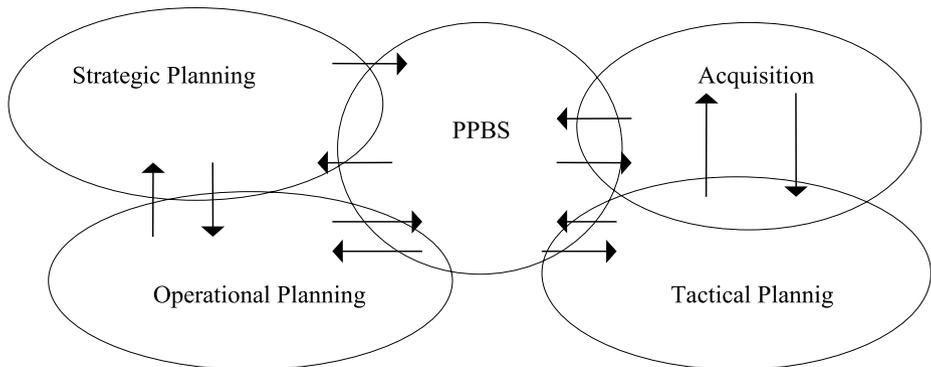
The relationship between PPBS and other management sub-systems in the Czech Department of Defense may be characterised as follows:

a/ the relationship between the PPBS and the system of strategic planning - the system of strategic planning provides its outputs in the form of risks and targets and is used in the PPBS as inputs for compiling the Plan of Defense

Resources. In the other direction, the PPBS provide to the strategic planning the Plan of Defense Resources, including main economic limits and constraints for planners to define new targets and risks.

b/ the relationship between the PPBS and the system of operational planning - the system of operational planning brings together, with the system of strategic planning for PPBS, mission categories and the structure of main programs and programs. Another necessary input for the PPBS is the definition of the necessary and current capability of the armed forces. The definition is done in terms of mission capabilities, effectiveness capabilities and so on. The output, which PPBS gives to the operational planning, is the Program Plan.

c/ the relationship between the PPBS and the acquisition system and tactical planning - the acquisition system provides input in the form of a planning document known as the Plan of Material Resources. At the same time, this system supports the PPBS in building the updated Plan of Projects, reflecting differences between current and future capability of the Czech armed forces.

With the PPBS, the system in the operation of defensive resources was expected to be created to enable the possible combinations and allocations of resources to be fully interrelated with the tasks of the Department of Defense, and especially with tasks of the Czech military forces as a whole. As the system was linked by its inputs and outputs to the Czech Parliament, PPBS is also the tool for the public to control and regulate the army effectively. Mechanisms of the regulation processes are locked up in individual phases of PPBS, i.e., in the phases of planning, programming and budgeting.

PPBS served as the rolling system of operation of resources, which was contrary to the former operation. The system was expected to work as follows:

Cycle I:
• Planning   1996 – 2005
• Programming   1996 – 2000
• Budgeting   1996

Cycle II:
• Planning   1997 – 2006
• Programming   1997 – 2001
• Budgeting   1997

The substance of PPBS as rolling planning is based on the lapse of the current cycle (the cycle I) and the introduction of the following cycle (cycle II), which shifts the process one year forward. The rolling method of planning means that a phase of planning has a long-term horizon (10 years); the phase of programming a mid-term horizon (5 years) and budgeting is one-year planning. This system will enable managers of the department to continuously think about the allocation of resources in long, mid and short term horizons.

The starting point of the planning phase was the determination of the risks concerning a crisis for the country. Each risk was "portfolio" evaluated and quantified. When doing a "portfolio," evaluation of risks, with its two basic characteristics, were taken into consideration. The first characteristic was weight of the risk, in this case the weight was scaled from 0-10 where 10 represents the most serious risk, and, secondly, the probability of the risk event occurring with a 0-1 interval. Then the coefficient of risk (e = w * p) was defined by taking into account all military, economic, social, and political characteristics; such things as military training, organization, build-up of armed forces of the potential enemy; political characteristics; military and political course and development of the state, and its foreign and military policy.

The "portfolio" evaluation of individual risk enables one to quite clearly identify types of risks and response strategies for elimination (Figure 2).

Figure 2
Portfolio evaluation of risks

Evaluation of risks

Probability of risk *(p)* 1

0   2   4   6   8   10

Weight of risk   *(w)*
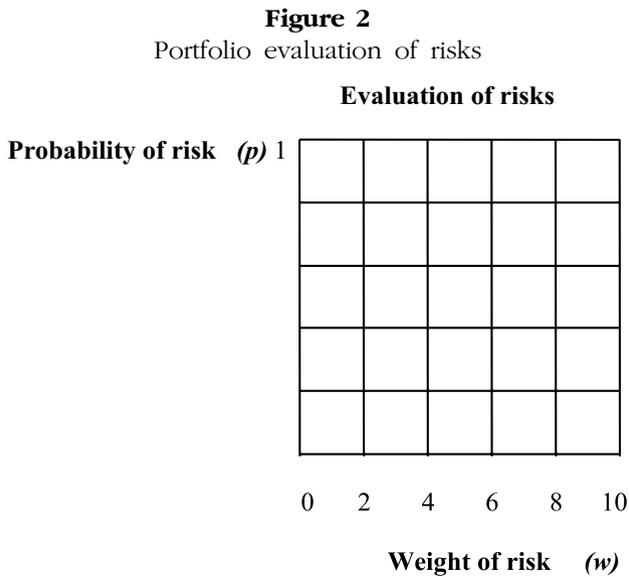
The result is a portfolio with four levels of risk:
- not important risks
- risk of the first level of danger
- risks of a sufficient need to eliminate the risk
- risks of the highest level of danger

The next step was to develop the strategy of how to eliminate the risk. Possible strategies are:
- strategy of full elimination of the risk
- strategy of a sufficient elimination of the risk in that the respective risk doesn't threaten the security of our country any more

- strategy of a decreasing of the risk to the country (partial elimination of respective risk)

Based on the risk calculation and its elimination strategy, defense targets were set at the Ministry of Defense level and in consultations with the Parliament. This leads to creating the base for the Plan of Resources, including a detailed Manpower Plan, Material Plan, and Financial Plan.

After establishing the targets and developing the Plan of Resources, the programming phase of the PPBS was started. The basic question was which of the targets to support with the resources available? The next question was who is going to be in charge of it?

The biggest problem in this phase was to solve the discrepancy between scarce resources and the requirements that arise from establishing and supporting the main program. It was indicated that the real possibilities in terms of limitations and constraints are included in the Plan of Resources. But this Plan describes resources for the whole department, and is not broken into main programs. In this situation, the requirements were much greater than resources. This made the programming process much more difficult. This problem was solved by determining the ratio requirements of manpower, materiel and financing for every main program established. The Ministry of Defense decided in the plan on the "Ratio of material and financial requirements among main programs". This document was then used for the process of allocating resources for programmatic structure.

The Programming Plan was divided into the main program, programs and programming elements, thereby creating a programming structure, which was not visible at the aggregation level. This architecture representing the programming structure is shown in Figure 3.

Figure 3
Architecture of the programming structure
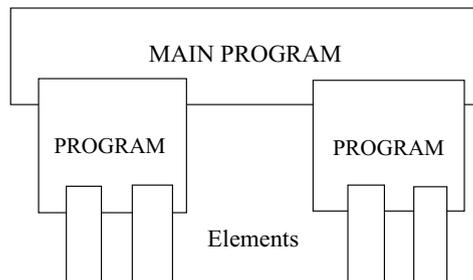
The highest level of the aggregation was given to main programs. These are grouping of programs in which programs were classified on the basis of special and general common defensive tasks such as the defense against land attack

and defense against air attack. Altogether, 10 main programs were defined in the first cycle of PPBS. These included the Main Program of "General Purpose Forces", the Main Program of 'Research and Development", the Main Program of "Central Supply and Maintenance", the Main Program of "Administration and Associated Activities", and the Main Program of "Support of Other Nations".

For example, the Main Program "Administration and Associated Activities" consisted of resources for the administrative support of departmental and major administrative headquarters, field commands, other administration and associated activities. Activities like construction planning and design, public affairs, contingencies, claims, and criminal investigations were included.

The program represented the mid-level aggregation. For example, the program "Training, Medical, and Other General Personnel Activities" defined resources related to training and education and other support activities associated with personnel.

The program element was the lowest level of aggregation. Program elements represented descriptions of the various missions of the Department of Defense. They were the building blocks of the programming and budgeting system and allowed for aggregation and re-aggregation in a variety of ways:

• To display total resources assigned to a specific program.
• To display weapon systems and support systems within a program.
• To select specific resources.
• To display logical grouping for analytical purposes.
• To identify selected functional groupings of resources.

Each program element contained resources, manpower, and finance (CZK), or any combination, depending on the definition of the element.

The final phase of PPBS was budgeting for the final output of the system of planning, programming and budgeting representing the optimised proposal of the budget. In contrast to the previous (pre-transformation) period, when the proposal of the budget was made up by official estimate from the level of ministry, the PPBS budget represented substantial change.

The proposal of the budget was compiled now from below and from the level of program elements. Current expenditures were calculated on the basis of individual standards or central planning norms and actualised every year.

The costs at the highest level were divided into two groups – operations and maintenance, and investment cost. The investment costs, procurement costs included, were calculated at the central level, and connected with the whole Program Plan of the department for the current year.

The method of incremental budgeting was used in the beginning of the PPBS in the Czech Department of Defense and was accomplished by adding, step-by-step, every single operational and maintenance costs and investment costs. The simplicity of that method is obvious in allowing the ability to very

easily construct the first proposal of the budget. Because of its main disadvantages, primarily the continuation of previous expenditure patterns, it was soon decided to partly switch to the zero based budgeting method. The use of the ZBB method supported transitional processes and development activities, to focus more on priorities, and to orient more on developing programs and reorganisation. The final "product" was the specific method, consisting of a mix of both, which allowed a response to the expected ratio between operational and maintenance costs, and investments. The minister requested this. Consequently, this ratio has been changed from a 90 to 10 ratio to 76 to 24.

The budget proposal, achieved via PPBS, did not represent a form of white-collar subjectivist ministerial estimate, which was the case in the pre-transformation period. On the basis of the new procedures, the budget proposal was created and responded to the real information and needs of those individuals making the calculation.

All information within the framework of PPBS was computerised in the framework of the information system. On the basis of existing data, it was possible to make up a number of aggregated expenditure groups of various types, which enable one, from several points of view, to answer the questions why and for what was the given allocation provided.

All processes were standardised and allowed for computing many different reports and to get answers to questions of why, what for, by whom and when they were realised.

The budgeting phase closed the first cycle of the PPB system and opened another one. Even more importantly, it started the processes of substantial change in financing within the Czech Department of Defense, and preparation of the Czech Republic to join NATO.

Conclusions

The PPBS in the Department of Defense started to be used in the second half of 1990s. During the first three years, actions were taken in accordance with the conception accepted for introducing PPBS. Nevertheless, the different quality of the outputs from the phases of planning, programming and budgeting already existed since the beginning.

The largest reserves from the beginning of the introduction of PPBS are in the sphere of management of material resources, especially in the phase of programming. It became evident that a fully working Plan of Material Resources and a Program Plan could not be successfully developed because of many subjective factors, including the fact that many managers were appointed based on political connections and not because of their professional qualities, and external problems; such as the starting point for defense resources management must be a clear definition of the main objectives of defense. In the period 1993-1997, despite all efforts of the Ministry of Defense, both Parliament and the

Government of the ČR failed to define these objectives in a clear and unambiguous way. Thus, it was not possible to put the calculation of the resources needed for defense on a firm basis.

Another serious deficiency in the period 1993-1997 was the lack of an adequate security and defense legislation, and insufficient financial resources allocated to the defense branch. The attitude of the ČR Parliament and Government to defense problems changed noticeably only when NATO began to exert pressure on Czech political representatives in connection with the accession talks. At the "eleventh hour", the so-called packet of defense legislation was passed and the decline of the defense budget was halted.

After the Czech Republic became a member of NATO, it became more evident that the reform of the Czech Army must be carried out. Therefore, since the last half of 2001, a new conception of the Czech Army has been processed. Its task is to establish a fully professional army for the Czech Republic (approximately from 2006), and to evaluate and reform all activities of the Czech Army. The evaluation of the experience, implementation and workings of PPBS is expected to be a part of this reform. This means that, in the Czech Army, the PPBS approach will be developed further.

Lessons Learned

In spite of the many connected problems, it is possible to claim that the introduction of PPBS into the Czech Department of Defense represented a substantial change in the management of resources. Because of its positive impacts in the transition phase, other departments in the Czech Republic were interested in the implementation of PPBS.

However, despite the existing capacity to implement the PPBS system fully, the processes are not completed yet. All attempts were slowed from the very beginning. First, there wasn't enough political will to introduce the system, and there existed negative attitudes at the top branches of management to the implementation of the system. The next problem was that the personnel in the respective departments were not professionally prepared. This was the same situation as in other countries, such as Italy. The PPBS puts high intellectual demands on personnel, especially on creative work, and not enough training in this was delivered and the motivation of employees was not created to support the change.

Even though the PPBS method is very demanding, its main advantage is the necessity to calculate each year all development activities, providing not only an overall view of a new program, but an overview of the older activities as well. Because of this, it might be effective to use PPBS in transitional countries to cope with this common problem among these countries. That is, the necessary changes in public resources allocation that cannot be achieved via classical incremental short-term budgeting approaches.

The experience from introducing the PPBS system in the Czech Department of Defense can inspire other departments in the public sectors in the Czech Republic. This should also be used in all CEE countries and it might solve many similar problems.

Simultaneously, those interested in the introduction of PPBS into the public sector of transition countries should be warned that the key precondition for the successful introduction of PPBS is the political willingness of top political and management levels. Another important precondition is the professional readiness and ability of the staff to creatively solve all problems connected with the programming allocation of sources.

Questions for Discussion

1. Analyse the process of deciding on the implementation of PPBS. What are the main symptomatic features? What are the risks of such an approach? Should and could this be changed in current CEE conditions?

2. What factors limited the scope of implementation of PPBS in the Ministry and identify the subjective and objective factors? Examine particularly the tensions within the organization and the relationships of the top policy makers in implementing PPBS within the Ministry of Defense.

3. How does PPBS differ from incremental and other budgeting methods?

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Higher Education in Slovenia: Methods to Greater Efficiency in Education Programs

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Introduction

Presently, the public expenditure level is approximately 46% of GDP in Slovenia. The economy is still not growing and a shortfall of from 1 to 2% GDP is forecasted. The possibility of increasing revenue is very limited in the near term. With these considerations in mind, the solutions of reorganizing and making greater efficiencies in the public sector with better economic fund management is required.

Questions are posed as to what to privatize or not privatize, what to regulate or deregulate, and what kind of administrative mechanisms are needed. This needs to be done, but a comprehensive privatization of the public sector has not been implemented in Slovenia. It is normal to expect the direct role of the state to become less important and greater initiative be left to organizational units.

In this case, we highlight two important processes to increase efficiency and effectiveness of public service delivery with the example of changes in higher education in Slovenia. The case focuses on increasing the share of private sector provision of higher education in the country, which will influence the allocation efficiency in both technical efficiency and quality. It will also address changes in financial management and fundraising approaches that are also connected to allocation and technical efficiency.

Changes in the Higher Education System in Slovenia

The government in Slovenia decided to keep expenditure for education and science at about 6.5% of GDP over the last ten years, and not to change the allocation of revenues between levels of education. This was decided even though the number of pupils in primary schools dropped by approximately 10 %. Expenditures for higher education represented 17.8% of total expenditure for education in 1996 and decreased to 17.2% in year 2000. This proportion represented only 0.76% of GDP. Unless some changes occurred in the higher education system this would mean that many problems would result, such as a shortage of teaching staff, a decrease in the quality of education services, and limited access to schooling.

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In order to limit the negative impacts of such an allocation system, the new legislation changed both the system of delivery of higher education services and the system of financial management of institutions of higher education.

The Abolishment of the State Monopoly in the Higher Education System in Slovenia

Educational institutions can be established by Slovenian or foreign natural and legal entities, if not otherwise determined by legislation for specific types of operation. For the operating of public services, public institutions are founded by the state, municipality or town and other authorized public bodies. Other natural and legal entities can be co-founders of public institutions. Public institutions provide public services on the basis of concessions. A public institution operates in the market as a legal entity. Institutions are financed by the founder from payments for services and sales of goods and services in the market and other sources. Excess money can only be used for developing the operations of the institution.

As a result of the changes, in addition to the public institutions of higher education, independent institutions of higher education, on the basis of concessions, can also provide the national curriculum of higher education. Concessions are granted on the basis of written orders from the government of the Republic of Slovenia.

Private institutions of higher education can be financed from the budget where education is provided on the basis of concessions.

Other private institutions of higher education providing valid study programs can obtain finance through public tenders for development commissions. An institution can create a fund for managing all funding.

School fees and other contributions for studies, according to publicly recognized study programs, compose the income of the institution.

New Financial Management Rules for Higher Education Institutions

Higher education public institutions in Slovenia represent today one example of public bodies operating under the regime of "netto" budgeting, which allows for greater financial management freedom. Besides funding from the budget, higher education institutions are a part of the system including most public institutions in Slovenia that can also obtain revenue from the market.

Such public institution, can freely dispose of their revenue. The system and area legislation are not uniform on the use of surpluses from such operations. The provisions of the Act on Institutions are most commonly used where decisions about what to do with the surplus is determined by the institution's council and with approval from the founders. Most public institutions distinguish between surpluses created by the operations of public service and those created by other operations. The decision of what to do with the first category of funds

is taken with approval of the founder and the decision on the second category is decided independently. Such an arrangement enables the public institution to obtain all the revenue it needs for salaries and most of the material costs from the budget, even though most employees also perform "profitable" operations. Almost all investment is financed from the budget. This incomplete arrangement has certain drawbacks both for the budget and the market in terms of possibility for unfair competition.

For this reason the government adopted new accountancy principles (Act on Accountancy, 1999) for indirect budget beneficiaries, which required that from the beginning of 2001 they must keep separate accounts of income and expenditure by type of operation. This provides separate monitoring of operations and shows the results of operating with public finance funds and other revenue for operating public services. The additional revenues allow the budget beneficiaries financial independence in purchasing equipment, education and in rewarding employees.

The Act on Higher Education specifies the basic principles of financing higher education in Slovenia. Public institutions should receive revenues from the budget for the pedagogical and research work of professors and assistants, administrative support, infrastructure, investments and for development of qualitative new curricula. Revenues for financing some student activities can also be partially obtained from the budget. The revenues from the budget are determined for every public institution in higher education according to the field of education, including humanities, technical, and natural sciences. The number of students in the current year and the number of graduating students in the last school year is also factored into the system. These resources and resources for infrastructure and investments are determined within the Ministry of Education, Science and Sport.

Both public and private institutions obtain funds from the budget for regular studies. Both institutions charge school fees for non-regular students. Some of the non-regular students can apply for funds for school fees from the Ministry of Education, Science and Sport.

The taxation of the public institution of higher education shows certain differences. Taxes paid by all institutions of higher education (public and private) are:

- Tax on the profits of a legal entity
- All income tax (contract work and honorarium)
- Social security contributions
- Value added tax

Public institutions and other non-profit-making institutions are relieved of paying tax on profits for non-profit-making operations. This means the tax is paid only on profitable operations.

Public educational services provided in the framework of prescribed programs for acquiring a publicly valid education are exempt from the value added tax. However, private institutions of higher education that do not provide publicly valid education are not. All other services provided by public or private institutions are charged VAT.

Impacts of Changes in the Higher Education System in Slovenia: Delivery and Access

In Slovenia, there are two universities that are public institutions of higher education. The University of Ljubljana has 20 faculties, three art academies and three higher specialist schools. The University of Maribor has nine faculties and one higher specialist school.

Today there are seven independent institutions of higher education in Slovenia of which two are faculties and five higher specialist schools. Private institutions mostly offer humanities courses. Table 1 shows data on the number of entrants for the school years 1996/97 and 2000/01 at public and private institutions of higher education.

Table 1

Entrants to higher education in Slovenia 1996/97 and 2000/01 by type of institution of higher education.

	1996/97	Percentage	2000/01	Percentage
Public Institutions	18,052	97.4	20,498	93.1
Private institutions	480	2.6	1,515	6.9
Total	18,532	100	22,013	100

Source: Higher education applications – office of information, 2001

The data reveals that public institutions still have more than a 90% share, but that is decreasing. The share of entrants to private institutions has more than doubled, but still does not exceed 7%. It is too early to discuss real competition between the public and private sectors in the area of university education in Slovenia. The effective conditions for pluralisation of the service delivery do exist.

It is also still too early to assess the impacts of such arrangements. There are indications of several positive trends. There are new pressures to motivate an increase in the quality of education as the numbers of students significantly increase.

Impacts of Changes in the Higher Education System in Slovenia: Revenues

The new possibilities of financing higher education changed to a great extent the structure of higher education students and, consequently, the structure of revenues and their use in institutions of higher education.

Table 2 presents the number of students and percentages of places for regular and non-regular studies for the selected school years.

Table 2

Entrants to higher education in Slovenia in 1996/97 and 2000/01 by study method.

Study year	Regular study (budget)	Percentage of entrants	Non-regular study (school fees)	Percentage of entrants
1996/97	13,100	70.7	5,432	29.3
2000/01	14,375	65.3	7,638	34.7

Source: Higher education applications – office of information, 2001

In spite of the increasing number of entrants for regular study and non-regular study, the percentage of students entering non-regular studies has increased from 29% to more than 34%. For now, this trend is reflected in both public and private institutions. Both types of educational organization are acquiring greater funding in the market from the direct payment of school fees by non-regular students.

Table 3 shows changes to the structure of students in public universities in Slovenia, as a reaction to the new legislation.

Table 3

Entrants to higher education in Slovenia in 1996/97 and 2000/01 in public institutions by method of financing

Study year	Regular study		Non-regular study		Total	
	Number	Percent	Number	Percent	Number	Percent
1996/97	12,860	71.2	5,192	28.8	18,052	100
2000/01	13,895	67.8	6,603	32.2	20,498	100

Source: Higher education applications – office of information, 2001

In public institutions, the share of regular study financed from the budget has decreased from 71% to less than 68%. It is obvious that public institutions are becoming more and more dependent on revenue from the market. In 1999, both universities generated revenue of about 189 million USD. At the University of Ljubljana faculties, the market generated 20% of revenue and at the faculties of the University of Maribor it was 35%. The main market revenues came from non-regular students, post-graduate students, counseling, selling textbooks, international projects and projects financed by the Ministry of Education, Science and Sport. Technical faculties also sold some of their research findings to the private sector to pay for some projects. The highest percentage of market revenues per internal unit at the University of Maribor was 65% and the lowest 13%. At the University of Ljubljana, the highest percentage was 76% and the lowest 1%. In Maribor 54% and in Ljubljana 33% of faculties raised more than 30% of their revenue from the market.

The sources of revenue of a selected unit of the University of Ljubljana are presented in Table 4.

Table 4
Higher education revenue in 1996 and 2000 by method of financing
(in percent)

Source of finance	1996	2000
Budget	24.5	21.5
Public institute:	75.5	78.5
School fees	53.8	55.3
Consultation	11.7	12.2
Other	10.0	11.0

In 2000, the school obtained just one fifth of all revenue from the budget. More than half of its revenue came from school fees for non-regular studies. Consultation fees made up 10% of income for the organization and came mainly from short courses for employees.

A part of the cost for regular study started to be cross-financed from their own income. The only item still predominantly financed from the state budget was labor costs (Table 5).

Table 5
Higher education revenue in 1996 and 2000 with respect to their
coverage

Type of spending	1996		2000	
	Public institution	Budget	Public institution	Budget
Labor costs	47.3	52.7	40.5	59.5
Material costs	90.0	10.0	92.6	7.4
Depreciation	100	0.0	95.6	4.3

Source: Public institution accounts

Conclusions

A key factor in the efficient operation of public sector units is not only the establishment of autonomous organisations, but also the promotion of autonomy, professional and financial responsibility. Also, the supervision of all organisational units in the public sector is important.

In the sub-system of netto budgetary organizations in Slovenia, many changes were adopted which allowed for higher financial management autonomy and a more diverse and complex revenue "portfolio". To substitute for the ineffective full public financing in certain areas it is possible to acquire additional funds by selling services in the market. Higher education is at the forefront of these

trends by attempting to respond to pressures for better use of resources and the diminishing financial flows from the state budget level.

The principles of public/private mix are to a large extent reflected in the reform of the system of higher education in Slovenia. This is creating in a step-by-step manner a more pluralistic system of producing and financing of the service. All types of higher education institutions have started to enter the market. But there is no ideal solution.

Lessons Learned

It can be concluded that as a consequence of reforms in the system of higher education in Slovenia important changes occurred in the area of provision of the service and the system of financial management of public higher education institutions. The conditions for pluralistic delivery of the higher education services were created, and the proportion of "non-state" students increased. In spite of this, however, the level of competition is still relatively low. But, in any case, a joint presence in the same market requires that public institutions behave in a more market-oriented way and this has mainly positive outcomes and impacts.

Despite the fact that a relatively pluralistic "delivery market" in the higher education was created by these changes, both public and private institutions have their pros and cons. Comparisons between public and private institutions of higher education show public institutions have the following advantages:

- all courses are publicly recognised
- most funding is obtained from the budget for regular study
- lower obligations for paying tax on profits

    Advantages of independent institutions are:

- greater independence in operations as they are not bound by the statute of a university
- greater flexibility in adopting operational conditions
- stimulative rewarding
- free allocation of funds (profit)

As the result of the transition, there is in place a relatively liberal system of creating and using additional revenue sources. The liberal financial management rules allow for important mobilization of private resources to finance higher education in Slovenia and a better use of public funds, too. With this, the quantity and quality of service is increasing even though there is a decrease of state contributions to the system.

Questions for Discussion

1. This Slovenia case and the mini-case on Slovakia in the core text demonstrate the different approaches of each government to higher education financing.

What do you think are the reasons for this given that both Slovakia and Slovenia are going through a similar transition phase?

2. The total number of entrants to higher education in Slovenia significantly increased with almost the same amount of public resources used, but the proportion of student paying fees increased even more significantly. Is this evidence of improved access with such trends?

3. What is your opinion on the optimum proportion between public and private revenues in higher education?

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The Delivery System for Local Public Communal Services in the City of Turzovka, Slovakia

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Introduction

This case analyses the system of delivery of selected local communal services in a small Slovakian city. The main focuses are the organizational forms of the delivery of respective services, problems connected with selection of the best form of delivery, with tendering processes, and with contract management. Selected impacts of changes on quality of service delivery are part of the investigation, too. The case is part of a more complex research, analyzing the scope, problems and impacts of contracting (contracting-out) in conditions of Slovakia and the Czech Republic (Nemec, 2000, Nemec, 2001, Merickova-Nemec, 2001).

Before 1989, all municipal public services were directly financed and produced by local governments (National Councils, combining state administration and self-administration functions). By virtue of Slovak National Council Act 369/ 1990, this system of combining local state administration and local self-government was replaced.

Under current legislation, local governments are constituted in municipalities that are territorial and legal entities. Within limits set by the law, the local self-government manages its own budgets and assets. The state administration may delegate to local self-governments additional responsibilities financed by state funds. Local self-government authorities are elected directly by the local population.

Local self-government authorities may freely associate with other local self-government authorities and, thus, may form regional or other interest organizations. Such associations, however, may manage only those matters specifically referred to them by local self-governments.

There are more than 2800 municipalities in Slovakia, of which 136 had the status of a town and 4 of military districts. Over two thirds of the total number of municipalities have a population of less than 1000.

Municipal budgets are an autonomous part of public budgets. The share of state taxes (natural and legal persons income tax, road tax) represents about 22 % of total revenues of municipalities, and block and specific grants from the state and current and capital transfers represent 17,5 % of total revenues of municipalities. Other revenues are derived from the activity of the municipality.

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Municipalities independently decide and act on all matters pertinent to the administration of municipalities and their property, unless legislation specifically assigns such acts to the state or to other legal bodies. Pursuant to the law, municipalities exercise their standard self-government functions and have the following economic and management responsibilities:

- comprehensive construction of housing and connected infrastructure;
- maintenance and administration of public property;
- local public transportation in large cities;
- construction, maintenance and management of local roads and parking places, public spaces, public green, public lighting, marketplaces, cemeteries.
- Local water resources and wells, water supply networks, sewage and water purification establishments in small municipalities;
- construction, maintenance and management of establishments addressing local culture, sport, leisure, tourism, child care, ambulatory health services and basic social services;
- support for education, nature and heritage protection, culture and artistic hobbies, physical culture and sport;
- support for humanitarian activities; and
- administration of municipality, municipal police and fire service.

To fulfill its obligations in delivery of local public services within its jurisdiction, any municipality shall decide and has full freedom to decide on the best organizational and ownership arrangements. There are no rules, prescriptions or guidelines on what is best method or how to decide.

Responsible local self-governments shall choose solutions that would guarantee the highest possible outcomes from resources allocated, as the result of careful assessments of specific local conditions, and pros and cons of all available solutions.

The question, to what extent this has happened in the small, randomly selected city of Turzovka, is discussed in this case study.

The System of Delivery of Public Communal Services in Turzovka

The small town of Turzovka is situated in the northwest part of the Slovak Republic and not far from the border with Poland. It is 35 km^2 and the number of inhabitants is about 8000.

As with all other Slovak municipalities, the city is responsible for delivery of respective local public services, according to valid legislation. The system of delivery shall guarantee high quality and low cost supply of local public services to the inhabitants. Modern approaches of public/private partnerships, like contracting-out, might be one tool to achieve this goal.

According to the law 369/90 Zb. of the National Council of the Slovak Republic, and local conditions, the city of Turzovka is responsible for and provides the following municipal communal services:

- waste collection and waste disposal;
- construction and maintenance of municipal roads and other communications;
- cleaning of the municipality;
- management of public parks;
- management of cemeteries;
- management of public lighting;
- supply of drinking water and sewage;
- public transportation.

Taking into account the possibilities to obtain the necessary data, in this case we focus on services of maintenance of local communications, maintenance of public lighting infrastructure, management of cemeteries, waste collection and waste disposal, and management of public parks and green areas. Table 1 describes the costs of delivery of selected local public communal services during the period 1995 – 1999 supported by the local budget.

Table 1

The costs of delivery of selected local communal services (covered by the municipal budget)

Year Local service	1997	1998	1999	Costs 1999 as % of total municipal expenditures
Management of cemeteries	81	71	108	0.61
Waste collection and disposal	506	829	925	5.30
Maintenance of local communications	2 352	2 003	1 185	6.79
Management of public parks	61	69	102	0.58
Management of public lighting	751	709	898	5.15
Total	3 751	3 711	3218	18.43

The structure and development trends of costs indicate that the costs of the municipality to deliver selected services are decreasing. As discussed also later, the main reason is not an increase in efficiency, but lack of resources, which does not allow, for providing all necessary functions connected with the delivery of respective services (insufficient finance base for municipalities is Slovak reality, as documented for example by Bercik, 1998).

The critical situation in local finances should motivate the municipality to adopt all possible measures to increase the cost-effectiveness in the delivery of respective services. For example, by the use of high quality contracts with private suppliers, or change the allocation by shifting the burden of covering the increasing proportion of costs of local public services to inhabitants.

The following text describes options decided in respective areas by the municipality, with full freedom of decision in each case, except by necessity to respect the facts given by concrete conditions. The description of ways that it was decided, for what reasons it was decided, and what are some outcomes from such decisions, represent, together with findings on these issues from other municipalities (for example Merickova-Nemec, 2001), important indications of the current "quality" of decision-making at the level of local self-government

in Slovakia, and highlight the scope of the use of alternative service delivery, too.

Maintenance of Local Roads, Public Lighting and Public Green

Compared to some other examples in Slovakia, the city of Turzovka did not decide to contract most of its public communal services to external suppliers, and delivers services of maintenance of local roads, public lighting and public green areas by its own semi-budgetary organisation "Mestský podnik sluzieb". There is no transparent information available as to why this option was chosen, on what grounds, and what alternatives were evaluated. Who really decides is not transparent either. It is simply clear that no competitive tendering and procurement were used in the method of selection. We might also conclude that in the situation of Turzovka, the lack of private market bids should not be the decisive factor for the decision not to outsource, because near (10 km) the city, all of these services are contracted to private or semi-private suppliers.

"Mestský podnik sluzieb" (MSP) was established on 1. 1. 1998 as the semi-budgetary [1] organisation of the city to deliver communal public services for the city on non-profit basis, but with the right to deliver services to other bodies on a for-profit basis. Under these arrangements the activities of MSP can be divided into two categories:

a/ services delivered to city inhabitants free of charge – cleaning and maintenance of local roads, maintenance of public green areas, management of public lighting.

b/ services delivered to other bodies on a market basis – transportation of goods, small construction work, household maintenance and repairs.

The director of MSP is appointed by the municipal assembly and is responsible to this body for personnel, economic and control activities of the MSP. MSP is an independent legal body connected to the municipal budget for balancing the operational deficit. In case of profit, the net profit is transferred to a reserve fund and the right to decide on the use of the reserve fund is assigned to the municipal assembly. The city transferred to MSP, free of charge, all property and equipment for its activities. This property had previously been under city ownership.

MSP is responsible for maintenance of local roads, the total length of which is 66.3 km, and another space of 1710 sqm. It maintains public green areas, and manages public lighting – 1160 lighting points in all. All these services are delivered to citizens free of charge, but in the current financial situation, the city does not provide resources for capital improvements. There is a strong need to buy new equipment for road maintenance and to reconstruct the system of

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[1] Semi-budgetary under Slovak legislation means that the final budget deficit of the organisation is balanced from a higher-level budget organization, in this case from municipal budget. Such organisation is in principle a self-managing institution.

public lighting, but in this situation, there are no resources available. The city grant to the MSP budget doesn't cover operating costs to deliver free public services either; about 30 % of these costs are covered by incomes from market type activities of MSP.

There are many aspects to be mentioned when evaluating this form of delivery. On one side, this solution helps to solve the standing problem of lack of municipal finance. MSP does not charge market prices for services delivered, and covers a part of total costs from its activities. In spite of hypothetical inefficiencies in the MSP financial management, it is doubtful that there would be any private body able to deliver respective services in the same quality and with 30 % lower costs. On the other hand a block grant to cover the deficit of the MSP budget is not a transparent system of financing. The system of financing also does not motivate MSP to increase efficiency and to obtain more from services delivered on a market base. The accounting system of MSP does not calculate depreciations, thus, the real costs are underestimated, and, as mentioned, resources for capital investments are not available.

Management of Cemeteries

This service is contracted-out to a private firm. As in the first case, there is no transparent information available as to why this option was chosen, on what basis, and what alternatives were evaluated, nor who really decided. In 1992, there was no public procurement legislation in Slovakia, and legally the municipality was not obliged to make a competitive award for this service (such obligation would arise only in the case of a new award of contract, or review of the contract). However, also at that time, it was possible to tender (according to Business Code paragraphs), and the competition for this service would be relatively high, because of its profitability.

According to the contract arrangements, cemeteries and related buildings remain the property of the city and are rented to the firm by rental agreement from 1992. The agreement has unlimited validity and has not been reviewed yet. There are no effective performance indicators defined in the contract.

The firm is responsible for maintenance of rented property, and the costs of this (approximately 100 000 Sk yearly) are invoiced to the city. The firm bills citizens to rent public space for graves, and to rent facilities during the funeral. The grave rental contracts might be signed for a limited or unlimited time, but in the case of not paying the fee, after a defined period of time, the contract is terminated, and the grave removed.

By these arrangements, most costs are born by citizens – the price is between 580 and 1840 Sk for one funeral and grave (the costs of the grave are not included). The income from this service is shared between the municipality (70 %) and the firm (30 %), and there is no calculation to show why such an allocation was approved.

Waste Collection and Waste Disposal

Waste collection and waste disposal is one of the critical municipal services, with many solutions for its concrete delivery and financing in different municipalities in Slovakia. The city of Turzovka, along with eight other surrounding municipalities, created the non-profit organisation "Zdruzenie TKO" (ZTKO) to deliver this service. As in other cases, the exact basis for such a decision cannot be found.

The main goals of ZTKO are the following:

1. Waste collection and disposal in the most economic way.
2. To advertise, prepare and realise separated waste disposal.
3. To coordinate activities of all participating municipalities in this area.
4. To coordinate liquidation of illegal waste disposal.
5. To protect the environment.
6. To manage the local waste disposal place.

ZTKO is a legal person, with full rights to manage its finance. According to its statute, administrative costs cannot exceed 4% of total income of the organisation. The incomes of ZTKO are grants from respective municipalities and other grants from public resources (approximately 1,200,000 Sk) and incomes from their own activities (approximately 1,800,000 Sk). All incomes shall be exclusively used to cover costs of the service, as usual for the non-profit sector. ZTKO cannot enter into joint business with other for-profit bodies.

ZTKO signed contracts with all establishing municipalities (including Turzovka) on waste collection, waste disposal and waste separation. According to the contract, ZTKO reports to the municipal assembly on all aspects of the service twice a year.

The obligation of the city is to assure that a minimum of 90 % of the inhabitants will participate in separated waste collection, to provide bins for separated waste collection and to organise the scheme of vouchers to cover part of the costs.

The system of financing the service is the following:

a/ ZTKO bills the city for waste collection and waste disposal. The incomes from separated and sold waste are deducted from the bill.
b/ Citizens pay for waste collection and waste disposal to the city, the system of paid vouchers with a fixed price is used.
c/ Citizens do not pay for separated waste.
d/ The prices for waste collection and waste disposal for legal persons are higher than for citizens.

The solution to create a non-profit body for all services connected with management of waste represents one of the main systems used in Slovak municipalities. The main legal problem is invoicing the costs of the service to

the city. According to valid public procurement legislation, such arrangements are subject to competitive tendering, which was not realised in this case.

Conclusions

The city of Turzovka did not decide to contract most of its public communal services to private sector suppliers, compared to arrangements in many other cities in Slovakia (Čadca, Banská Bystrica), in spite of the fact that the conditions for outsourcing existed. The reasons for such a decision are not clear, and in no case was tendering used to promote private bids, and to be able to compare possible alternatives.

Based on non-transparent decisions, it uses three of several available solutions to deliver selected communal public services, such as the following:

1. Delivery of local services by semi-budgetary organisation.
2. Delivery by non-profit organisation inter-linked to the city and controlled by the city.
3. Delivery by a private firm.

Because of the lack of evidence about how the decisions were made (in spite of being approved by the municipal council), the question of whether the best solutions were chosen cannot be determined. The only real facts are non-competitive awards in all cases, and breaking of valid laws on public procurement, except for the management of cemetery case which was "de jure", but not "de facto". Because of the lack of effective indicators and information, the impacts of given decisions on effectiveness, efficiency and quality of delivery of respective services cannot be more comprehensively assessed.

Lessons Learned

Many readers would expect that this case would present the purposes, the basis, and the process by which the city of Turzovka decided on the respective system of service delivery from many possible and available alternatives. However, this is not possible, because nothing systematic happened.

Instead of this, the case shows other important aspects of the delivery of local communal services. It highlights that at least some municipalities do not use tendering as the best tool to promote bids for delivery of public services, and try to find the "best alternatives" without market research, and systematic evaluation of available alternatives. Potential inefficiencies resulting from this, if they appear, are simply shifted to citizens.

It also shows a limited respect for valid public procurement legislation. The Slovak law on public procurement covers any supply of goods and services to any level of government. In spite of this, municipalities frequently pay invoices of organizations like ZTKO or MSP (and to fully private bodies, too), without accepting that such a process shall be realized under provisions of public procurement legislation.

Questions for Discussion

1. What would be a better system of deciding on the best alternative to deliver local communal services, taking into account also specific CEE conditions?
2. Identify the main weaknesses of the processes of deciding on delivery of mentioned selected public services in Turzovka. Try to assess lessons to be learned from this for processes of public administration reform generally, and specifically for Slovakia, where massive transfer of responsibilities to municipalities is expected in a short time.
3. Why do you think municipalities in many cases do not respect valid legislation? How should citizens and the public administration profession cope with this?

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CHAPTER FIVE

Applying Information Management Methods and Techniques in CEE Countries

Applying Information Management Methods and Techniques in CEE Countries

*Mirko Vintar ***

I. Introduction

In the following chapter we discuss some recently emerging aspects of public management. In the past, managers were taught that the two most important resources to be managed were people and money. However, over the last few years, it has become evident that a third resource, information – inevitably linked with Information Technology (IT), has become of critical importance for the success of an organisation. With the growing complexity of IT solutions and information systems which all functions of modern organisations vitally depend on, with growing investments in this field which are becoming a heavy burden even for very rich organisations, and with a tremendously rapid development of technology offering new solutions to problems, these issues are on the agenda everyday for top managers.

I.A   Past Managerial Attitudes

In the past, managers tended to avoid dealing with IT issues. There were several reasons for this. For the first two or three decades after IT was introduced into different segments of business functions, the impact of new technologies affected organisations mainly on the operational level. IT was regarded solely as an efficient tool to achieve the goals of the organisation, which in themselves were regarded independent of the technology available. The implementation of IT failed to bring about any serious changes in the organisational structures, working methods or business processes. Since it required a more than superficial understanding of the technology, the general attitude was to leave IT to the engineers and computer specialists.

In addition to this, managers in the past, by and large, had little knowledge of the new technologies. The solutions available then were not user-friendly and called for substantial technical skills. As a result, the use of computers was handed over to secretaries since the time of managers was regarded as too precious to be spent on routine technical tasks.

However, in the 1990s in most modern organisations, the impact of IT reached the point where it started to affect all employees, entire organisations and even their strategic goals. In order to be able to take full advantage of modern IT, organisations have to redesign and redefine all their structures, operations and processes and, consequently, also their goals. The rapid expansion of the concept of e-government is a good example of this.

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I.B Comparison of Information Technology Availability

So far we have discussed the impact of IT on organisations in rather general terms, as applicable in the private or public sector. It is true that the public sector is always a few steps behind private enterprises, which are more market-oriented and, therefore, forced to be competitive. Organisational and technological innovations are regarded as critical success factors in this sense. To our knowledge, there is little difference between Western and CEE countries in this respect.

The differences begin to appear as soon as we start comparing the extent and level of use of new technologies in different countries. Among various indicators (see Figure 1), two are especially informative of the attained level of "informatisation" within a particular country. First is the number of personal computers per 1000 inhabitants and, second, is the number of Internet users. Although the data available are never up-to-date due to rapid growth rates, they nevertheless show the ratio between USA, Western Europe and Eastern Europe. It is important to note that there are tremendous differences among individual countries of Eastern Europe in this respect. According to the 2001 Report of Eurostat for the year 2000, there were about 600 PCs per 1000 inhabitants in USA, about 300 on average in the EU, between 250-280 in Estonia and Slovenia and only about 30-50 in countries like Romania and Bulgaria. When we come to other important indicators, such as the number of Internet providers, Internet users or Internet hosts the ratio between the countries mentioned is more or less the same as above. This is a fairly reliable measurement of the country's position concerning the use of information technology and the development of an information society.

We can conclude from the data presented that Eastern European countries are still far behind their Western counterparts regarding the extent to which IT is being used. If there were data available for the public sector only, the situation would probably look even more alarming. Still, it is encouraging that the pace of development in this field is also very rapid in Eastern European countries, which may result in a completely new situation within a few years' time, and which, it is hoped, would make this text all the more relevant.

I.C Level of IT Knowledge

The other important factor differentiating the Eastern European public sector from its Western counterpart is the level of comprehension in the use of IT.

As observed before, IT not only has the potential to change the way an organisation works, but also changes the very nature of its business. The best example of this is the explosive development of electronic commerce in the private sector and electronic services or what is called e-government in the public sector. The leading driving force for these developments is the Internet. With the expansion of the Internet, we have received a medium that has provided us with virtually unlimited access to the newest data and information

Figure 1

OECD data on the development of information society in the member states of OECD
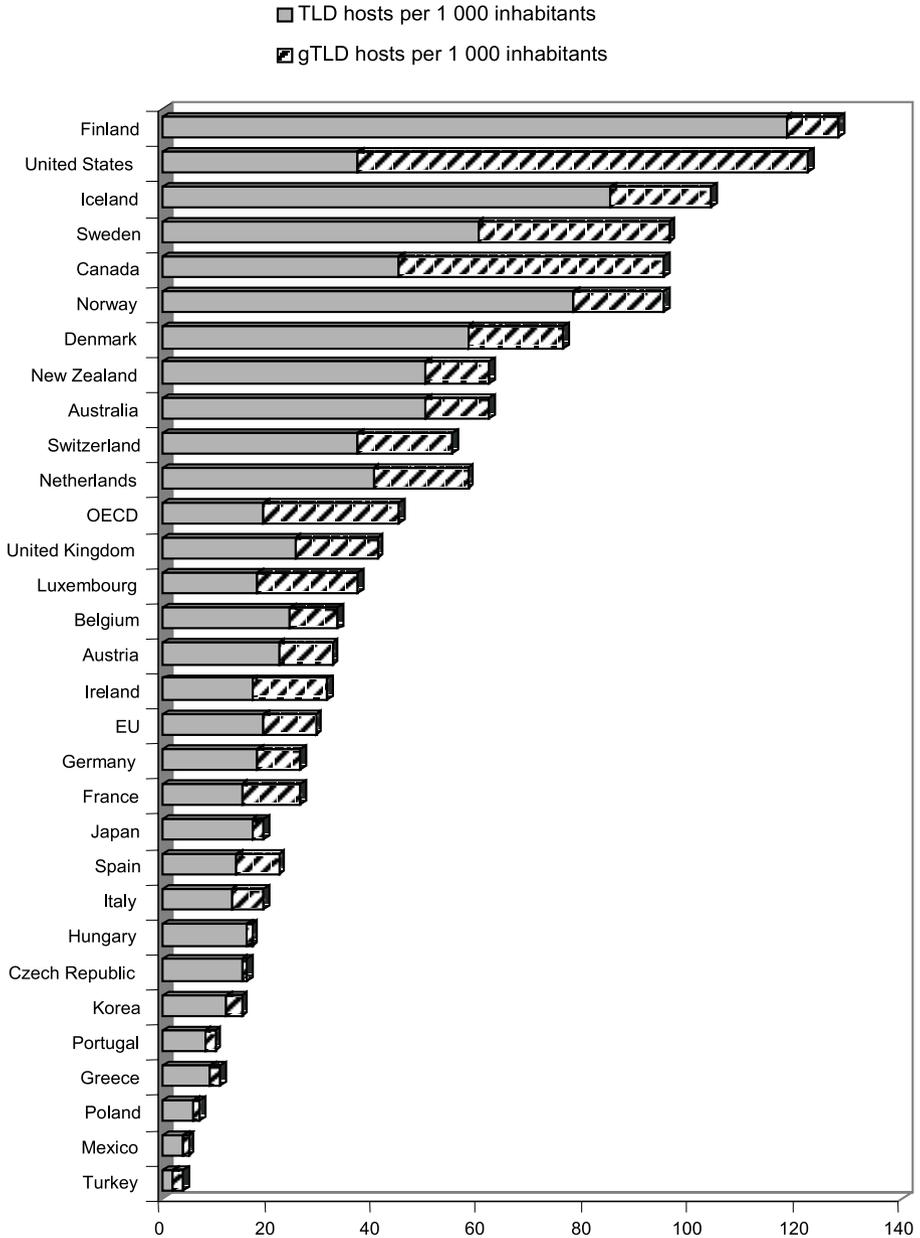
(Source: OECD, based on Internet Software Consortium http://www.isc.org)

from all over the world. Huge electronic markets have emerged over the last few years, competing with and gradually replacing conventional markets and distribution chains. Through the Internet, the public sector has acquired an immensely powerful tool to develop totally different ways of communication and service delivery to citizens and organisations.

In the EU countries, all of these changes are already taking place with great speed (most of the EU member states are planning to implement e-government by 2005), while some Eastern European countries are still struggling with the basics, using IT mainly at the operational level and for very routine tasks. Nevertheless, progress is being made at a rapid pace and its direction appears to be more or less the same. This can be said also for the importance of this field to managers in the respective countries.

Today IT is widely used at all hierarchical levels in the public sector, both on the operational level for simple tasks such as printing personal documents or collecting and processing tax declarations, and on the strategic level for very complex processes related to the decision-making processes of the government. Function-relevant information systems were developed for every field, ranging from individual ministries to the health care system, pensioning system, and police, which facilitate the collection, processing, summarizing, storing, disseminating and using of data and information throughout the public sector organisations.

I.D   New Attitudes of Public Managers

Most public managers and senior administrators of today are well aware of the importance of having access to the right information at the right time. This is the very reason why we are using computers and related technologies so extensively. For example, when governments need more money to fill the budget, there are always a number of possibilities for where to find it. However, from a political viewpoint, different options can have very different consequences for public opinion and economic development. Hence, all democratic governments would like to analyse the options available very carefully before deciding on the best one, such as:

• raising taxes on petrol;
• reducing expenses for public education;
• reducing the number of employees.

Some options may have a negative influence on the political opinion of voters, and other options may influence inflation or growth. Luckily, very powerful computer-based models are now available, and these models can help governments find optimal solutions.

The already uncertain business environment in the private and public sectors is becoming even more unpredictable with increasingly rapid development driven by new technology. The organisation's ability to systematically develop

its information management resources through which it can identify the relevant information needed, as well as to produce it at the right time and the right place, has become vitally important for their survival.

We can conclude that responsible and strategic-minded managers are already aware of the crucial importance of IT for their organisations, and assume an active role in planning, developing and monitoring the relevant information infrastructure.

I.E   Chapter Objectives

Although there are a number of books addressing links between general management and IT management, the decision and selection of what we feel to be the most relevant and appropriate issues was a difficult one. Furthermore, most of the literature available addresses these issues from the perspective of managers in a typical Western private enterprise, whereas here we would particularly like to highlight issues related to and draw the attention of public managers in CEE countries. In order to awaken the interest of future public managers in these topics and to help them understand the field and their own role in the development of this important area, we had to take a slightly different approach.

Section II begins with a description of the major changes the public sector in CEE countries are facing, which to a large extent are driven by new technology. A very radical reshaping will be needed in order to implement the e-government technology, and this is also described.

Structures of public sector organisations, which were in the past relatively simple as regards the technology used for the execution of various tasks, are becoming heavily influenced by new technologies, which require new types of managers and new managerial approaches. We discuss these in section III.

Further on in section IV we focus on the notion of informatisation of public organisations. Here it is necessary to draw a clear distinction between automation, which was used in the past, and informatisation, which is underway in most public organisations today. Both, the emerging 'process-oriented' view of organisations as well as the necessary reengineering of business processes in the public sector, should be discussed in the same context.

In section V, we try to show some possible organisational solutions concerning the management of IT functions and the development of information systems. Section VI presents some typical information systems needed in most large public organisations in order to use IT at its best in all vital functions and decision-making processes. Finally, in section VII we briefly outline the typical life cycle of information systems development.

In order to underpin the major points and views described in the chapter, we have added three case studies through which we try to demonstrate and

identify some key policy and management issues related to the implementation of IT in a typical public sector environment.

II. The Changing Nature of the Public Sector in the Information Age

The history of public sector reforms dates back several decades and the reader can find an in-depth description in Chapter 1. Some authors foresee rather moderate changes, while those with more radical views have been calling for a 'reinvention of government' since the early 1990s.

II.A Information Technology in Public Management Reform

The famous work we have already mentioned by Osborne and Gaebler 'Reinventing Government' (Osborne and Gaebler, 1992) showed clearly that a thorough reform of the public sector had become inevitable and that the changes brought about by it were real. The two authors defined the famous 'Ten Commandments' for radical reform. However, the authors of this groundbreaking text did not yet see information technology as the major agent and motor of changes. Their proposals for reform were based largely on organisational and neo-liberal ideas and were predominantly of an organisational character.

The agendas of reformist endeavours do not differ substantially across countries; they are all centred on the following goals:

- increased efficiency and effectiveness;
- decentralisation;
- increased accountability, transparency and openness;
- 'marketization';
- improved quality of services.

The idea that information technology must necessarily be, and has been, one of the relevant, if not crucial, elements of all reformist endeavours since the turn of the century, was clearly voiced for the first time as late as 1999 by Heeks in his book titled 'Reinventing Government in the Information Age' (Heeks, 1999). The public sector has been and will continue to be the largest collector, user and keeper of information, since information represents the principal source for the functioning of all levels of public administration and the execution of all its functions and activities. The work of all public institutions is information-intensive. We can distinguish among the following groups of information and information systems, which represent the indispensable basis for the functioning of the public sector. (Isaac-Henry, 1997):

- Information to support internal management (information about staff for personnel management, budgets and accounts for financial management);
- Information to support public administration and regulation (information that records the details of the main 'entities' in the country: people, land, buildings, business enterprises, etc.);

- Information to support public services (public databases containing various data on citizenship, permanent addresses, driving licenses, passports, health care records, school records, etc.);
- Information to support citizen participation (details of policies, laws and regulations, details on benefits and entitlements, demographic and economic statistics, etc.).

Until recently, administrative science had not perceived information technology as a relevant factor for the planning of administrative reform projects. All of the countries in Central and Eastern Europe have undergone attempts at governmental reform over the last ten years, but none of them have included information technology as a component that could significantly affect the goals as well as the results of the reforms. Technology was always seen as a mere means to reach the goals rather than an instrument that could have consequential impact on these goals. Only in the last two years or so, with the emerging notion of e-government, has public administration adopted the view that creative application of information technology enables us to offer the users a whole range of services that could not have been imagined as feasible only a few years ago. Most governments in the candidate countries for EU membership have already accepted well-elaborated strategies for the introduction of e-government in a few years time.

The former system, where citizens were forced to go to a governmental office during official hours and humbly wait their turn in line (sometimes they even expressed their gratitude for being granted this luxury by bringing presents for the officials), had an unpleasant side effect: officials were bossy and arrogant. It was the system itself that gave them a special status and the power to behave like that. This pattern of behaviour was particularly typical for virtually all former communist countries. Public servants in many cases didn't follow the rule of law, but rather the command of the ruling party. As a consequence, unequal and unfriendly treatment of citizens was common practice.

II.B Impact of e-government and Internet services

With e-government and Internet-based governmental services accessible from home, the functioning of the government is becoming equal to other services, such as banking and insurance systems, which automatically brings about a change in the relationship between the citizen and the official more towards an equal partnership. Apart from that, experience from South Korea has shown that the new system also contributed to a considerable decrease of corruption.

Introducing e-government has also resulted in the changing of some fundamental principles that had formed the basis of administration over decades and even centuries. They are being replaced by new principles underlying the functioning of e-government, such as:

- paperless management of administration;
- operation without personal contact with the customer;
- replacing hand-written signatures with electronic signatures;
- cancellation of the principle of local competence.

We are not yet aware of all the dimensions and problems related to these principles. For instance:

1. Replacing paper documents (which had for centuries represented the fundamental basis for administrative management, execution of administrative cases, communication and record-keeping) with electronic documents revolutionize the organisation of administrative work to an extent not fully understood so far. Possible long-term consequences for certain phases of this process, e.g., electronic record-keeping, have not yet been thoroughly analysed.
2. Today, a number of administrative procedures still require personal contact with the customer for personal identification. Managing administrative cases from a distance necessitates the development of new solutions, and this will have to be sufficiently secure and not require personal presence to execute individual administrative tasks.
3. For centuries, hand-written signatures have been the main guarantee of authenticity on official documents. In today's electronic administration, this is being replaced by the digital signature.
4. Administration was organised territorially according to the domicile principle. Each administrative unit covered a certain territory and its inhabitants. The use of the Internet enables the introduction of "'virtual' administrative units", which can be completely independent of the geographical division of the territory and its formal organisation.

II.C From e-services to e-government

Communication avenues between government and citizens have been developed over decades, even centuries. The process has been driven by the intrinsic need of the government to collect taxes. Later on, many new information needs of the government appeared and citizens became an increasingly important source of information. However, it should be pointed out that throughout the whole period of communication development between the state and its citizens, communication channels showed two significant characteristics:

1. they were predominantly one-way; and
2. citizens were regarded merely as objects and sources of information (subordinate role).

We need to change the general paradigm in designing communications between the government and citizens. New information systems should be citizens-centred rather than oriented towards governmental needs. This new paradigm should be based on the following new principles (Vintar, 1999):

1. citizens and organisations should be regarded as subjects of the new information systems, with their own information needs (partnership role);
2. predominantly two-way communication channels are needed in order to improve relationships between the partners;
3. citizens and organisations should be regarded as customers of governmental services.

The idea of citizens as customers to the government has been present for quite some time. However, very little has been done so far to realize it. It seems that the concept of e-government can serve as a major step forward in that direction.

The new era in the development of governmental services and the ways in which citizens are provided with them began in the early 1990s when the Internet started to become an increasingly accessible means of communication. At the end of the 1990s, it became apparent that the rapidly developing e-commerce would revolutionise ways in which business is done, first in the private sector and later on in the public sector. A popular new expression – e-government – was coined. E-government simply means modern government that performs all its functions and provides all its services through intensive use of electronic means for information processing, computers, networks, and Internet connection. Electronic means are not only used for internal information processing and communication within governmental agencies, but, also for communication with other agencies, citizens and businesses.

Table 1 shows three relationships that are the most important for the introduction of e-government and which involve the main partners of government i.e., citizens, businesses and NGOs. However, if we want to develop e-government, then government internal operations (G2G) must be modernised first. As already mentioned, most European governments took this task of rapid development and introduction of e-government in all segments of the public sector very seriously and by the year 2005 all EU member states and most candidate countries will already have e-government functions in place.

Table 1
Electronic Governance in the "X2Y" Matrix

E-Governance	Citizens	Government	Business	Third Sector NGOs
Citizens	C2C	C2G	C2B	C2N
Government	G2C	G2G	G2B	G2N
Business	B2C	B2G	B2B	B2N
Third Sector NGOs	N2C	N2G	N2B	N2N

B = Business
C = Citizen/Customer
G = Government
N = Non-Profit/Non-Government Organisations

With the introduction of e-government, we expect the greatest improvements in the field of public services provided to citizens and organisations.

II.D   Typology of New Government e-services

According to the Green Paper (1998), we can distinguish governmental e-services according to the three main functions they serve:

1. Information services to retrieve sorted and classified information on demand (e.g., WWW);
2. Communication services to interact with individuals (private or corporate) or groups of people (e.g., via e-mail or discussion forums);
3. Transaction services to acquire products or services online or to submit data (e.g., government forms, voting).

Table 2 gives an overview of possible services and potential application areas.

Table 2

Possible services and potential application areas

	Information services	Communication services	Transaction services
Everyday life	Information on work, housing, education, health, culture, transport, environment, etc.	Discussion forum dedicated to questions of everyday life; Jobs or housing bulletin boards	e.g., ticket reservation, course registration
Tele-administration	Public service directory; Guide to administrative procedures; Public registers and databases	E-mail contact with public servants	Electronic submission of forms, applications, tax declarations, etc.
Political participation	Laws, parliamentary papers, political programmes, consultation documents; Background information in decision-making processes	Discussion forums dedicated to political issues; E-mail contact with politicians	Referenda Elections Opinion polls petitions

Source: Green Paper, 1998

Information Services

Information services are services that are the easiest to implement. Technology, which is needed, is generally available to both sides (or will be in a few years), i.e., to the government as well as to the citizens in the CEE countries. Information e-services can be seen as an excellent addition and tremendous extension to all sorts of classic communication channels between governments and citizens, which in most countries were rather poor in the past. Only a few years ago common citizens had great trouble getting access to very basic information about the competencies of different institutions and persons within those

institutions, institutional settings, legal acts, administrative procedures and requirements referring to the execution of every day administrative acts. Today, all major governmental authorities are already accessible on the web and customers can easily obtain at least the most vital information about their competencies and their work via Internet. These services will contribute considerably to the transparency of work of governmental agencies and friendliness of public administration, and increase the level of participation of the citizens.

However, information e-services alone will not dramatically change the internal structures of authorities, speed up their work or make them more efficient. If we may use a metaphor, 'The dirty linen will be better seen through the window but the washing machine will work at the same speed'.

Communication Services

With the new communication services provided via Internet, citizens and organisations will be able to create different 'discussion groups' focused on the 'hot' issues of everyday life and on common administrative and public affairs. These will also help to establish direct contact or dialogue with public servants who work with individual cases, or politicians who represent a certain constituency in the parliament. Through these channels the possibilities to become better informed about the current status of particular administrative cases, political issues, and other matters, will improve tremendously.

Transaction Services – from 'Standing in Line' to Being Online

Among experts, transaction e-services are generally seen as the core of 'electronic government'. According to estimates, millions of administrative cases, which represent the bulk of governmental agency work, will be transferred to Internet and executed via electronic means in the next five to ten years. These services will revolutionise the organisation and administrative culture of all governmental agencies at the operational level in the near future.

The term 'transaction e-services' refers to interactive communication between agencies and their customers in both directions. It will enable citizens to submit official forms and applications, as well as interactive inquiries about the progress of their applications and administrative cases and direct communication with the public servant who is responsible for each individual case. On the other hand, authorities will be able to be in interactive contact with the citizens when additional information or documents are needed, which will speed up the administrative processes. Most of the solutions, permits and licenses will be delivered electronically to the applicants.

These new ways of interaction will fundamentally alter the modes of communication between the government and its customers and, consequently, also the nature of administrative work at the operational level.

As a result of the introduction of e-services, we can expect the following changes:

- Enhanced transparency of the work of government and its agencies as well as increased public control over the performance of public administration.
- Better and faster communication resulting in greatly increased speed of administrative processes and shorter times needed for solving administrative cases.
- A considerably lower administrative burden for citizens and businesses.
- Information will be made available to the citizens in a much more integrated form. This becomes especially useful where a specific information need necessitates contacts with a number of different administrative bodies and agencies. The concept of the 'one stop shops', which provides citizens with a single access point for obtaining information, will be widely implemented.
- It is justifiably expected that the efficiency of governmental agencies will increase and the costs will be reduced significantly. According to some sources (see: Caldow, 1999), savings of up to 70%, depending on the type of service, number of population, etc., can be expected as a result of moving services online, compared to the costs of providing the same services over the counter.

III. Changing Roles of Public Managers

The increasing technological complexity, as well as technological dependence, has marked the development of administrative systems. A mere decade ago, short delays in the performance of the computer system in an administrative office, e.g., in the department for issuing personal documents to citizens, would not have caused any major problems at the counters where customers are served. Today, every such instance causes a complete breakdown in the functioning of the whole department. Department managers must, of course, be aware of the dangers they face in case of such a breakdown of the fundamental information systems that are their main instrument of operation. This technological dependence increases proportionally with the introduction of e-government. Nevertheless, experts claim that we are now only at the very beginning of this revolutionary process, and no one can tell for sure where it is taking us. The popular comparison between the development of electronic administration and the development of the universe after the 'big bang' supposes that we are now approximately at the point where the universe was about ten milliseconds after the big bang. At the very beginning indeed.

In the past, managers avoided tackling technological issues as a rule and preferred to leave this task to computer experts. There were several reasons for such conduct; they often felt they lacked the necessary expertise and, hence, transferred all decision-making related to the development of information infrastructure to lower hierarchical levels of employees. Consequently, the technological component was often neglected in adopting strategic decisions in the past.

III.A Strategic Decisions in the IT Process

The Harvard Policy Group came to the conclusion that over the past few years, information technology has conquered the public sector to such an extent that it should be taken into account with all due responsibility in all strategic decision-making processes. In other words, it is no longer an issue whether managers should or should not participate in the process of making important strategic decisions connected with information technology. The question is only how they should participate. The report of the Harvard Policy Group for the year 2000 defined eight imperatives that should be observed by managers in the strategic decision-making process. Those imperatives are:

1. For transition to electronic services:
    - Focus on how IT can reshape work and public sector strategies
    - Use IT for strategic innovation, not simply tactical automation
    - Utilise best practices in implementing IT initiatives
    - Improve budgeting and financing for promising IT initiatives

2. For emerging challenges to governance:
    - Protect privacy and security
    - Form IT related partnership to stimulate economic development
    - Use IT to promote equal opportunity and healthy communities
    - Prepare for digital democracy

III.B Technology Development and Organisational Change

It is evident that the most challenging issue and task for the managers of the future will be to manage change. In Table 3, Heeks et al., define four phases of technological development and respective organisational changes, relevant from the viewpoint of management: automation, optimisation, reengineering and transformation. This last phase is what brings about the greatest challenges for the managers. It is important to point out that each subsequent phase moves the responsibility for its implementation from the bottom to the top of the organisational hierarchy (see Table 3). Entering the phase of radical transformation and informatisation will generate huge problems for public managers in particular, since governmental agencies, for example, were regarded as a synonym for rigid organisations resistant to change.

Most developed countries today are in the third or fourth phase in almost all areas, whereas Central and Eastern Europe is about two phases behind in this respect.

With global competition becoming stiffer and information age reforms inevitable, every organisation must become more active and willing in exploiting IT. Obviously, the public sector in CEE countries will have to follow these developments with more or less the same speed in order to assure the success and sometimes even the survival of the organisations. According to Wisocki and DeMichiell (Wysocki and DeMichiell, 1997), doing so will necessarily mean

merging general operational planning and information systems management into a comprehensive strategic framework for which many new skills will be required. The 'technology gap' between the 'technology available' and 'technology used' is closing since the new generation of technologically literate professionals is taking its position on the management teams. Modern managers understand that in order to maximise organisational and personal productivity we have to create a synergy among technology, people and organisational factors.

Table 3

Phases of management strategies for information-age reform outcomes

	Phase 1	Phase 2	Phase 3	Phase 4
Reform objective	Automation	Optimisation	Reengineering	Transformation
Change sought	Changing the technology from manual to IT via automation	Changing applications by rationalising data structures and work processes	Changing the organisation by redesigning data structures and work processes	Changing the organisation by completely transforming data structures and work processes
Typical IS management issue	Getting the information systems to work and stay working	Controlling the information systems costs and staff	Co-ordinating information systems across the whole organisation	Harnessing information systems to meet the needs of organisational customers
Role of IT	Supplant	Support	Innovate	Innovate
In lay terms	Efficiency: doing the same things in the same ways but faster or cheaper	Incremental effectiveness: doing the same things in somewhat better ways	Radical effectiveness: doing the same things in radically better ways	Transformation: doing new things

Adapted from Heeks et al., 1999

The development of IT will continue at the same pace while investments in the information infrastructure and the development of relevant information systems have already become a strategic issue. Senior managers daily face IT related issues and decisions, which were in the past left to the lower levels, like:

• how can we recognise and implement opportunities emerging from the use of IT;

• what kind of information systems and information technology do we need to underpin our strategic goal;

- how and how much to invest in IT in order to protect investments and assure an optimal price/performance ratio in the long run;
- what to do with the legacy systems;
- how to organise IT business functions;
- what solutions and applications to develop in-house and what to outsource;
- how to maintain the reliable and safe operation of IT infrastructure.

The environment is becoming more complex and more technologically dependent. Every day more information is available and decisions have to be made considering more options.

III.C New Demands on Public Managers

The demand for better quality products and services in the public sector will continue. It will increase the necessity to manage information more effectively and efficiently; both internally within organisations and externally between them. All these are demanding a new type of public manager with new skills and knowledge.

Wysocki and DeMichiell (Wysocki and DeMichiell, 1997) list the following prerequisites for modern managers for effective management of information:

- a general philosophy of total quality management;
- empowerment with accountability at all workers levels;
- self-directed work teams and business process reengineering;
- management process reengineering, creating change;
- focus on processes rather than formal organisation;
- customer service, quick response, customer retention;
- continuous improvement of work and information flow;
- less importance placed on organisational status, job description, control;
- creative and innovative approaches to break open new opportunities;
- collaboration with co-workers and information sharing;
- working on diverse and cross-functional teams;
- lifelong learning; adaptation to changing work requirements;
- technology, people and process factors balanced in every solution.

To summarise, it seems that for most CEE public managers the last point should be highlighted in particular, since all of the other entities mentioned have only recently gained their importance. Starting with technology, public sector organisations have been technologically even more underdeveloped and neglected in the past than private enterprises. Hence, the awareness of the importance of technology for future development of the public sector is still very low. In order to be able to narrow the gap between the East and the West in this respect much more emphasis will have to be put on the training of key personnel. Finally, understanding the 'process orientation', meaning that behind every service and product there is a process which has to be monitored and controlled in order to maximise the results, is still something to be desired.

IV. Informatisation of Modern Organisations

It is clear that the speed with which modern organisations are developing and changing the ways in which they perform their functions is directly related to and dependent on the extensive use of modern information systems based on information technology. According to Heeks (1999) 'Information systems (IS) can be defined as systems of human and technical components that accept, store, process, output and transmit information'. They may be based on any combination of human endeavours, paper-based methods and IT. A financial information system on staff and the computers that gates data and processes it into reports used for managerial decision-making represents one example of an IS.

IV.A Development of Information Systems

The 'modern age' of information systems began in 1946 when in the USA the first electronic computer named ENIAC was invented. In a few years time the new technology for data processing proved to be an extremely efficient platform for rapid further development of increasingly complex business information systems. The period up to the mid 1970s can now be regarded as an infancy phase of information technology and information systems. The prevailing media for storing data were punched cards and magnetic tapes. Computers were extremely slow in comparison with their contemporary counterparts and they were huge mainframes installed in 'glass houses'. Only very big and rich organisations were able to afford this technology in those times. Huge data processing centres were established for often more than one organisation in order to keep expenses down.

Technology was available only to a few specialists in each organisation and only for the most simple, repetitive tasks related to huge amounts of data (such as tax and census data processing, etc.). We were 'batch processing' the data, which means that data was collected over a period of time, a day, a week or a month, and processed at regular intervals. As a consequence, by the time new computer reports reached the desks of the servants and lower managers they were already outdated. Most people were skeptical about the future of computer technology at that time. Since we lived in a 'socialist' society where jobs were much more secure than they are now, there was not much fear of possible unemployment due to computer automation. Many people simply didn't want to use new technology and learn about it. Despite the fact that organisational changes were minimal at that time, there was great organisational reluctance to the implementation of IT.

In 1971 Intel invented the first microchip. A new computer era began and in the mid 1970s mini computers were introduced; by 1981, the first IBM PC was on the market. In only a few years time, personal computers became available for ordinary work positions and the era of 'end-user computing' began. The processing power of computers grew and grew. Moore's law predicted that the speed of computers would double every 18 months, which

has been holding now for more then twenty years. Diskettes, magnetic disks and CD ROM's replaced punched cards with storage capacities in terabytes. Practically all relevant business data of modern organisations are stored on discs, and are directly accessible and processed in real time.

Today, in modern private or public sector organisations, virtually all functions are computerised. However, the process of computerisation took nearly forty years. In Europe, the first serious attempts to introduce IT into the work of the public sector date back to the late 1960s and early 1970s. At that time we called such attempts automation. Automation was generally the process of implementation of IT into relatively simple, repetitive tasks, activities and processes within single functions, which were, by rule, manually performed and time-consuming. Automation was performed in organisations at the operational level, and it did not normally bring about any significant changes either in processes or in formal organisational structures; hence, it was relatively simple to implement.

Since the early 1990s, the development of IT and related technologies and, in particular, the introduction of the Internet, reached the point which enabled a much more sophisticated and advanced use of these technologies in the public and private sectors, which can lead to a radical redesign of functions and structures of organisations. In Europe, a new expression has been coined to describe these new approaches to the implementation of IT – "informatisation".

IV.B Informatisation in Organisations

When we say "informatisation", we mean an IT-driven multidimensional process of redesigning organisations which can be stated in four points:

- introduction of IT-based information systems into all activities related to collection, processing, storing and dissemination of information;
- reengineering of processes and organisational structures based on innovative use of IT;
- redesign and rearrangement of information flows to support management and decision-making processes;
- adaptation of management techniques to the use of modern information management resources.

Without a doubt, informatisation of organisations that we deal with today is a much more complex process in comparison with the process of automation in the 1970s and 1980s. As can be seen from Table 4, it leads to radical changes in organisational structures and even in 'organisational culture'; it affects all hierarchical levels in an organisation and all its operational functions. The 'top down' approach is vital in the process and, most importantly, top management is fully responsible for it. An understanding of this has not yet fully penetrated the managerial structures of organisations.

Table 4

Major differences between the process of automatisation and the process of informatisation in organisations

CHARACTERISTICS OF THE APPROACH	AUTOMATISATION	INFORMATISATION
way of introduction	bottom-up	top-down
influence on the organisation	small, especially on operational processes	great, causes changes in the organisational »culture« of the organisation
necessary technology	stand alone computers, local networks	local and global networks, internet, intranet
initiator of changes	lower and middle management	top management
responsibility for the execution of changes	lower and middle management	top management
range of changes in business processes	small, esp. considering the ways of execution. Manual tasks are replaced by "automatised" ones	great, possibility of complete remodelling of business processes
data bases	partial, divided according to business functions	integral for the entire organisation
managing information sources	decentralised, by organisational units or business functions	decentralised or centralised
influence on the management	partial	great
role of IT in the organisation	influence felt mainly on the operational and technical levels	IT became strategically important, all vital functions depend on the use of IT
changes in the organisation structure	usually none	possibly great, depending on the nature of organisation and its leadership
changes in the normative system	not necessary	useful, sometimes necessary for the success of "informatisation" projects

Source: Vintar, 1997

IV.C The Emerging Process View of Organisations

Organisations are no longer what they used to be a few years ago. The classical hierarchical and functional structures were formed at the time of the industrial revolution and survived more or less unchanged until the early 1990s when they became outdated and could not satisfy the organisational requirements in the twenty-first century. We cannot list all causes that led to this development, yet without a doubt the two most prominent include the growing competitiveness in all areas with its consequent increased need for greater efficiency and lower costs, on the one hand, and the increasingly intensive use of information technology in all processes of an organisation, on the other. The most radical changes can be observed in two areas. Firstly, in the structure of organisations where the number of hierarchical levels is being reduced and new, 'matrix structures' are being introduced (see Figure 2). Secondly, in the attitude towards the processes carried out in organisations. Hammer and Champy were among

the first to observe in their now famous book *'Reengineering the Corporation'* that it was necessary to shift the emphasis from functions and their hierarchical structures of corporations to their processes, which called for a radical reform. The roots of this need lie in the fact that a business process represents the closed business environment which provides for the products and services that enable the survival of an organisation and justify their existence. Hammer and Champy coined a new term, 'Business Process Reengineering' (BPR), to denote the process of radical reform of organisations that they advocated. The book triggered an incredible avalanche of studies and projects by individuals and organisations all over the world, attempting to analyse and test the idea of BPR in practice.

Figure 2

The roles of managers and subordinates in the different types of organisations
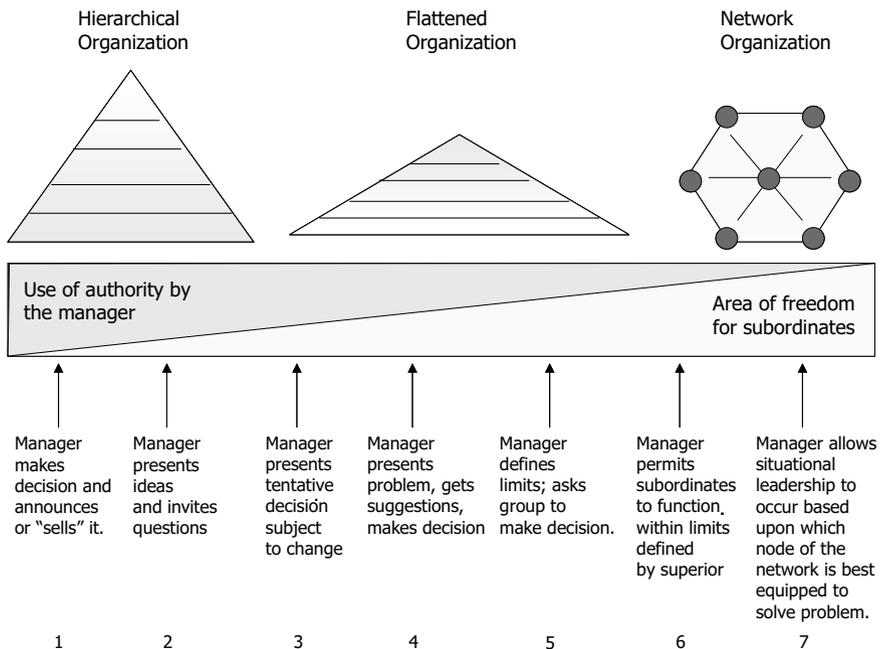
Source: Turban et al., 1999,p.137

The experiences gathered so far have shown that the greatest emphasis should be placed on the redesign and management of processes in order for organisations to optimise the quality and efficiency of their operation. This is how we can secure quality control of products and services offered to end-users, as well as cost control for the implementation of these processes. This 'new' way of thinking and understanding business processes especially applies

to the public sector in Central and Eastern Europe, whose notorious inefficiency is largely rooted in the lack of knowledge about fundamental processes in administrative bodies and institutes (see Vintar, 1999).

According to Davenport, a business process is 'a simply structured, measured set of activities designed to produce a specified output of value for a particular market or customer.'

A process, then, is implemented by means of a set of activities properly structured in time and space and having a clearly defined beginning and end, as well as inputs and outputs. Each process must result in a product or service that has a particular value for the organisation. In the public sector, processes are performed on a few typical hierarchical levels:

1. Decision-making concerning public policies (government);
2. Preparation of drafts, study analyses, and proposals for public policies adoption (ministries, offices);
3. Implementation, execution and control of policy implementation (departments, agencies, institutes, inspectorates);
4. Providing services (local government and self-government, public companies, and institutes).

IV.D Business Process Reengineering in the Public Sector

The initiation of business process reengineering (BPR) has at least a double value for organisations:

1. it allows the organisations to study their processes in detail and evaluate their role and value within their basic activity;
2. it enables a more or less radical reform and optimisation of the processes through highly innovative use of information technologies.

The main differences between BPR and the earlier attempts of gradual improvement of business processes lie in its radical approach to searching for new ways of carrying out the processes, as well as in the expected results. Davenport claims that BPR is the only way to produce 'quantum leaps' as regards the efficiency of business processes and provides a detailed analysis of differences between BPR and earlier known methods of gradual process improvement (see Table 5).

Hammer and Champy list a number of general characteristics that form the core of business process reengineering. Information technology is always seen as the main agent of change in this process. Some of the characteristics are:

1. Several jobs are combined into one.
2. Employees make decisions (empowerment of employees). Decision-making becomes part of the job.
3. Steps in the business process are performed in a natural order; several jobs get done simultaneously.

Table 5

Process Improvement versus Process Innovation

	Improvement	Innovation
Level of Change	Incremental	Radical
Starting Point	Existing process	Clean slate
Frequency of Change	One-time/continuous	One-time
Time Required	Short	Long
Participation	Bottom-up	Top-down
Typical Scope	Narrow, within functions	Broad, cross-functional
Risk	Moderate	High
Primary Enabler	Statistical control	Information technology
Type of Change	Cultural	Cultural/structural

Source: Davenport; 1993, p. 11

4. Processes may have multiple versions. This provides for economies of scale.
5. Work is performed where it makes the most sense; thus, work is shifted - if necessary - across organisational borders.
6. Controls and checks and other non value-added work are minimised.

All changes in the implementation of business processes are linked to the innovative use of information technology that makes possible approaches and solutions not applicable in the past. The changes brought about by the use of new technologies are presented in detail in Table 6.

After 1993, a number of BPR methodological approaches have been developed. They differ considerably from one another, yet five fundamental concepts shared to a certain extent by all, can be summarised as follows (Dietz and Mulder, 1996):

1. A clean-slate approach to organisational design and change.
2. An orientation to cross-functional business processes, or how work is done.
3. The need for the possibility of radical change in performance.
4. Information technology as enabler of change in how work is done.
5. Changes in organisational and human arrangements that accompany change in technology.

Ideas for the application of business process reengineering were first developed and implemented in corporations. We can speak about the 'process orientation' within the reorganisation of corporations, which has been gaining ground through BPR projects and has prevailed in today's modern corporations. The corporations realised that the key to success lies in the optimal management of business processes. BPR projects, even when they do not result in radical improvements of process efficiency, always contribute to better knowledge and management of the processes. After 1993, a large number of projects whose

Table 6

Changes to working processes brought by IT

OLD RULE	INTERVENIENT TECHNOLOGY	NEW RULE
Information appears in only one place at one time	Shared databases, client/server architecture, electronic mail	Information appears simultaneously wherever needed
Only an expert can perform complex work	Expert systems, neural computing	Novices can perform complex work
Business must be either centralised or decentralised	Telecommunication and networks: client/server	Business can be both centralised and decentralised
Managers make all decisions	Decision support systems, enterprise support systems, expert systems	Decisions making is part of everyone's job
Field personnel need offices to receive, send, store, and process information	Wireless communication and portable computers, information highways, electronic mail	Field personnel can manage information from any location
The best contact with potential buyers is a personal contact	Interactive videodisk, desktop teleconferencing, electronic, electronic mail	The best contact is the one that is most cost effective
You have to locate items manually	Tracking technology, groupware, workflow software, client/server	Items are located automatically
Plans get revised periodically	High-performance computing system	Plans get revised instantaneously whenever needed
People must come to one place to work together	Groupware and group support systems, telecommunication, electronic mail, client/server	People can work together while at different locations
Customised products that take a long time to develop	CAD/CAM, CASE tools, online systems for JIT decision making, expert systems	Customised products can be made fast and inexpensively (mass customisation)
A long period of time is spanned between the inception of an idea and its implementation (time-to-market)	CAD/CAM, electronic data interchange, groupware, imaging (document) processing	Time-to-market can be reduced by 90 percent
Information-based organisations and processes	Artificial intelligence, expert systems	Knowledge-based organisations and processes
More labour to countries where labour is inexpensive (off-shore production)	Robots, imaging technologies, object –oriented programming, expert systems, geographical information systems (GIS)	Work can be done in countries with high wages and salaries

Source: Turban et al; 1999, p. 125

goals were focused on BPR have been carried out all over the world. After the first few years, the first analyses and studies of the ongoing projects were prepared, focusing on the actual results and experiences with BPR in different business environments, and showing that in practice BPR differs to a marked extent from its theoretical positions. Some projects yielded exceptional achievements as regards the efficiency and performance of individual processes.

However, an increasing number of reports recorded projects that had failed completely. It is clear by now that at least thirty per cent of the projects do not reach the expected results by far. Apart from that, experience has shown that BPR projects as a rule are not an easy task and require ample managerial support in order to succeed.

After 1995, the first reports appeared on the application of BPR in the public sector, which, as a rule, is late in adopting new organisational and technological solutions in comparison with the private sector. Apart from that, business systems of the public sector differ substantially in many other respects from those of corporations. The organisation, normative regulation and, in particular, the basic goals and principles are different. Some authors thought that even the use of the same term – business process – for the public sector, was problematic. However, these discrepancies should not suggest that the BPR concept is completely inapplicable to the public sector. Quite the contrary, many areas of operation within the public sector call for a radical reform rather more urgently than they do in corporations (see: Vintar, 1999). Furthermore, the already mentioned 'process orientation' seems just as relevant for the public sector, as there too, organisations are characterised by their tendency towards customer orientation. Such an orientation presumes that, firstly, products and services of an individual organisation, administrative body or ministry should be clearly defined (which is still taboo for most organisations in the public sector and state administration), and, secondly, processes required for the 'production' of these products and services should be established and reformed accordingly.

The reengineering of processes is by all means the most appropriate way, also in the public sector, not only to increase its efficiency, but also to achieve better quality and cost management. This orientation is especially critical for organisations and bodies at the level of local government, whose primary activity lies in providing services to citizens and other users. These services necessitate the implementation of processes and administrative procedures that are perfectly comparable in many respects to procedures used in other service-oriented organisations, insurance companies, and banks.

Several large BPR projects have been undertaken in Central and Eastern Europe as well. One of them, initiated in Slovenia in 1997 and still in progress, is aimed at reforming the operation of the Slovene state administration at the local level. It is presented as a case study at the end of this chapter (see case: Informatisation of Administrative districts in the Republic of Slovenia). The experiences from this project suggest that a slightly different approach is required when reforming public administration rather than companies. Certain problems and restrictions, practically unknown in corporations, have surfaced within the sphere of public administration, the reason being a somewhat greater normative and organisational rigidity of the public sector in comparison with the private sector.

Perhaps a year or two ago the necessity of business process reengineering in government was still questioned, yet at the time when we are starting to implement e-government and e-services, there cannot be any more doubts about it. Namely, a thorough reform of all administrative procedures is a precondition for an efficient e-government.

V. Organisational Structures for Managing Information Resources

In the past few years in all large organisations, managing information resources has become an area equal in importance to managing human or financial resources – the two areas that had been receiving most attention by managers in the past. Information resources comprise hardware and software, telecommunications and databases, as well as information technology experts. Some of the reasons why managers of organisations dedicate more and more consideration to this field, include among others:

1. The development and competitiveness of organisations has become entirely dependent on efficient and innovative application of information technology to all segments of their operation. This is particularly true for the public sector, which is information-oriented by its nature, since most of its basic activity is related to the collection and processing of large amounts of information.
2. Investments into development and maintenance of the information infrastructure are increasing year by year, presenting a growing problem particularly in the public sector due to the permanent lack of financial means. Apart from that, technological development has been increasingly rapid and multidimensional, which causes decisions in the area to be more and more strategic.
3. Data has gained value in the public sector as well. We are talking about large amounts of confidential personal data as well as a huge amount of data important for the security of individual states. In most public institutes, security and confidentiality of information depend on careful management of information resources.

V.A Information Systems Department

According to Turban et al. (Turban et al; 1999, p. 647), managing information resources comprises all activities related to planning, organisation, supply, maintenance and control of information resources. The range and number of these activities grows daily, hence in all larger organisations they tend to be organised and executed within a special organisational unit or operational function, which is organised within the 'Information Systems Department' (ISD). The hierarchical position of ISD inside an organisation is not irrelevant. In practice, four organisational solutions have been implemented so far, placing ISD in extremely different positions within the hierarchy of the organisation.

Figure 3
Four alternative locations for the ISD
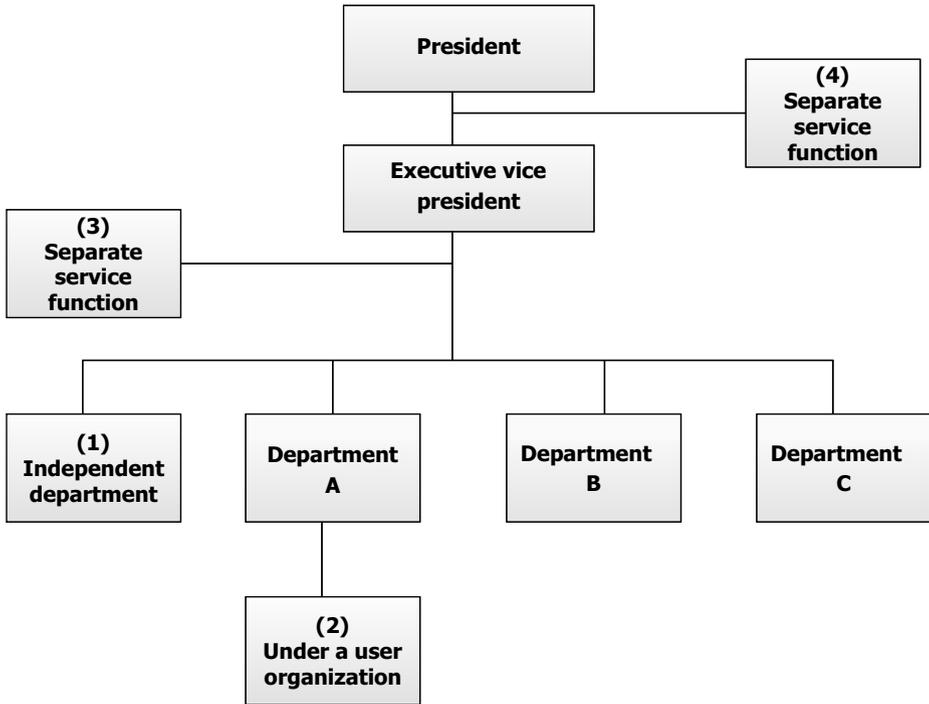
Due to the increasingly strategic role of information technology for the functioning and development of organisations, these IS departments have displayed a tendency to move higher up in the organisational hierarchy in recent years. The head of this department is generally referred to as 'chief information officer (CIO)'. In all larger organisations, the CIO, as head of a very important department, is normally a member of the executive team of the organisation (usually vice-president of IS).

As a result of the significant decentralisation within the information infrastructure initiated in the 1990s when personal computers started to replace mainframe computers on a mass scale, the responsibility for maintenance and development of information resources was unintentionally partly transferred to end-users. Today a whole range of activities related to information resources management is performed by end-users themselves through their own workstations (personal computers). End-users often find the services provided by ISD unsatisfactory, especially as regards the speed and way of problem solving. However, maintaining good relations between ISD and end users is

vital to successful development of the field as well as for smooth operation and utilisation of information systems.

The tasks of ISD related to end-users usually involve:

- providing the necessary hardware, software and information applications for their work;
- regular maintenance of this equipment;
- assistance with problem solving connected with the use of user applications;
- training for working with user applications.

Apart from these tasks, which are directly linked to a part of the end-users, a typical ISD has a number of other responsibilities of a more general character, such as:

- planning, development and maintenance of the entire information infrastructure;
- planning and development of information systems;
- introduction and maintenance of information systems;
- planning, development and maintenance of telecommunications;
- introducing technological standards and quality standards;
- ensuring security and protection of data.

V.B   The Steering Committee

An Information Systems Department performs the role of a service within an organisation and must therefore have its services available to the whole organisation. Naturally, individual organisational units have different needs and priorities as regards the development and maintenance of information systems. Generally, however, all units expect support and assistance from ISD quicker and to a larger extent than ISD can actually provide. Therefore, it is a good idea to form a special steering committee on the level of the entire organisation. The steering committee is responsible for defining priorities and ensuring that the information systems department provides information services to individual departments in accordance with the developmental goals and needs of the organisation as a whole. The steering committee is composed of a managerial group representing different organisational units of the organisation, and usually has the following competencies (Turban, et al; p. 650):

- defining the main areas of activity for ISD, based on the strategic aims of the organisation, with planning as the main activity;
- providing managerial support to develop and introduce new information solutions;
- providing and approving the necessary financial means for the operation of ISD;
- approving the distribution of information infrastructure among individual organisational units of the organisations;
- providing and approving key human resources;

- enabling direct communication between ISD and other organisational units;
- providing control of the efficiency and quality of the services rendered by ISD.

VI. Types of Information Systems in the Public Sector

Although it would be ideal to have in an organisation one integral information system, which would cover all information needs regardless of the hierarchical level, activity or business function, this is, unfortunately, not the case. In most organisations we can identify more than one or even many information systems which serve different information needs of an organisation. A collection of several information systems is also referred to as an information system. Information systems have different names, which is sometimes confusing even for professionals, let alone end-users and outside observers.

Information systems can be classified according to different criteria: organisational level, functional area, support provided or IS architecture itself. However, regardless of the name or system classification, the major components of the system are more or less the same. According to the classification by organisational structure we can identify departmental, enterprise or even inter-organisational information systems. Similar classification by functional area leads to the:

- Accounting information system, which is the most common in all types of organisations;
- Finance information system;
- Marketing information system;
- Human resources information system;
- Geographical information system;
- Environmental information system;
- Census information system.

However, perhaps the most important classification of information systems is the one according to the type of support and information provided by the system itself to the organisations. In the 1970s and 1980s, when development of computer-based information systems was still at a very early stage, we were mainly using 'transaction information systems' which processed routine business transactions and mainly supported the operational level in the organisational hierarchy. Later on, many new types of information systems were introduced, such as management information systems, decision support IS and others.

According to Turban (Turban et al. 1999; p. 48) we can, on the grounds of the support provided by IS to different levels of an organisation, identify the following types of IS (see Figure 4):

- Transaction processing systems (TPS);
- Management information systems (MIS);
- Decision support systems (DSS);

- Executive information systems (EIS);
- Expert systems (ES).

Figure 4
Support of Information Systems to Different Hierarchical Levels of an
Organisation
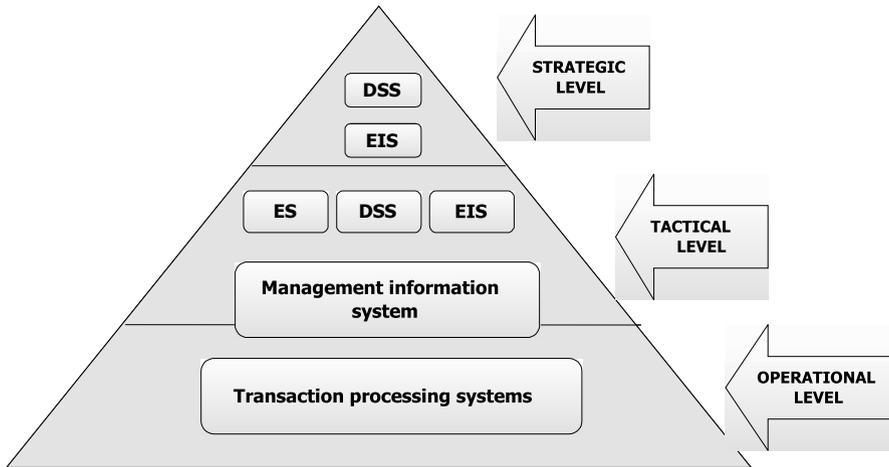
However, it is necessary to point out that the terms are not clearly delineated and that definitions by different authors differ to some extent.

VI.A Transaction Processing Systems (TPS)

TPS is the most widely used type of computer based information system. In most modern organisations, the processing of all basic business transactions in all business functions is performed by this type of information system. TPS are designed to perform monitoring, collection, processing, dissemination and storage of data related to all daily repetitive, routine tasks in financial areas, banking, insurance, tax collection, public payment systems, citizens registry, health care, and real estate registry. In most public organisations and particularly in ministries and public agencies, we have to deal with huge amounts of operational data related to daily routine operations and transactions. Processing these transactions in real time is of vital importance for most organisations today.

TPS is the core and most common information system in public organisations. In these types of information systems we maintain data about citizens, passports, personal identity cards, public health care data, real estate data, tax data, among others. Although they normally perform rather simple operations, they have to process millions of transactions on a timely basis. They often support hundreds of users at the same time; hence, they can be the most complex and sophisticated information systems of today.

Figure 5

Sources of Managerial Information
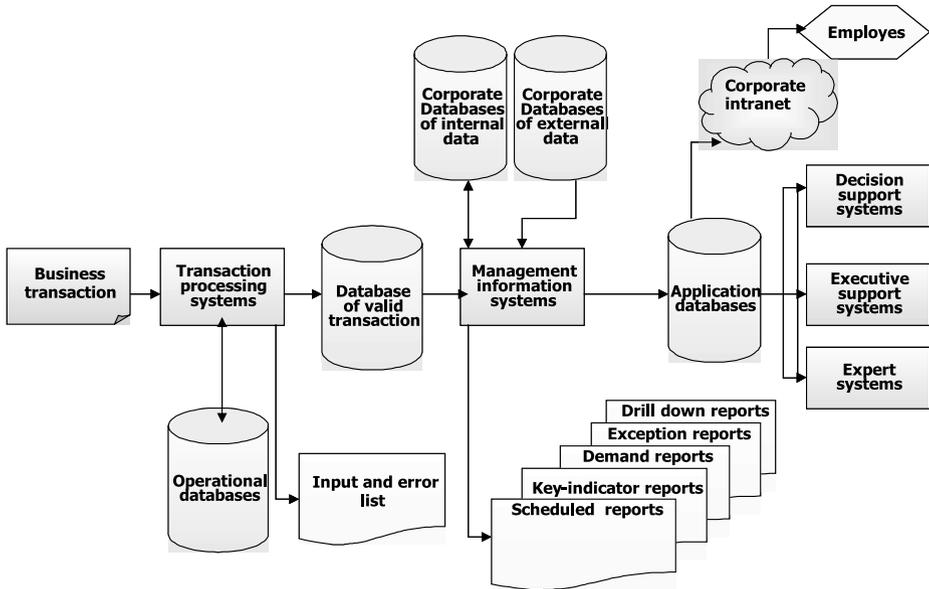
Adapted from: Stair and Reynolds; 1999, p. 391

TPS normally represents the basic platform for the development of other, more management and decision support oriented information systems.

According to Turban et al. (Turban et al.; 1999, p. 331), the following characteristics are typical for TPS:

- Large amounts of data are processed.
- The sources of data are mostly internal, and the output is intended mainly for an internal audience. This characteristic is changing since trading partners may contribute data and be permitted to use TPS output directly.
- TPS processes information on a regular basis: daily, weekly, biweekly and so on.
- Large storage (database) capacity is required.
- High processing speed is needed due to the high volume.
- TPS basically monitors and collects past data.
- Input and output data are structured. Since the processed data are fairly stable, they are formatted in a standard fashion.
- A high level of detail is usually observable, especially in input data but often in output as well.
- Low computation complexity (simple mathematical and statistical operations) is usually evident in TPS.

- A high level of accuracy, data integrity, and security is needed. Sensitive issues such as privacy of personal data are strongly related to TPS.
- High reliability is required. The TPS can be viewed as the lifeblood of the organisation. Interruptions in the flow of TPS data can be fatal to the organisation.
- Inquiry processing is a must. TPS enables users to query files and databases (even online and in real time).

VI.B   Management Information Systems (MIS)

The primary task of an MIS is to support an organisation's goals by providing managers with a good overview of all daily and short-term operations so that they can plan, organise and control working processes more effectively and efficiently. An MIS provides managers with the information necessary for effective decision-making and feedback information on results of decisions taken. The main users of information provided by MIS are middle managers.

MIS is normally developed as an upgrade of one or many transaction processing systems, which are organised along the basic business functions of an organisation. MIS performs analysis, filtering, and summarisation of detailed data and generates selected numerical and graphical presentation of information useful to managers in the form of ad hoc or standardised reports. Typical MIS reports are focused on daily or weekly key business indicators, exception and delay reports. MIS can be designed along individual functional areas, like finances MIS, human resources MIS, or they can also integrate and cover several functional areas in an organisation.

Input data to MIS can originate from internal and external sources. As already mentioned, the basic internal source of input data for MIS are internal transaction processing systems. Hence, it is not possible to design an efficient MIS in an organisation, if it has poorly designed and incompatible transaction processing systems. External sources of input data can be various governmental agencies, and ministries.

The main output of MIS are different periodical and/or ad hoc reports distributed to managers.

VI.C   Decision Support Systems (DSS)

It is not easy to describe and explain DSS briefly since different researchers and professionals try to squeeze very different solutions and packages under the same umbrella. The concept and term stems from the 1970s and denotes the development of a wide range of products and solutions that are sold under the same label. Clearly, DSS aims to support managers at all levels at taking important decisions. It is an organised collection of people, procedures, software, databases and devices used to support problem-specific decision-making (Stair and Reynolds; 1999, p.444). DSS are used in unstructured or semi-structured problem-solving situations in order to maximise outcomes and profits, and/or

reduce risks. Stair and Reynolds list the following most common characteristics of DSS:

- Handle large amount of data from different sources;
- Provide report and presentation flexibility;
- Offer both textual and graphical orientation;
- Perform complex, sophisticated analysis and comparisons using advanced software packages based on more or less complex mathematical models;
- Support optimisation, satisfying or heuristic approaches;
- Perform 'what-if', simulation, and goal-seeking analysis.

DSS support key decisions related to all value-added business processes and can be applied in most industries and in the public sector. They are developed for a specific problem-solving situation from scratch or partially assembled from prefabricated standard tools. Turban, et al. identify four typical components of DSS:

1. Data management. Includes the database and/or data warehouse, which contains relevant data for the analysed situation.
2. User interface (or human-machine communication) subsystem. Enables the users to communicate with the system
3. Model management. This is an essential component of a typical DSS since they are normally based on more or less sophisticated mathematical models. This includes software for financial, statistical, management science and quantitative models analysis.
4. Knowledge management. This component is not standard and is supposed to be able to handle problem-specific knowledge expressed in various business and expert rules. This component is already a part of expert systems, which are described in the later chapter.

Illustrative Example: 1. Applying DSS to Tax Analysis Problem

Let us have a look at a practical example of the use of DSS. In 1999, the Slovene government decided to modernise the Slovene tax system and introduce VAT (value added tax) instead of the old sales tax. While preparing the law on the new tax and developing all other instruments for its implementation, the most uncertain and unpredictable decision was related to the setting of the different tax rates in order to collect the necessary amount of money for the budget. If the tax rates were set too high, inflation rates would go up, and if they were set too low, the budget for the next year would be short of money. Therefore, they decided to develop a DSS based on a complex mathematical model and connected to the database of the tax office. With the support of this DSS, the Ministry of Finance was able to simulate in a short time a number of possible situations, which would result as a consequence of selecting different tax rates. On the basis of this analysis, three different tax rates were suggested and put in force by the law (19%, 8% and 3%) for different services. Within a year, the Ministry of Finance was able to compare the predicted income with the actual income of the state budget generated on the basis of the selected tax rates and the difference was less than 5%. It proved that DSS helped to a great extent to make the right decision.

> There are several other areas in the public sector where DSS can prove to be a highly valuable tool in the decision-making process, such as introducing reforms of public pensioning system; adopting new laws with financial consequences, and implementing reforms of public health care systems.

IV.D The Executive Information Systems (EIS)

EIS is a specialised type of DSS, designed to support higher-level decision-making in the organisation and is tailored to the needs of individual executives. However, there are important differences between the two types of systems. DSS provide strong modelling and data analysis tools, which enable users to thoroughly analyse problems, simulate different scenarios and get answers on their questions.

EIS are much simpler and weaker in this respect. They present structured information and management reports about predefined aspects of the organisation that executives consider important. EIS are highly user-friendly, supported by strong graphics with the following general characteristics (Steir, p. 465):

- tailored to the needs of individual executives;
- easy to use;
- have 'drill-down abilities' which allow the executives to get more detailed information when needed;
- support the need for external data, which can come from various external sources.

They are normally connected with the online information services and e-mail.

IV.E Expert Systems (ES)

The last interesting type of information system that should be mentioned is ES. ES are developed within a special branch of computer science called artificial intelligence. Artificial intelligence attempts to explore the thought processes of humans, learn from them, and develops algorithms for the representation and interpretation of these processes via computers.

ES are specialised programmes trying to imitate the reasoning processes of experts at solving complex problems. It means that an expert system acts like a human expert in a particular field. Generally, ES are not meant and developed in order to replace human experts, but to assist them, increase their efficiency and reduce the error rates. Expert systems have been developed to diagnose rare medical diseases, predict future events, or select the best bidder on a public call for tenders. It means that they attempt to mimic human experts in a specific field, such as medicine, finances, and public procurement.

In essence, ES is a specialised computer programme, which has three specific components:

- Knowledge base. Contains the knowledge necessary for solving problems. The knowledge can be stored either as facts related to the problem situation, or as rules to be applied when solving the problem.
- Inference engine. This is essentially a computer programme which provides the methodology for reasoning. It means applying the rules to the knowledge base and generating conclusions.
- User interface. Allows dialogue between the system and its user in terms of questions and answers.

The hardest part of building ES is assembling knowledge from human experts and structuring it into the right number of rules and facts.

Illustrative Example: 2. Applying ES to Tax Inspections

The Slovene Tax Office inspected companies for many years on a random basis in order to determine if they were operating according to the laws and paying all due taxes. Every year they made inspections in less than 10% of all companies. The efficiency of these inspections and the financial results for the budget varied from year to year. After several years of collecting experience, it became more and more apparent that there are certain 'rules' and some 'typical' characteristics of companies that can help diagnose which companies are more likely to bend the rules. The continuing lack of experienced inspectors necessitated the development of the right strategy for selecting companies for inspection on a yearly basis. The more experienced inspectors gradually developed their own strategies in selecting the 'right' companies for inspection in order to improve the 'hit rate'.

In 2000, the Head of the Tax Office decided to develop an expert system to assist regional offices in selecting companies for inspection and improve the general efficiency of the office and individual inspectors. They assembled a group of the most experienced inspectors and two computer experts in expert systems. An ES was developed in less than three months and after a month of testing it was implemented in the first two regional offices. After one year of experience, this ES proved to be very 'accurate' in its selection of companies for inspection and the efficiency of the inspections increased by over 40%.

VII. Managing Systems Development Life Cycle

In this section we examine a model for the development of an information system from the initial systems development through its implementation and full operation and maintenance, which can last over many years. Each of the stages in the life cycle process is briefly described and provides an introduction to examining the real-life cases that are presented in the case studies at the end of this chapter.

VII.A Systems Development

The planning and building of all systems and devices, regardless of the area of human endeavour, is characterised by typical developmental phases that must comply with the chosen methodological approach. Engineers who build

roads have been developing their building methods and techniques for millennia; therefore, they are formalised and unified to a high degree. Information systems have been subject to systematic planning and building for only about two decades, so the approaches, methods and techniques used are far from unified. There are some general common principles which serve as guidelines for each large organisation to develop its own approach. During the last decade, methodologies for developing information systems have undergone considerable change, which is partly due to the unprecedented development of technology, and partly to the completely new ways of using it. The times when IS development was entrusted solely to specialised computer experts are long gone. Experience has made us realise that successful development of IS today requires the close co-operation of:

• management;
• end-users, and
• computer experts.

Each information system passes three characteristic phases in its life cycle: planning, building and implementation. These phases can be further divided into a number of sub-phases. Wysocki and DeMichiell define the phases as shown in Figure 4.

VII.B Project Initiation

Someone in conformity with the principles of project management must initiate each project of "informatisation" of a particular business field. Initiatives for such a project can come from different sources, either from end-users – employees working in the field, department or organisation management, or the IS department. Normally, the initiative arises when it becomes clear that the concerned field either:

• does not fulfil the expected developmental or business goals;
• lags behind the development and needs of the whole organisation;
• does not provide quality services;
• causes excessively high costs of operation, or
• is technologically outdated.

Once the initiative has been put forth, the project should be formally initiated in the shortest possible time. This includes selecting the project leader and the project team, and devising the plan of project implementation. It is critical to the success of the project that it is backed by the management of the organisation, which also has to participate in the detailed goal setting of the project. This presents another problem issue in the public sector, where project work is not yet a fully established method of work.

It should be emphasised that informatisation projects, highly interdisciplinary by nature, require the cooperation of experts from different fields. Apart from information systems experts, the project should involve business professionals

Figure 6
The Systems Life Cycle
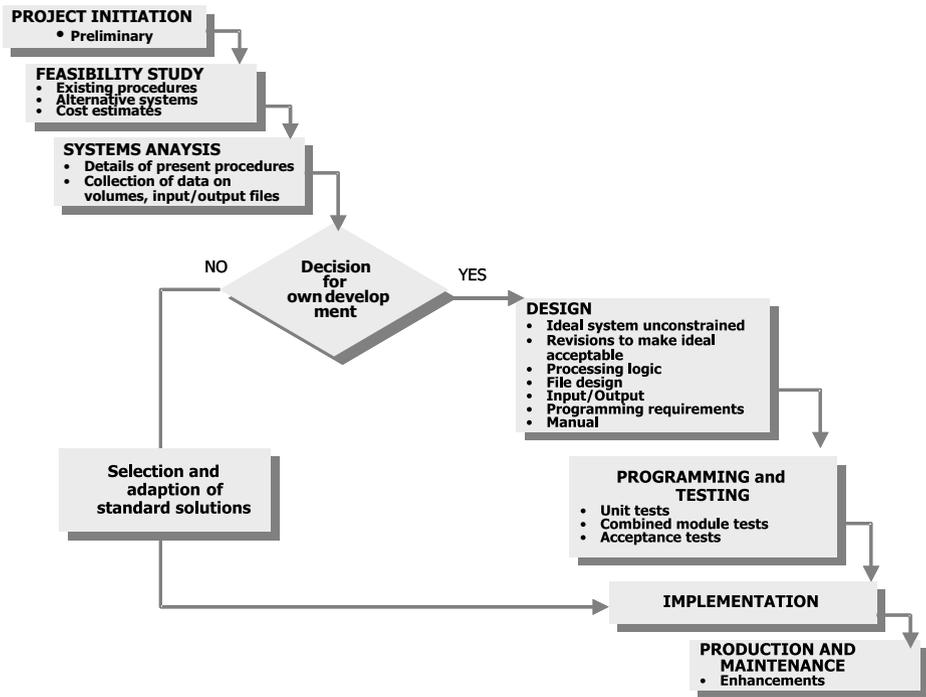
from the field for which the information system is being developed, as well as organisational experts.

VII.C Feasibility Study

The feasibility study, a kind of rough pre-analysis of the system, is recommended with all large-scale projects. It is a means of reducing risk and increasing the possibility for the project to fulfil the set goals within the foreseen time and financial limits.

The feasibility study is an introduction to a more detailed analysis of the system. It serves as a basis for defining the contents and goals of the project in detail, as well as clearly delineating the method of its implementation and setting the time and financial limits.

The study is normally centred on the following issues and open questions:

1. Project goals and contents
   At the very beginning, it is sometimes difficult to define the goals, scope and/or business areas that a project should cover. The feasibility study aims to eliminate these uncertainties and define the goals and contents of a project in as much detail as possible.

2. Technology
   What technological solutions will produce the most effective fulfilment of the set goals? How will the proposed technological solutions integrate with the information infrastructure of the whole organisation or institution? Which information tools should be used to develop the information solutions?

3. Economy
   Do the expected results compensate for the invested resources? What are the expected costs of development, operation and maintenance? Can the organisation cover the expected costs? What financial risks must be taken into account in case of exceeding the time limits, and can we afford them?

4. Organisational aspects
   Will the proposed system be acceptable from the viewpoint of the organisational culture of the organisation? What organisational changes will be needed in order to implement the proposed system, which organisational and working rules will have to be changed? What additional skills will the employees have to acquire to be able to work effectively with the proposed system?

5. Legal and other formal restrictions
   Is the proposed solution in compliance with the existing normative regulation of the field that is being dealt with? What normative changes would be needed to enable the implementation of the proposed solution? Who is responsible for changing the normative regulation and is it realistic to expect that these changes can be effected within the set time limit? These questions are vital in the public sector due to the fact that the operation of administrative bodies is normative to a much higher degree than that of the private sector.

6. Key success factors
   Research has shown that at least thirty per cent of IS projects fail. There can be many possible reasons for failure and it is therefore recommended to identify and quantify key success factors as part of the feasibility study. The risk rate of the proposed project should also be estimated. This is one of the key pieces of information for the management to decide on the further execution of the project.

The results of the feasibility study suggest one of three possible further scenarios:

- the project is planned properly and feasible within the set limits; therefore, it can be continued in accordance with the proposed plan;
- the project is feasible, but it has to be redesigned to a lesser or greater extent in order to achieve the established goals;
- in the given circumstances, the proposed project is not feasible or does not guarantee the fulfilment of the established goals, and should be terminated.

VII.D System Analysis

System analysis follows the feasibility study. This phase is supposed to determine exactly what the proposed system will need to do. The main output of this phase is to define the information requirements of the business system or the business function for which the system is being developed. 'Information requirements' then serve as a basis for defining the functionalities of the planned system, the processes that will take place as part of the system and the data needed to execute these processes or resulting from their execution.

The detailed definition of information requirements for a business system that the planned solution must fulfil is the most difficult task not only of this phase, but, also, most often of the whole project. To put it simply: who needs a certain type of information, where, when and in what form needs to be established and defined. Normally it is impossible to extract these data merely from the disposable business documentation. Active participation of future system users, i.e., employees in the field concerned, is vital. Expert knowledge is critical for the understanding of business processes implemented in a given field and their function within the whole business system. In order for end-users to be able to participate in the development and definition of information requirements, however, they should possess at least minimal information skills.

We must be aware that information requirements of different managerial levels in an organisation differ considerably. The operative level usually requires detailed data about the entities involved in the operation, whereas management needs more condensed data on tendencies, indexes, and growth rates, to adopt tactical or strategic decisions. Moreover, at the operative level we need data about the past and the present, whereas management demands as much data that can help predict the possible future development. This is exactly the point where modern information systems display their most obvious weaknesses.

System analysis makes use of different methods, from studying the available business documentation, normative and organisational acts, to meetings and interviews of managers at the particular business field. We should not forget that active participation by management and future system users is a key success factor.

VII.E System Design

The prevailing trend today is to purchase standard application software solutions rather than develop original software, as this is normally a much cheaper solution. We are now at the point where the market should be searched for possible existing solutions that at least approximately satisfy the information requirements defined by our analysis. If adequate solutions can be found on the market, the most suitable one is selected among them, adapted if necessary, and then implemented. This method is usually less expensive and quicker.

However, it is still quite common that no information solutions are available that meet our requirements. In such cases, we will have to develop a new solution. This means creating a design for the future system, which is the next phase of the system life cycle.

The design must specify the contents of the future information system, i.e., its functional and technological characteristics. Hence, the typical division into logical and physical design is used.

a. Logical design

Logical design defines the contents and functional characteristics and components of the future system in accordance with the expectations and needs of its end-users. The logical design (or model) of the system specifies what the system solution will do as opposed to what technological solutions and tools is actually implemented. It defines input and output data, the contents and structure of the database and procedures for processing and transforming input data into output data. Different data and procedure models are used to produce the logical design. These models allow us to present the detailed logical structure of the system, its component modules and structures, hierarchy, and rules of implementation.

b. Physical design

Physical design follows logical design and is a systematic process of transforming the abstract logical model of the system into the blueprint for its implementation. It includes detailed specification of the software and hardware needed for the implementation of the system, the actual database, input-output forms and media through which the future system will communicate with its end-users.

VII.F Programming and Testing

This phase comprises the process of transforming the design specifications of the system into operating computer programmes. Specifications of individual system modules are gradually transformed into a programme code that will run these modules in the computer. Typically, business solutions are composed of a series of computer programmes that perform individual functions of the system. Complex solutions can include a few hundred programmes.

Programming is followed by a demanding and extensive phase of testing of individual parts and the system as a whole. Testing is aimed at ensuring that the system will operate in compliance with the set requirements and as smoothly as possible. Testing can consume over 50% of the allocated time and money with more complex systems – a fact often forgotten or underestimated in practice. This is also the most common reason for delays in the implementation of new information systems into the planned environment. Testing of information systems requires a representative sample of test data that are used to determine whether the system yields proper results.

Testing can be divided into three types of activities:

- Unit testing, or programme testing, which means testing of the functioning of individual programmes. However, even if all programmes apparently operate as they should, this does not guarantee that the system as a whole will function.
- System testing, which tests the regularity of the functioning of the whole system. Often, malfunctioning parts of individual modules are detected, which sometimes necessitates radical redesign of certain parts, or even writing them anew.
- Acceptance testing is the key guarantee that the system is ready for implementation in the real environment and fulfils the demands of its end-users. This testing is carried out together with the future users of the system, if feasible, in an environment as real as possible, and assessed by management, which approves its implementation. The testing must comply with a carefully designed testing plan, which includes testing of all characteristics of the system and its operability in the most unfavourable conditions.

VII.G Implementation

The implementation of a new system into a real business environment usually includes:

1. Preparation of the environment to implement the new information solution;
2. Conversion of work from the old system to the new one.

Environment preparation includes the preparation of new organisational rules, purchase and installation of the necessary hardware and software, and, most importantly, training of employees to work with the new information solution.

Conversion is the process of shifting the technology of work from the old system to the new one, where four strategies have been adopted in practice: parallel strategy, direct cutover strategy, pilot study strategy and phased approach strategy.

In a parallel strategy, both the old system and the new replacement are run together for a certain period of time until we are completely sure that the new system is running correctly and delivering the requested results. This is the safest conversion approach, although rather expensive, since additional staff or other resources are needed to run both systems in parallel.

The direct cutover strategy means replacing the old system entirely with the new system at a certain point of time. This is a rather risky approach since any serious problems with the functioning of the new system may cause serious operational problems for the entire organisation. However, in many business areas it is the only possible way of conversion from the old to the new technology of work. With this conversion strategy, it is absolutely necessary that we do a most thorough acceptance test before conversion is initiated.

The phased approach strategy introduces the new system step-by-step either by organisational units or by functions.

The pilot study strategy introduces the new system into a small part of organisation – one department or organisational unit – where it is thoroughly tested until it is running properly, and then implemented throughout the rest of the organisation.

VII.H Production and Maintenance

After the installation and conversion phases, the system can be run regularly, which includes regular maintenance. Maintenance consists partly of eliminating faults and defects not detected during testing, while the main part of maintenance is further development and expansion as a result of new demands by end-users. Maintenance also includes the adaptation of the system to new versions of hardware and software.

VIII. Conclusions

Over the last few years, the public sector has become vitally dependent on the use of IT in all of its dimensions and the most radical changes are still to come. The ever increasing complexity of IT based information systems in the public sector and their influence on the further development of public sector organizations calls for management approaches and strategies not seen and experimented with in the past. In this chapter, we are trying to raise the attention to some, according to our view, of the most important selected topics and issues related to the understanding, planning, implementation and use of IT in modern public organizations. Decisions related to the selected topics are not of a technical nature and hence can't be left to the IT specialists. By contrast, they should be fully understood by modern middle and top-level managers and handled with the appropriate measures.

Our particular focus is on the role of IT in public organizations in CEE countries. Although there are many similarities in this respect with their counterpart organizations in Western Europe, there are some differences, which we attempted to highlight and illustrate.

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Introduction to Case Studies

In order to illustrate the use of IT in different areas of the public sector and demonstrate its importance for further development of the public sector in CEE countries, we have included three case studies in this chapter. The selected case studies are taken from very different environments and from two countries, Slovenia and Hungary. What they have in common is the role of IT, which in all cases plays an instrumental role in providing better services to the citizens leading to a better way of life for the people and/or faster economic development. However, it is important for the readers to understand that although IT has become an extremely powerful tool in achieving strategic development goals within different segments of the public sector, it is still only a tool. And all tools can be used in one or the other way, more or less efficient, and more or less innovative. How far reaching the end results of "informatisation" of public organizations will be is not dependent solely on technology; ideas, organization of such projects, management and leadership determine end results.

Informatisation of Administrative Districts in the Republic of Slovenia

Our first case study is taken from the typical local state administration environment, i.e., administrative districts in Slovenia, which were established in 1995 as a result of a new local administration reform. The reform has established a new legal and organisational framework for public services at the local level. However, this has proven to not be able to improve the quality of services since the operation of administrative procedures, needed to deliver these services, remained almost unchanged. This situation was considered to be inadequate as a starting point for further informatisation of administrative districts. Therefore, the project presented in this case study was designed to reform the operation of Slovenian state administration at the local level as a precondition for further informatisation and develop of e-government. The preliminary study, carried out before the project, revealed serious problems concerning the execution of administrative cases, through which the services are delivered to the citizens. Some of these problems were: differences in the executions of the same type of the administrative procedures in the different administrative districts, lengthy processing times of administrative cases, poor horizontal and vertical communications between administrative bodies involved in the same administrative procedure and inefficient use of modern IT, which all resulted in poor quality of services for the citizens and businesses. A strategic decision was made that further modernisation and informatisation of the work of the districts should start with the fundamental reengineering of their processes.

This case study is, therefore, focused on the business process reengineering phase of the project, as it is believed to be the crucial step in the overall process of informatisation of the modern public organisations.

The main issue about BPR was which BPR approach should be chosen. Different circumstances, which are further described in the case study, have

pointed to implementing incremental improvements rather than innovation. So the bottom-up approach was implemented with the existing processes as a starting point. The informational, functional, organisational and normative aspects of the processes were taken into account. As normative regulations and organisational structure, which is based on these regulations, influence the administrative procedures a great deal, the BPR phase was deliberately divided into two phases. In the first phase, the BPR was implemented taking into account the existing organisational and legislative framework; while in the second phase, changes in organisational structure and normative regulations were also planned. We would like to make readers observe the organisational and methodological aspects of the project, in particular, since these aspects are, from the strategic point of view, the most demanding.

Introduction of the Smart Card Technology in Slovenian Health Insurance

This case presents an introduction of the smart card technology in Slovenian health insurance, as an important step on the way to e-government in this field of the public sector. The main goal of the project was the replacement of the outdated health care and health insurance information system based on the paper health booklet, which served as a patients' document for identification and certificate of health insurance validity, with a modern information system, based on the introduction of smart cards, i.e. health insurance card system. The focus of the case has been put on the presentation of the project through the main characteristic phases of the system development life cycle, especially project initiation, elements of the feasibility study, system analysis and implementation of the new system. It also presents some future plans, which will trigger further cycles of health insurance card system development in the future.

From the case, it can be seen that IT played a crucial enabling role in achieving the project's three strategic objectives - improvement of financial resources management, increase of efficiency and providing higher quality of health care and health insurance services. IT was innovatively used to redesign information exchange and work processes related to health care organisations involved and provided a platform for integration of all elements into an efficient health information system. From this perspective, it is interesting to note that the Health Insurance Institute of Slovenia, as a main initiator and implementer of the project, not only strived to meet its own strategic objectives (efficient and transparent collection and distribution of public funds to health services providers), but was looking at the broader objectives of the whole health system and, thus, with inclusion of other health care on organisations' information needs (especially hospitals, health centres and pharmacies) in the project, achieved a much better outcome.

In the case study, special attention was paid to the introduction of the key IT elements (smart cards, self-service terminals, central and local servers, central and local databases, communication infrastructure) and the functioning of the new health insurance card system, which presents a part of the whole health system. The readers should pay special attention to the organisational and structural changes that were introduced as a consequence of the implementation of new technologies (data structures, work processes, replacement of paper-based work with electronic ways of operation, communication ways, data security and privacy) and also to legal issues concerning implementation of the new system.

Telecottages and the Modernization of Public Services in Hungary: the Case of the Village of Jászkisér

The third case presents, with the use of IT, how completely new services for the people can be developed, not only in big cities but also in remote areas such as the Hungarian village Jászkisér which has been analysed in the case. The case presents the concept of what are called telecottages which have been developed since the mid-1990s in several hundred Hungarian rural areas (and also in some other CEE countries). These are mainly small villages of up to several thousand inhabitants, which provide the inhabitants with free access to different information, communication and later, also, transactional services via the Internet. In less developed rural areas with high unemployment rates, access to the Internet for most of the population is still a very expensive commodity. The percentage of the population that own personal computers and have access to the Internet is still very small. In such situations, it is very important for faster development of the area to provide public facilities which are accessible to everyone. Around this idea, telecottages were developed. In a very short time, they proved to be a very innovative solution for promoting community spirit and economic development. We would like to highlight the impressive list of new services provided by the telecottages and the new possibilities for the local communities to speed up their development, regardless of their geographical position. All of this would have been unimaginable without the introduction of new technologies.

Informatisation of Administrative Districts in the Republic of Slovenia

Anamarija Leben*

Introduction

The public administration reform in Slovenia in the early 1990s was primarily of the organisational and legal nature. It established a new framework for public administration services at the local level. Soon it became clear that organisational and legal reform alone is not enough to provide higher quality public services, to lower expenses and to shorten and simplify administrative procedures. The project named "'Informatisation' of Administrative Districts in the Republic of Slovenia," was designed to overcome these deficiencies with great emphasis on the processes and their organisational, functional and informational aspects. It was initiated in 1997. The final goal of the project is to optimise and standardize the processes in administrative districts, which will serve to develop new electronic services for citizens and in the future to implement e-government in Slovenia. This case describes the design of the project and the implementation of its first phase focused on reengineering the business process. The approach that has been used and the results of the work done so far are presented.

Background

The Role and Competencies of Administrative Districts

At present, the Slovenian administrative system has only two levels: the state level and the local level (Figure 1). Preparation for introduction of the third, regional, level is in full swing.

In the past, both the functions of the state administration at the local level, as well as all typical functions of the local authorities, were performed within sixty-five rather large municipalities. In 1994, the Slovenian Parliament, based on guidelines laid down by the European Charter on Local Self-Government, passed a law on local self-government (ZLS, 1993) and launched a local administration reform. Nearly two hundred new municipalities and cities, whose size varies greatly, assumed all local functions of public significance, in areas such as: urban planning, housing, social welfare, environmental protection, municipal utility services, education, culture and sport.

Besides the municipalities, fifty-eight new administrative districts were established to execute the functions of the state at the local level. This reorganisation of local government brought many changes to the internal

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organisation of the ministries as regards the reallocation of competencies within individual organisational units. The Public Administration Act (Zupr, 1994) placed the execution of administrative tasks directly under the competency of ministries. This was done, however, with the stipulation that "administrative districts shall be organized for individual regions in order to perform certain administrative tasks set by the law which by their nature require decentralized implementation". An administrative district is defined as a first-instance decision-making body, which at the same time exerts control over the legitimacy of work in local governmental units.

Figure 1
Structure of Slovenian Administrative System
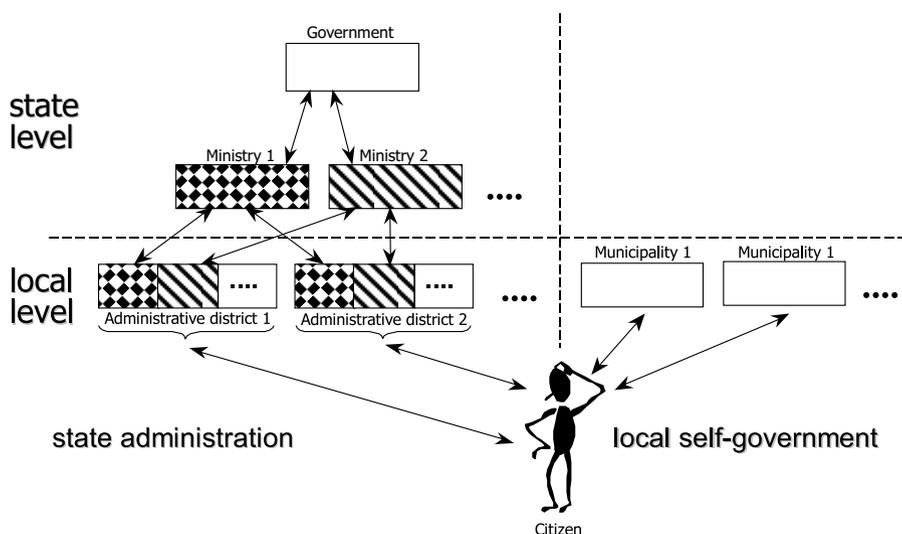
Basic Findings

The local administration reform set up a legal and organisational framework. Unfortunately, this reform was not accompanied by proper analyses and studies as a basis for enhanced implementation, at least not in that part of administrative district activity, which underwent the most substantial reorganization. Further attention had to be paid to the processes and their organisational, functional and informational aspects - process orientation had to come to the forefront. As already mentioned in section IV. (Informatisation of modern organisations) of chapter 5, administrative procedures, performed in administrative units, are comparable in many aspects with procedures in other service-oriented organisations in the private and public sector. Therefore, experiences gained from BPR in these organisations can be adopted to a certain degree. It should be emphasized, however, that administration can only be reformed and optimised

on the basis of a thorough analysis of the legal competencies and the administrative tasks, processes and procedures by which they are executed.

Administrative districts execute about five million administrative cases of various types each year (e.g., issuing passports, personal identity cards and driving licenses; issuing building permits and licenses for different private enterprises and services). Taking into account that Slovenia is a small country with about two million citizens, this means, on average, 2.5 cases per citizen per year. The processing of each case is executed by means of a specific work or business process. There are several hundred different types of processes (the exact number is not known). In many cases, they are rather similar in spite of the differences between the types of administrative cases. For example, the process of issuing a passport is very similar to the process of issuing an identity card, but is quite different from granting a building permit. No register, where all types of administrative cases and respective processes are recorded, uniformly defined and documented, exists. With the rapid development of the new legal system in Slovenia and its harmonization with the legal system of EU, many new tasks for administrative districts have emerged; however, there is no comprehensive overview of this area.

In 1996, a study was carried out to identify the most serious problems within administrative districts and devise a strategy for further development with the aim of increasing the effectiveness of work and the quality of services provided by administrative districts. The most critical findings of this study, which was based on an analysis of the performance of six pilot administrative districts, are briefly presented below (Vintar et al., 1996; Vintar, 1999).

Differences in Execution of Administrative Procedures

New legislation at that point was very vaguely written, and guidelines regarding the execution of new laws at the local level were vague or missing altogether. Thus, the implementation of the same types of processes varied across districts, which meant that citizens in different parts of the state were subject to different legal treatment.

In some areas, for instance, in urban and environmental affairs, which deal with planning and building permits, administrative processes were developed several decades ago. In such areas, a strong tradition was established which serves as a set of guidelines to solve the relevant administrative cases. Despite the legal and organisational changes, the actual practical processes by which individual cases in these areas are being executed remain more or less the same. However, these areas were among those that normally displayed better performance in providing services to citizens and private enterprises at the time of the study. On the other hand, there were some new issues and responsibilities facing administrative districts that did not have a long tradition, especially those dealing with granting different types of permits to private enterprises in a vaguely defined economy. Administrative districts were left to find solutions

through initiatives and creativity of individual public servants, which, unfortunately, did not guarantee satisfactory results.

Administrative districts perform deconcentrated administrative functions of different ministries. There was little coordination between ministries when they delegated responsibilities to the local level, which lead to further confusion. This became particularly evident in those areas where the execution of laws at the local level was under the authority of different ministries (see: Figure 1).

The situation described above was the main cause for notable discrepancies between districts in their performance, legal treatment of citizens, responses from the state on the applications of citizens and queues at different offices.

Long Processing Times of Administrative Cases

The problems described above resulted also in long processing times of administrative cases. The study showed that, in many instances, more than 90 percent of the overall processing time of an individual case was spent for travel and waiting periods. For example, in some administrative districts, it took many months (sometimes even more than a year) to get a building permit.

Incompatible Solutions

The informatisation of administrative districts has been running for more than two decades (if we consider old municipalities as their predecessors). However, development was inconsistent and uncoordinated, which resulted in several dozen incompatible software solutions that were useless for further integration. Solutions were mainly aimed at automating routine administrative tasks. Only a few solutions supported the work of professional workers and senior civil servants. Databases were incomplete and contained a lot of redundant data.

Horizontal and Vertical Communication

Communication between different organizations at the local level was an additional weak point at that time. The institutional disintegration at the local level that followed the local government reform caused a further division of local authorities into a number of semi-independent organizations that operated with little coordination (low horizontal communication). The execution of functions, which demands coordinating the activities of different institutions, was particularly inefficient in that situation.

The same problems were identified between the local and state levels (vertical communication). Local authorities had many superior counterparts at the state level, which acted frequently like an ill-tuned orchestra, issuing conflicting guidelines to the local level, providing conflicting data and demanding redundant information.

Outdated Organisational Solutions

Many organisational acts were adopted when paper was the only communication and archival medium. With the emergence of new technologies and tools such as computers, fax machines, e-mail and Internet, these acts should have been altered and modernized. Nevertheless, administrative districts at that time still acted according to the rules adopted in the 1970s.

Inefficient Use of Information Technology

Administrative districts were relatively well equipped with IT at the time of the study, and at least two-thirds of all working posts have been equipped with computers. However, because of the versatility and incompatibility of solutions, the available equipment was not used efficiently and the results were far below the expectations based on investments in IT.

The problems listed provided sufficient reasons to opt for thorough changes in the organization of work and business processes in administrative districts. Therefore, the project for the informatisation of administrative districts was devised in 1997.

Description of the Project

General Objectives

The Government at that time was well aware of the importance of a uniformly planned and implemented informatisation of the national bodies of the Republic of Slovenia. Accordingly, in the beginning of 1996 the Government Centre for Informatics published the Strategy for Implementing Information Infrastructure into the National Bodies of RS by 2000 (CVI, 1996). This strategy focused on establishing the necessary information infrastructure for the functioning of the national bodies of the Republic of Slovenia. The project of informatisation of administrative districts, however, required a broader design. Apart from the technological aspect, emphasis was placed on the increasingly important organisational and process aspects of informatisation, which also called for thorough reengineering if modern technology was to be used to the best advantage.

The basis for defining an adequate integral software solution for the functioning of administration was composed of the following grounds and goals:

Business Process Reengineering (BPR)

Business process reengineering is the instrumental phase of the whole project and should be completed first. It serves as a basis for further development of a new business model for administrative districts, further systematic informatisation of administrative districts, development of standards, productivity norms, new budgeting systems and organisational solutions.

Reengineering of business processes should also result in quantitative and qualitative criteria that will serve as a platform for developing standards in providing services, instruments for measuring productivity, new organisational structures, budgeting schemes and electronic services in the near future.

Improvement of Services

The development of administrative districts operation should be directed towards providing high quality services to the local community. Modern IT gives way to an entirely new concept of the functioning of local government, which makes the services of public administration highly accessible to the users. In Great Britain, the concept of the "one stop shop" has been developed for the operation of local government, and a similar design has been created in Germany where they call it "Buergeramt". The idea is to join all services of local government at one point, so that a citizen can run all his official errands at one place, with just one stop. This design greatly reduces time loss for official errands, and furthermore causes the government to assume the role of a partner and adviser to the citizen rather than that of authority figure. Therefore, one of the goals of further informatisation is also to change the role of the government and its attitude towards the citizens, as has already been done in the more developed countries of Western Europe.

Workflow Management

Business process reengineering should result in the implementation of workflow management systems (WfMS). The Workflow Management Coalition (WfMC, 2001) defines workflow as automation of a business process, in whole or part, during which documents and information or tasks are passed from one participant to another for action according to a set of procedural rules. Workflow management systems are computer tools to support these kinds of activities. The concept of workflow management is important for administrative districts, in particular, since work is being done mostly in well-defined and structured processes that are an ideal environment for the implementation of these concepts. With the implementation of WfMS, it is expected that the time needed to execute administrative cases will be shortened considerably, and productivity and transparency will increase.

Use of Electronic Documents

Electronic documents are rapidly replacing classic paper documents in business processes of public administration. However, integral solutions are still missing that would define the roles and rules for the use of these documents through the overall life cycle of an administrative case from its creation to its being archived for later use. The technological solutions already exist, but organisational guidelines regarding how to handle electronic documents in order to prevent their loss or damage and to secure the legal validity and security of data are missing.

Integration of Solutions

In the work of administrative districts, different tools for office automation appear on the desks of civil servants in practice. Some functional areas in the administrative district are already supported with adequate software solutions. Specifically tailored applications should be integrated into one coherent system, and a high level of integration should be one of the prime concerns when developing new solutions.

Design of the Project

Based on preliminary analysis and the overall aims and objectives, the project was divided into four sub-projects:

1 development of a new business and process model for the administrative districts on the basis of Business Process Reengineering (SP1);
2 development of an integral software solution to cover all functional areas of the districts (SP2);
3 development of interfaces between old databases and the new integral database for a transparent transfer of data from the old systems into the new integral solution (SP3);
4 development of a model and methodology to provide a smooth and trouble-free implementation of the new solutions into all administrative districts (SP4).

The structure of the project and interrelationships between sub-projects is shown in Figure 2.

Sub-project 1 was focused on reengineering administrative districts and developing new business models. This sub-project has been deliberately divided into two phases. BPR in the first phase takes into account the existing organisational and legislative framework. The second phase should result not only in redesigned, but, also, reengineered business processes based on the organisational and legal changes. In addition, changes in horizontal and vertical communication between governmental organizations at the local and central level are expected.

The building blocks of further modernization and informatisation of administrative districts are shown in Figure 3. The integrated solution should serve to achieve different goals such as to better the professional activity of civil servants, to improve productivity measurement, to provide better budgeting. All changes and new solutions should result in providing new electronic services to the citizens.

So far, the first phase of Sub-project 1 (BPR Sub-project) has been completed. In this phase, the bottom-up BPR approach with the existing processes as a starting-point was applied. Regarding the definition of BPR in section IV. (informatisation of modern organisations) of this chapter, it can be concluded that process improvement rather than radical process innovation was implemented

Figure 2
Functional Division of the Project and Interrelationships between
its Sub-projects
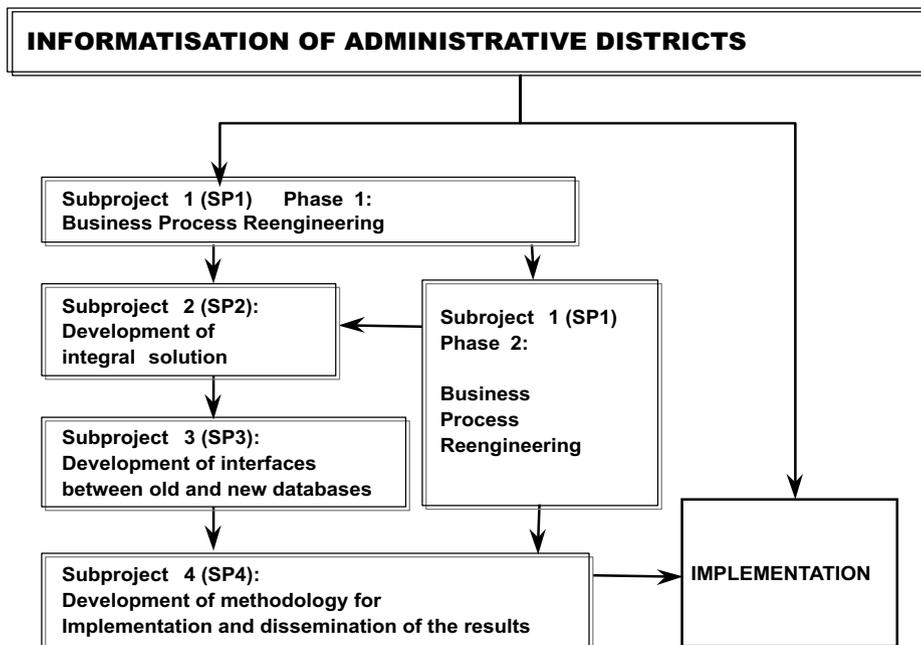
and processes were redesigned and not fully reengineered. The implementation of the first BPR phase of the project and its results are presented in the following section.

Realisation of the Phase 1 of the BPR Sub-project

In accordance with the above definitions, the entire process of informatisation is composed of the following phases (as shown in Figure 3).

1. process mapping;
2. critical analysis and rationalisation;
3. optimisation;
4. unification (standardisation) of procedures;
5. devising a business model;
6. developing an integrated software solution; and
7. implementation.

The first five phases are included in the BPR Sub-project. To show the size of this phase and personnel effort put in it, the timeframe is shown in Figure 4, and the human resources plan in Table 1. The whole phase, including the design and initiation of the project, took thirteen months to complete.

Figure 3
Development Plan for Modernization and Informatisation of an
Administrative District
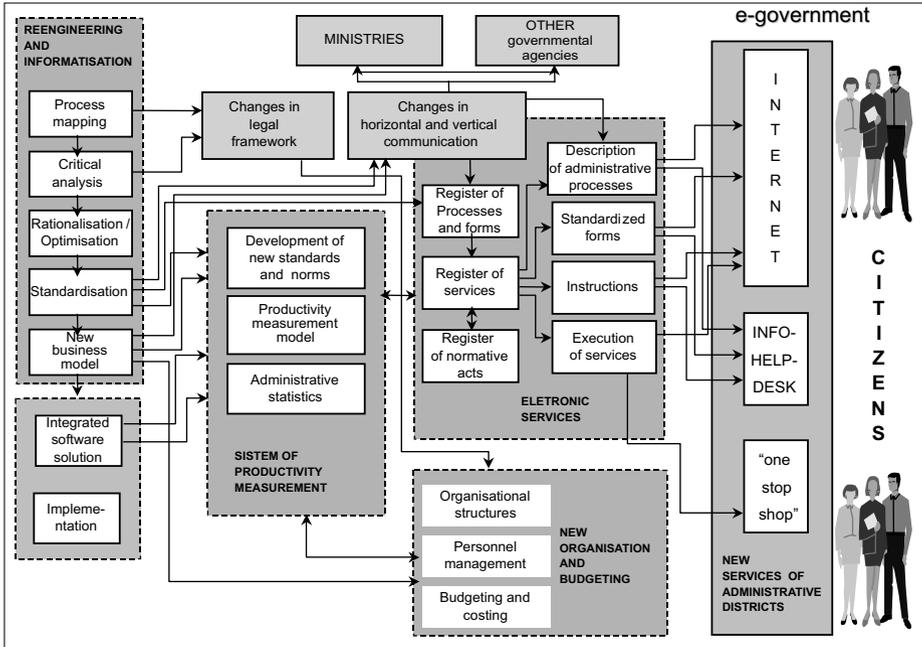
Process Mapping

As already mentioned, a preliminary study has shown that several hundred different processes are in use in administrative districts. About 50 types of processes have been sampled with the Pareto analysis, representing approximately 20 percent of all process types. This 20 percent consumes more than 80 percent of the available resources in an administrative district due to their complexity or frequency of implementation. Certain process types are executed very often and performed in an administrative unit several times a day (e.g., issuing passports, identity cards, etc.) As a rule, these processes are rather simple and their complete execution requires little time – perhaps only a few minutes. On the other hand, other types of processes are very complicated, as they require the cooperation of different institutions and may last several months or even years (e.g., issuing planning and building permits).

Processes were mapped in six pilot administrative districts. The same process type was mapped in at least two districts in order to find the empirical differences in the execution of the same process type in a different environment. Therefore, for about fifty process types, more than a hundred maps have been made.

Figure 4

The Gantt chart of Sub-project 1 - Phase 1
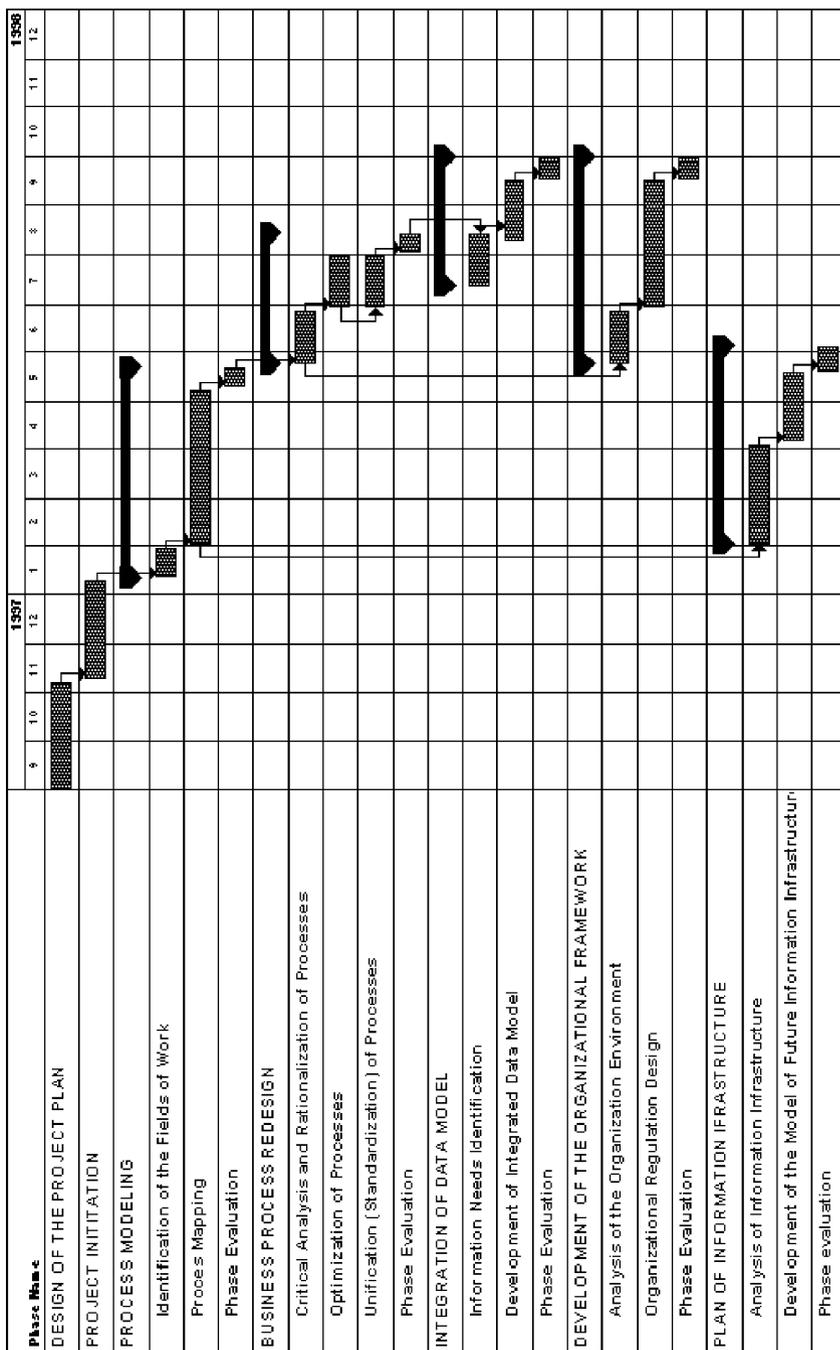
The Human Resource Plan for the Sub-project 1 - Phase 1

Phase Name	Workdays
Design of the Project Plan	31
Project Initiation	45
Process Modelling	246
Business Process Redesign	93
Integration of Data Model	56
Development of the Organizational Framework	56
Plan of Information Infrastructure	70
TOTAL	597

This phase was the most time-consuming activity of the project, demanding strong user support and involvement. Therefore, ten teams of users were established within six pilot administrative districts. In these teams of users, about fifty people were involved. Special training was organized for all team members in order to acquaint them with the methodology of process mapping and with the required computer tools.

The map of one process type consists of the following three parts:

- a structural graph of the process;
- a process model;
- a description of the process and its activities.

Let us describe a typical administrative procedure to better understand the further description of the process model. The administrative procedure is a process which has to be carried out in order to provide a citizen with an adequate service. The process starts with a customer's application (e.g., to obtain a building permit). The application goes to the registry, and here it is classified and recorded in a document register. Then, it is delegated to a competent civil servant who checks the application for completeness and prepares a list of missing documents, if any, and sets the time limit for the completion of the application. The customer is notified of further requirements. Once the application is complete, it is processed. This part may involve other workers in the administrative district and from other institutions. The process ends with an adopted decision sent to the customer as an official document. Solved cases are placed in a temporary archive. If the customer does not complain, the case is then considered solved and is closed.

A structural graph describes the formation of the process and hierarchy of its sub-processes and activities. The structured graph (only with sub-processes) of a typical administrative procedure is shown in Figure 5.

The process model describes a process and its behaviour very accurately from three points of view:

Figure 5
The Structured Graph of a Typical Administrative Procedure
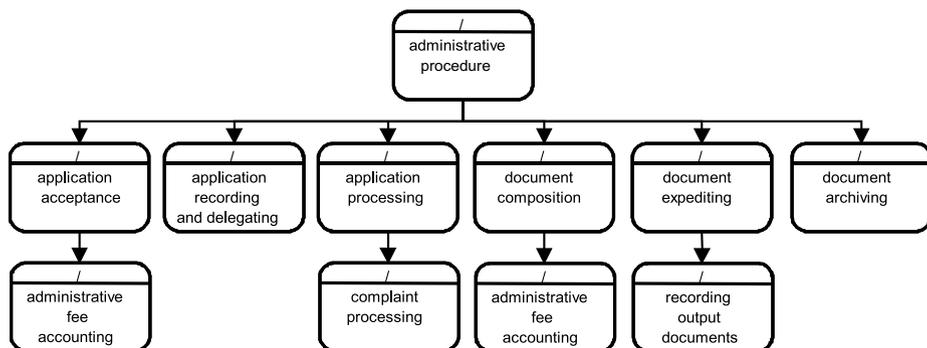
- the process (functional) view identifies activities included in the process, and flow of work between them;
- the data view describes all input and output documents, data, information and database, and their flow among activities;
- the organisational view identifies the competent organisational unit responsible for the execution of the process and the performers of the activities.

These points of view are further clarified in the description of the process and activities, where the legal framework of the process (normative acts that are relevant for the execution of the process) is added. Besides that, different data needed for time, quantity and cost analysis are gathered in this document.

Critical Analysis, Rationalisation, Optimisation and Standardisation

The main purpose of the critical analysis and rationalisation of the existing processes is to identify and eliminate all unnecessary activities, tasks, input and output forms and "bottle-necks" of the workflow between the activities. Optimisation is focused on the rational use of different sources in the administrative district. Unification and standardisation is the final step of the reengineering process, during which a renewed, unified model of each process is developed. Standardisation is reasonable in the following cases:

- where many activities and the workflow between them within different processes are the same – standardisation in this case leads to unified sub-processes that can be used in different processes;
- when the same process type is implemented differently in different administrative districts – standardisation in this case leads to the unified process to be executed in the same way in all administrative districts;
- when different process types are implemented in a rather similar way – standardisation in this case results in reference process models.

In order to carry out these phases, teams of experts have been formed from professionals who are well familiarized with the processes under observation.

The members of expert teams were taken from administrative districts. Each team also had a professional from the field of BPR who was not employed in public administration. Expert teams were established for a particular functional area of an administrative district i.e., Urban planning and Environment, Economy, Internal Affairs, Common Administration, and Agriculture. In addition, special teams for common sub-processes were established. Each team had about five meetings.

The expert team first looked over the process models of a particular process type from different administrative districts. For almost each process type, the models were different although the same methodology was used for modelling the process. The team had to determine whether these differences arose because of a different way of execution of the same process type in different districts, or whether they were just the result of misunderstanding the modelling method. After this first review, all empirical differences in the execution of the same process types in different environments were taken into account.

Expert teams realized that it was very difficult to separate the phases of critical analysis, rationalisation, optimisation and standardisation of one process type. Therefore, these activities were carried out simultaneously. For each process type the following elements were identified:

- Activities performed within a particular process: why a particular activity has to be performed, is it necessary at all, who performs it.
- The sequence of activities (the logic of the process): can activities be parallel, since that would significantly reduce the time required to perform the process.
- The tasks within particular activities and the tools needed to perform these tasks.
- Input and output documents and databases: both databases managed by administrative districts as well as databases managed by other institutions have to be included. The latter are particularly important, since authorized access to these databases can significantly reduce the overall process execution time.
- The effective time to perform individual activities and the overall process execution time: it has to be mentioned that these were just guesses, since there was not enough time to measure real time.

The activities described resulted in models of redesigned and unified processes. The redesigning was limited by the existing legislation and organization of administrative districts. The team additionally prepared proposals for improvements extending beyond the possibilities currently available due to legislation and organization. The majority of the proposals concern the treatment of documentary material and access to computer records kept in administrative bodies.

During their work, the teams identified several problems that they were unable to solve on their own. Such issues were delegated to an extended expert team for a particular field including representatives of the competent ministries and a general administrative procedure expert. Several issues that could not be solved even within the extended expert team were sent to the competent ministries to resolve.

Results

The first phase of Sub-project 1 has been completed. During this phase, a reengineering of fifty-eight business process types in administrative districts was carried out. The second phase has started with increased emphasis on the concept of e-government, which, in its broadest sense, means electronic operation of the entire governmental administration. Introducing electronic services further presents a key motive for the business process reengineering in administrative districts, as it brings fundamental changes to the administration processes, such as use of electronic documents and electronic signature, teleservices and abolition of the domicile principle.

The results of the first BPR phase are as follows (Figure 6):

- fifty-eight models of redesigned and unified process types;
- two reference process models for public administration;
- register of processes and forms;
- data model of administrative districts;
- proposal of the contents of an organisational regulation for each administration district.

Process Model

At the end, fifty-eight process types were redesigned and unified. The list of these process types is given in Table 2. For each process type, a process model was made. The process model contains a detailed description of a process type.

Redesigned and unified process types include administrative procedures, some common business processes (listed in the common administration section of the table) and unified sub-processes, which are part of other processes (listed in the common sub-processes section of the table).

Reference Models of Processes

The analysis of processes has shown that many different types of processes share a similar manner of implementation. Therefore, reference models of processes used in the administrative district were designed.

A reference model can be defined as a process on which several different processes are modelled with minor adaptations (Sheer, 1996; Lang et al., 1996). The processes may differ according to:

- different input and output documents and databases;
- different technology used to execute the same activities;

Figure 6

Business Process Reengineering and its Results
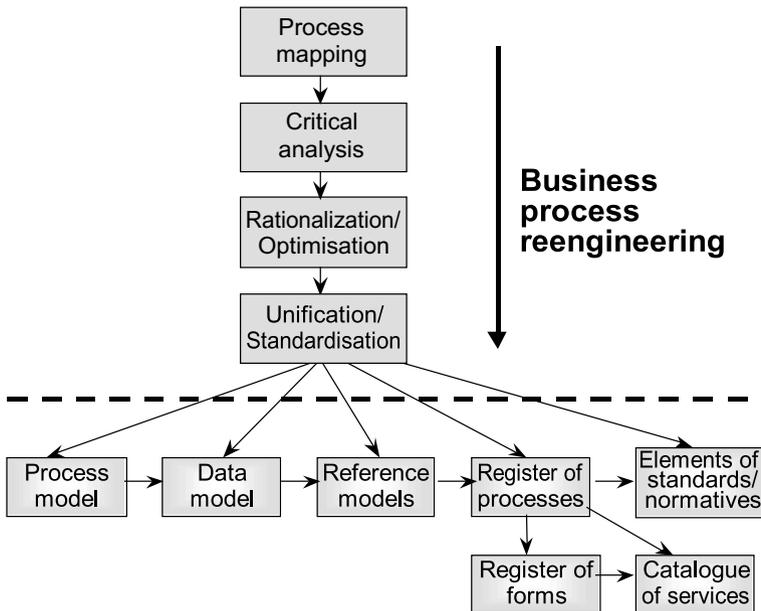
- certain activities or sequences of activities included in the reference model are not executed in the actual cases.

As no reference models referring to public administration were found in the literature, adequate new reference models had to be created. Two such models have been devised by the expert teams:

- a reference model for general administrative procedures (serving as a model for most administrative processes, such as issuing a building permit or an arms license);
- a reference model for simplified administrative procedures (especially for internal administrative matters, such as issuing a passport or an identity card).

The first reference model was designed by the expert team for Urban Planning and Environment. This model proved very useful for the work of the subsequent teams, since we could study the processes following this model much faster. Each process was compared to the reference model to determine the possible discrepancies between the activities involved. In this way, the time needed for the first three steps of redesigning, optimisation and standardisation was significantly reduced. A greater emphasis was placed on the elements by which processes differ most markedly from one another: databases, documents, times and probabilities of implementing individual branches.

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Table 2
List of redesigned process types

Area	Processes
Urban Planning and Environment	Application for minor building work
	Granting a permit for use of land
	Granting a building permit
	Granting a uniform building permit
	Granting an operating permit
	Granting water management consent
	Change of land use category
Economy	Appraisal of condition of service (for catering industry, shops and room-let service)
	Approval for extension of working time for restaurants and bars
	Classification of accommodation facilities
	Granting the quality mark for accommodation facilities
Internal Affairs	Granting permits to buy weapon
	Granting permits for public gathering
	Registration of newly-founded association
	Issuing passports
	Issuing identity cards
	Issuing a work permit to aliens
	Registration of permanent residence
	Maintaining the registry of households
	Maintaining the central register of the population
	Change of personal name
	Birth certificates
	Death certificates
	Marriage licenses
	Motor vehicle registration
	Issuing driving licenses
Common Administration	Lost property
	Preparation of administration statistic reports
	New or substitute employment
	Preparing data for salary accounts
	Maintaining the balance of cash - deposit of money
	Accounting for payments in cash
	Keeping a cash-book
	Cash-turnover booking
	Maintaining the balance of cash - cash payment
	Money-withdrawal at the Agency of the Republic of Slovenia for Payments
	Preparation of the monthly expenditure plan
	Preparation of the annual financial plan
	Granting the status of victims of war aggression
	Granting the status of war veteran
	Granting the status of war disabled
Agriculture	Merger of individual agriculture properties in a given area
	Tender for agriculture land trade
	Agriculture land trade
	Granting the status of grape and wine producers
	Registration of wine and grape products
	Granting the status of protected farm holding
	Appraisal of condition for economic fishing

Common Sub-processes	Application acceptance
	Application recording and delegating
	Document composition
	Document expediting
	Document archiving
	Administrative fee accounting
	Cost accounting
	Document delivering
	Cost recapitulation
	Complaint processing

Register of Processes and Forms

During the project, it became clear that a new register had to be established which would collect data on all processes in progress in administrative districts. Consequently, a register of processes and forms was set up, representing the referential database for the services provided by administrative districts. With the support of adequate expert systems, this database will serve citizens and organizations as a source of information in solving their administrative matters, as well as provide administrative workers with the professional data and instructions for their work. Apart from that, the register will perform a purely operative function as the backbone of the future information support for the functioning of administrative districts. It serves as a basis for placing processes within the system of administrative statistics, on the one hand, thereby promoting the development of the administrative district productivity measurement and their mutual comparison; while, on the other hand, it enables the automation and standardisation of work as well as the implementation of the Workflow Management System. The central role of this register is shown in Figure 7.

Data Model of the Administrative District

It became evident during the analysis of processes that the existing software solutions cover only some functional areas of an administrative district. The existing databases were, of course, structured in accordance with this organization, which means that the same data were kept in different databases and retrieved more than once for use in different software solutions. The planned integrated software solution must halt these defects. Therefore, an integrated database model has been devised, which covers the entire functioning of the administrative district. The model contains descriptions of all relevant data necessary for the implementation of certain processes and are stored in the administrative district for further use. Furthermore, all data are enclosed that were obtained from or provided to other institutions and customers. The model is used as a basis for devising all the databases required for the future integrated software solution without the unnecessary data duplication in different databases or multiple retrieval of the same data.

Figure 7
Central Role of Register of Processes and Forms in Integrated Software
Solution
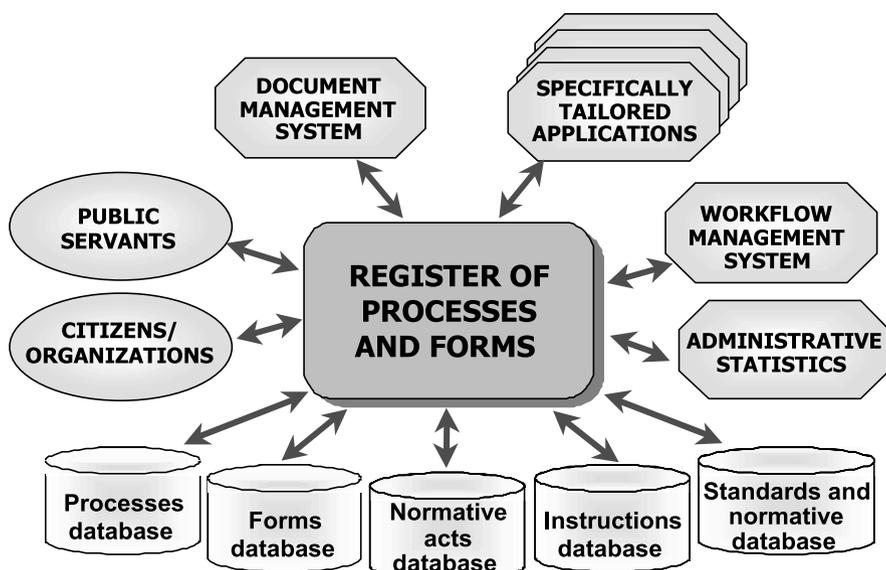
Organisational Regulation

The work of expert teams showed clearly that the present form and content of regulation acts on office services, while contributing substantially to the regulation of most organisational issues, still leaves a number of unsolved questions concerning the functioning of administrative districts. The teams were therefore convinced that an administrative district (or, viewed from a broader perspective of public administration as a whole, any administrative body, public institute or public company) needs an additional organisational regulation tailored to its needs and which covers the observed blank spaces. Therefore, a proposal for the contents of an organisational regulation for administrative unit was developed. Such organisational regulations should specify the treatment and storage of documentary material as well as the organisational scheme of the administrative body and the competencies of employees, thereby defining their exact role in the implementation of a process.

Observed Problems and Obstacles

This section presents a few problems most often stressed by the expert teams.

Differences in the organization of administrative districts resulting from varying technological equipment, spatial restrictions and competencies given to

the employees present a considerable hindrance for the standardisation of processes.

Providing data for the administrative statistics, which is almost useless in its present form, presents a great problem. Administrative statistics in Slovenia were devised to measure performance of individual administrative district. Reports for these statistics are made monthly in each district and contain only the number of solved cases per month for some administrative procedure types, and the average overall time needed to process these cases. On this basis, the efficiency of different administrative units is compared, regardless of other relevant data (size of population in the administrative district area, number of employees, process type, etc.). The method for gathering adequate data for administrative statistics is ill defined: the list of administrative procedure types to be included in this statistic is not defined (the choice is left to each individual administrative unit). There is no precise definition as to which phase a case should be considered solved. Another consequence of this situation is the uncertainty in differentiating the status of the case (in which phase it currently is), office decrees (which tells assistant staff what to do next with the case) and the state of the case relevant for the administrative statistics.

There is a great loss of time, when cooperation of external institutions is required to obtain an opinion, consent or additional data needed to decide on a case. It often happens that the customer is sent to get these documents by himself (to complete his application), as this is usually a faster way to obtain the documents because of the customer's personal interest. Access to the databases of these institutions and legal validity of the data thus obtained would significantly reduce the total duration of the process and save the customer any unpleasant door-to-door errand running.

We have exposed only a few of the greatest difficulties, which, however, cannot be solved effectively without the support of the state institutions and the changes of regulation acts.

Conclusions

As mentioned, public administration in Slovenia has been subject to fundamental changes at all levels of functioning. These changes mostly refer to the political paradigm of public administration and its legislative framework. The actual functioning of public administration, especially at the local level, and the way in which administrative tasks are being carried out, have not been markedly altered. Furthermore, rapid changes in normative systems without complementary measures at the operational level quite often produce a decrease in the productivity and the overall performance of administrative organizations. We believe that the idea of BPR as a profound approach to the redesign of business processes in order to improve services of local administrations, reduce costs, increase quality and decrease response time is one of the first steps in trying to make some real changes. However, there are some aspects of BPR

which have to be taken into consideration when being implemented in public administration.

The Future of the Project

In the year 2000, the government of Slovenia started to prepare the Strategy of e-government in the Republic of Slovenia. It became clear at that time that the project of informatisation of administrative districts was crucial for introducing e-government in Slovenia. Therefore, the second phase of BPR was initiated at the end of the year 2000. It is supposed to be finished at the end of 2001. Five e-services, which are carried out by the administrative districts, are now available through the Slovene Internet portal called "e-government" (http://e-gov.gov.si/e-uprava). The whole project is expected to be finished in the year 2002.

Lessons Learned

The experience shows that we cannot just tear out the concepts of BPR from business environment and implement them in public administration. In a typical business environment, processes are defined mainly by internal regulations and organisational rules that can be changed at any time if supported by the top management. By contrast, in administrative districts, practically all administrative processes tend to be strongly regulated by various laws and other normative acts. Many laws, drafted in a rush after the transition from the communist to the market rule, are written in a way that highly complicates their implementation in practice and produces unnecessary time delays for customers and costs for taxpayers. The requisite changes in unnecessary or irrational legislation are very difficult to achieve since the authority to enact such changes lies in the domain of political parties. The second difficulty in reengineering the public sector is that public administration is not a single organization, but rather a network of organizations. Breaking down departmental barriers between administrative bodies is much more difficult than breaking them down within a single corporation (Hammer and Champy 1993, 219). We can expect better results if we start the reengineering process in one administrative body. Nevertheless, we must be aware that many administrative processes involve the work of different bodies.

Top-down versus Bottom-up Approach to BPR in Public Administration

There are many possible approaches to the reengineering of business processes, which are related to different levels within organizations. However, top-down versus bottom-up approaches are the most common alternatives. The original concept of BPR recommends the top-down approach since it is much more likely that through this approach profound intradepartmental changes can occur (Hammer and Champy 1993). It would be desirable then to begin a BPR project at the institutional level and continue down the hierarchies with the decomposition of processes until the level of elementary tasks is reached. Based on our experience, in public administration it is very difficult to overcome the

walls constructed by different laws, which also govern the organization of ministries down to the single administrative unit at the local level. The bottom-up approach is, therefore, more realistic since it does not require immediate changes in the normative system and institutional settings. With this approach, we must be aware of the risk that the results are probably not going to be revolutionary and reach across the borders of individual departments.

Normally we have at our disposal only a restricted period of time in which some tangible results of such projects are expected. For the reasons listed above (changes in normative systems and organisational settings), the top-down approach will require more time; therefore, we would recommend a combined approach. Those areas that need amendment most urgently and cannot wait should be redesigned from the bottom-up. Simultaneously, we should start with the top-down approach to remove the barriers, which prevent intradepartmental or even inter-organisational changes that are more profound.

Setting up Reengineering Teams

It is not altogether clear how to set up reengineering teams to better the participation and involvement of users. What is the role of users (i.e., the people who own the processes and carry them out)? Some authors (Hammer and Champy 1993) recommend that we should form a reengineering team for each process to be redesigned. The teams should include both insiders and outsiders. The insiders understand the existing processes and know what needs to be changed; the outsiders bring in new perspectives and act as disruptive elements. For several distinctive psychological reasons, the insiders are not particularly inclined to "reengineer themselves".

In this case, it was not possible to follow these guidelines strictly. As already mentioned, about fifty types of processes were selected that are the most important and consume about eighty percent of all resources in individual administrative districts. These selected business processes cover all typical functional areas of administrative districts. Therefore, ten teams of users (all insiders) were established for process mapping. Each team mapped about five to six processes. For further phases in reengineering, five expert teams (both insiders and outsiders) were established, one for each functional area of administrative districts. Each team was involved in the reengineering of about ten business processes considered adequate to redesign.

BPR in Public Administration Needs Strong Political Support

The most important lesson learned during our project was that without strong political support, BPR in public administration is likely to fail. At the end of the first phase of Sub-project 1, the authorized ministries were supposed to verify and approve the redesigned processes. This did not happen, mainly because of poor political will, and the project was temporarily postponed at the end of 1998. The project was revived at the end of 2000. Because of the rapid development of IT and the enormous use of Internet in both business and

public administration environment, the project was slightly changed. The integrated software solution is oriented towards providing electronic services to citizens and organizations using the governmental Internet portal. Nevertheless, the main objectives and the structure of the project remain the same.

Questions for Discussion

1. Some common problems of state-administration at the local level are presented in this case. Are these problems also in your country and in the same areas of public administration?
2. Which approach to BPR (process improvement or radical process innovation) do you think is more suitable for the BPR of administrative procedures? Why?
3. What are the key phases in BPR of administrative procedures in this case? Describe each one briefly.
4. Do you agree or disagree with the selected approach to process mapping?
5. What are reference models and what advantages do they bring to the modeling of business processes?
6. What is your assessment of the success of this project?
7. Could a similar project be undertaken within the governmental framework in your country?
8. What is your assessment of how BPR could be used in developing e-government applications?

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Introduction of the Smart Card Technology in Slovenian Health Insurance

Mateja Kunstelj*, Mitja Dečman**

Introduction

Slovenia has more than a 110-year tradition in the field of compulsory health insurance. Along with general changes in Slovene society and the country's recent independence, new legislation on health care and health insurance was adopted in March 1992 (see: ZZV, 1992). Two new forms of health insurance were introduced - compulsory and voluntary. All citizens of the Republic of Slovenia, who have residence in Slovenia, have compulsory insurance and pay tax contributions for that purpose. In this way, the funds collected are proposed for the assurance of rights deriving from compulsory health insurance. These are rights to health services and to financial subsidies. The compulsory health insurance covers most health risks. For those not covered, insured persons have to pay the difference up to the full cost from their own budgets or take voluntary insurance. Voluntary health insurance provides for additional payments for services deriving from compulsory health insurance as well possibilities for the additional insurance above standard health services and other rights, which are not the subject of compulsory health insurance (ZZZS, 2001).

On the basis of this new legislation, the Health Insurance Institute of Slovenia (hereafter referred to as "the Institute") was established as a compulsory health insurance holder and provider. Conversely, the Institute and Vzajemna Health Insurance Company, established by the Institute, offer voluntary health insurance. The major responsibility of the Institute is to ensure efficient collection and distribution of public funds to health services providers (hospitals, health centres, pharmacies, homes for the aged, health resorts) for the purpose of realizing quality services from the compulsory health insurance (ZZZS, 2001).

The Institute has 10 regional headquarters and 46 branch offices in the Slovene region. Each regional unit covers a particular area with its activities. There exists a framework of branch offices opened in particular municipalities. Furthermore, the Institute also has an Information Centre responsible for the creation and maintenance of databases, applications and other information technology. There is the Directorate, which discharges organisational, managerial and other leadership functions. Such a business network ensures that the insurance service is available to insured persons to the highest degree possible. The position of the Institute within the Slovenian health care system and its organisational structure is presented in Figure 1. It is interesting to note that in

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the year 2000, the Institute spent more than 270 billion SIT or 6.64% of the gross national product (GNP) for compulsory health insurance implementation (ZZZS, 2001).

Figure 1

The position of the Institute within the Slovenian health care system and its organisational structure
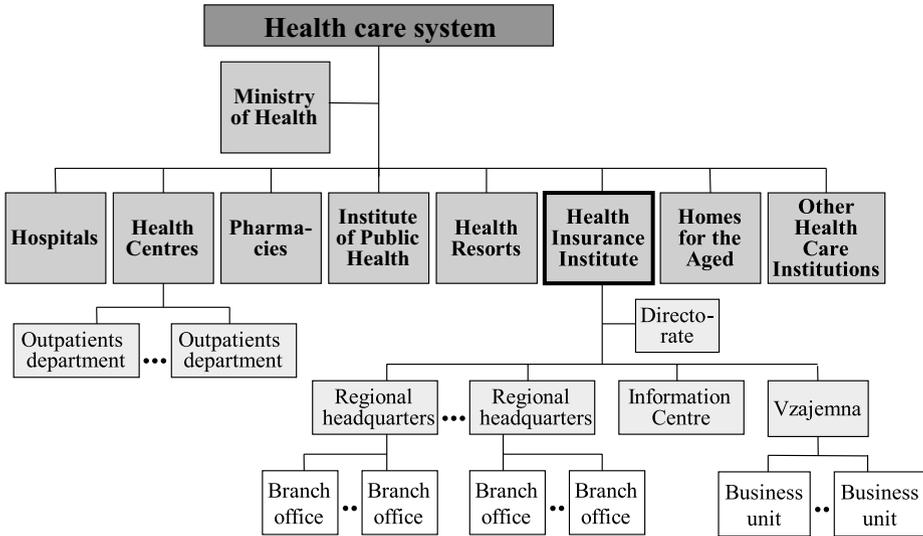
Insured persons can submit claims for compulsory health insurance to institutions or doctors respectively, which operate in the framework of the public health service network. In this network, not only public health and other institutes, but also private doctors and other private persons are equally included on the basis of licenses.

Presentation of the Health Insurance Card Project

Development of the Slovenian Health Care and Health Insurance Information System

Beginning with its establishment, the Institute has been aware of the significance of information technology and the introduction of electronic commerce, which enables more efficient business process execution, and the integration of business processes between different partners. Therefore, the Institute puts much effort into both the informatisation of health insurance and the informatisation of health care as well.

The Institute has constructed the information infrastructure, which represents the precondition for the introduction of electronic commerce in the field of

Slovenian health care. This was done with the systematic equipping of its own organisational units, supplying medical rooms and receiving offices with computers and all of the necessary software and with linking to a network and creating comprehensive central databases. The introduction of electronic commerce would reduce the scope of manual work, enable faster performance of tasks, reduce possibility of mistakes, and enable better use of staff. This would also result in the staff having more time for creative work. Furthermore, with the introduction of electronic data interchange (EDI), which is the foundation of electronic commerce, they would abolish the major part of the paper work and enable better information relationships with the providers of health services. They would be able to devote more time to their patients. The recognition that the introduction of electronic commerce is also a chance for the organisation's internal business review and evaluation is also very important (Košir, 1999). The reduction of costs means immense financial funds, which can be spent for direct medical treatment of insured persons or patients, new diagnostics, more effective medicine and other services.

The Institute has progressively introduced electronic data interchange through several projects since 1994. The first of those projects was the introduction of EDI (Košir, 1994) in the accounting of health services. Now, health services providers send electronic bills and reports directly to the Institute's internal information system. With its support, Institute staff can start with the processing of received data without time-consuming data entry.

Origins and Objectives of the Project

Along with the rapid development of information systems at the Institute and health service providers, and the introduction of EDI, the paper health booklet has been made more or less technologically and substantially obsolete. The booklet served as a patient's document for identification and certificate of health insurance validity when coming for assistance (Figure 2). The booklet also had to be updated by the employer every month. Such a document could by no means serve as a data holder, because its usage was connected with several different ineffective and inefficient manual procedures. Besides, the booklet itself and procedures for its update did not assure an adequate level of data privacy (Sušelj, 2000).

Thus, in 1995 the Institute decided to introduce a complex health insurance card system. It would be designed to enable rationalisation, not only in the field of health insurance implementation, but, also in the field of health care in general. With the new electronic card, they would replace the paper health booklet. Its serviceability would not only be the enforcement of rights from health insurance, but it would also serve as a tool for linking the Institute's information system and information systems of different health service providers. The resulting system is shown in Figure 3.

Figure 2
The old health care and health insurance system
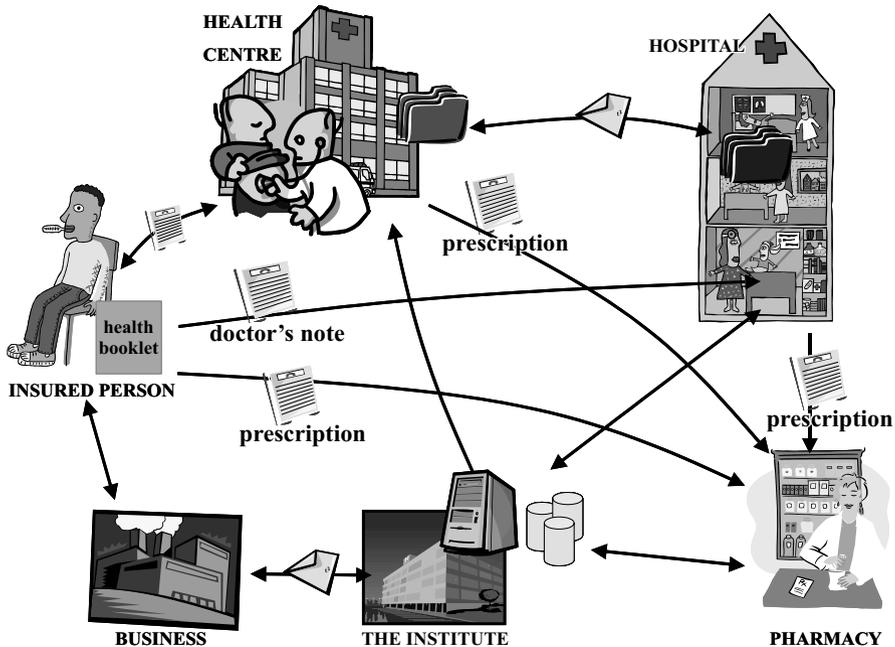
The project was defined as a strategic developmental step in the continuing process of modernisation and development of an efficient information system in the health insurance and health care system (Sušelj, 2000).

In preparation for the project, the following goals were set (KZZ, 2001):

- to improve the quality of services and handling of insured persons both at the Institute and at other health care service providers;
- to simplify and improve communication between the Institute, the physicians, and the health care organisations;
- to cut down the number of various and unnecessary procedures required when the insured persons exercised their rights;
- to improve the security of personal data within information processing systems;
- to reduce the extent of administrative tasks, and thereby achieve a higher efficiency of operation at the Institute and within the health care service;
- to promote transparency of financial liabilities between subjects in health care and health insurance systems; and
- by way of promotion of rational operation in health care, to provide long-term economic benefits at the national economy level.

Figure 3
New health care and health insurance system
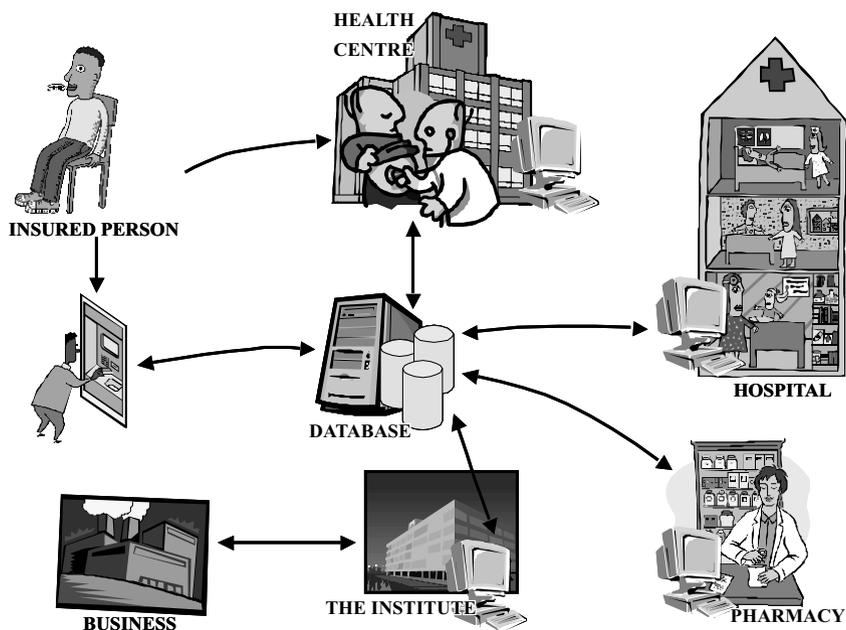
Organisation of the Project

In accordance with organisational principles of project management, several bodies were established (Figure 4). The supreme body of the project was the project board made up of representatives from all significant institutions in the field of health care (Ministry of Health, Health Care Council, Institute of Public Health, Chamber of Physicians, Chamber of Pharmacists, Association of Health Care Institutions and Health Insurance Institute). While the board's duty is to make strategic decisions about the contents, directions and development of the project, the Institute general director's advisory board makes operative professional decisions. On the other side, the management bodies of the project (the Institute's assembly, the Institute's board of directors and voluntary health insurance committee) deal with and make decisions about finance and other important issues.

Besides all the institutions mentioned, other acknowledged Slovenian and international experts from different fields were also included in the project. They performed a series of research studies on the needs and feasibility of electronic card introduction in Slovenia (KZZ, 2001).

Because of the complexity, the heterogeneous nature of the project and the necessary length of time involved, the project was divided into smaller projects,

Figure 4
Project organisation scheme (source: KZZ, 2001)
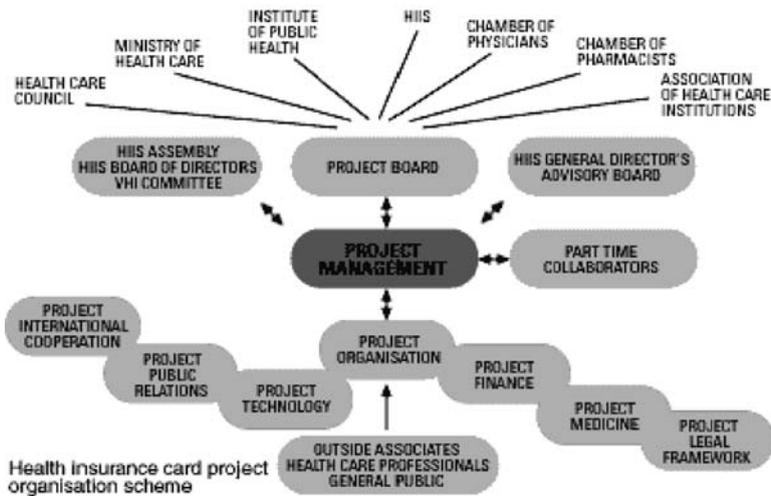
which can be more easily managed. They are project organisation, finance, medicine, legal framework, technology, public relations and international cooperation.

Phased Project Approach

For the same reasons mentioned at the end of the previous section, the project board decided to use a phased approach in introducing the health insurance card system. There were two aspects:

- organisational (see: Implementation of the project):
  - pilot project phase;
  - national implementation phase;
- functional:
  - basic administration functionality phase;
  - advanced functionality phase (see: Implementation of the project).

From the organisational point of view, they decided to first implement the solution in a small area through the pilot project and then to fully implement it on the national scale. From the functional point of view, they focused on card introduction for administrative purposes in the first phase. This means the use of the electronic cards for the enforcement of rights from compulsory and also voluntary health insurance; to support the processes of selecting personal physicians; and the basic form of electronic prescription (Košir, 1999). At the same time, they also developed substantial and functional frames for further

development and updating of the system through the next phases of the project.

Preferred Solution

In developing the new system, the project team had to make several decisions. For example, which data will be stored in the system, where and in what form, had to be decided at the very beginning of the project. Another decision was how this data would be transferred between different parts of the system and synchronised. These problems were first viewed from the point of view of the participating entities. For example, the most important data for the Institute are those of insured persons and their insurance. Therefore, they need this data in their databases. Conversely, the providers of health services as well need additional data about the patient that have to be changed and added later (allergies, treatments, sicknesses, etc). So this data has to be stored in databases that are available to them (Figure 5). However, they also need insurance data because this is what they use to charge for services. They could access this data by a connection to the Institute databases, but this option is not possible for all the providers (private doctors, pharmacies), because they do not have the adequate information technology (safe network connection). Therefore, the smart card was chosen as an appropriate media for storing and transferring data between different entities in the whole process.

The components of the preferred solution and their links are presented in Figure 5. When a citizen pays his compulsory health insurance (a person can pay himself, or his employer or adequate social institution will pay this if he is unemployed or without income), his data goes into the Institute database. The citizen can update the data on his health insurance card at the self-service terminal, where he transfers the data from the Institute database to his smart card. At the time of a visit, at the doctor, for example, he gives his card and enables a provider to access his data on the card. The provider can access the data stored on the card and in the local database as well. With this procedure, the provider can find out how the patient is ensured and act accordingly. After that, he enters the data about the service (treatment, diagnosis) into the local database. Because this data is of no importance to the Institute, it is not transferred to the insurance card.

Since anything can happen between the time the health insurance card is updated at the self-service terminal and the time the citizen visits the provider, the system needs a suitable safety fuse. For this reason, there exists a list of invalid insurance cards that tells the provider which cards do not contain correct data.

Two types of cards were introduced: a health insurance card for citizens and a professional card:

1. The health insurance card for citizens is the replacement for the existing paper health booklet. In the first phase, citizens use this card for administrative

Figure 5
Health Insurance Card System (source: KZZ, 2001)
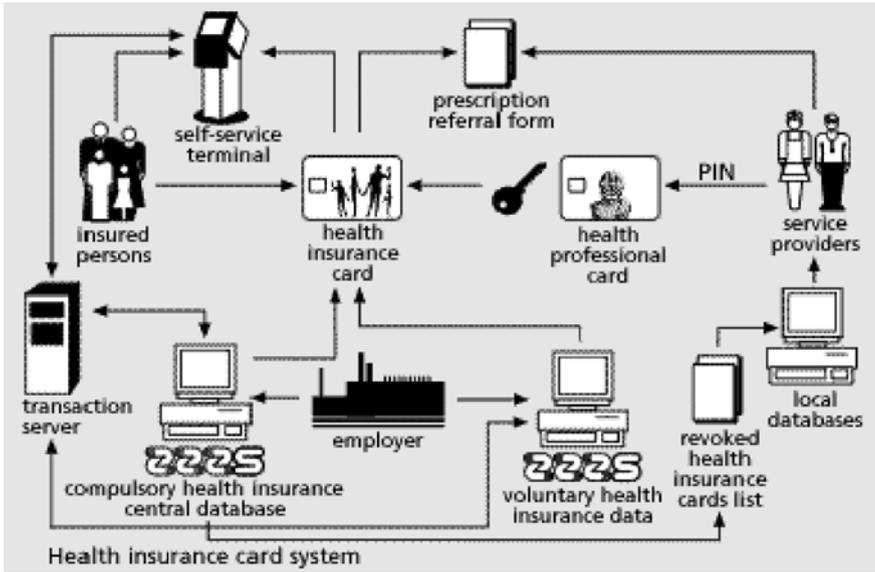
purposes (serving for the implementation of rights deriving from compulsory and voluntary health insurance) and providing support to the procedures of the selection of personal physicians. The card holds essential and stable data involved in the receiving of health care services deriving from health insurance. The access to data stored in the card chip is possible only by means of the health professional card. The card microprocessor stores data readable only by means of a card reader, and in the presence of a health professional card. In this way, the card data is protected against unauthorised access. The following data is stored on the card:

- details of the insured person (name and family name, address, sex, date of birth, etc.);
- details of the contribution obligator (registration number, name or title, address, etc.);
- data concerning compulsory health insurance (date of updating, validity of insurance policy);
- data concerning voluntary health insurance (type of policy, date of updating, validity of insurance);
- details of the selected personal physicians (general physician/pediatrician, dentist, gynacologist).

2. The health professional card acts as the carrier of access rights to health insurance card data. It is issued to physicians, nurses, reception desk administrative staff, pharmacists, physiotherapists and other health care

professionals and authorised health insurance provider officers. The Slovene health professional card conforms to the concept of the health professional card introduced in other European countries.

In the health care sector, data security is provided by legal, ethical, organisational and technical regulations and measures. The reading and writing of the data on the card is controlled. The health insurance card data security complies with the requirements of the Slovene legislation and is provided at several levels:

1. The card microchip is a miniature computer; hence, the card data is protected in a manner similar to general computer data protection methods;
2. The next data security level is provided by means of the health professional card issued to the health centre and private practitioner personnel providing health care services. The designed combined use of the insured person's card and health professional card provides an adequate level of data security. Only in this way can health service providers access the data on the citizen's card;
3. The use of health professional cards is further secured by means of a PIN (personal identification number).

To enable independent updating and the ability to check and transfer the data on the card by the citizen, the use of self-service terminals was introduced. They are located in health centres, hospitals, Institute regional unit headquarters, and branch offices (Siemens Slovenia, 2001). In selecting the locations, several criteria were considered, including the frequency of patient visits to a health care organisation, geographic distribution of terminals in the region, and accessibility by disabled persons.

Updating the card data can be done on the terminal at any time, even at the last minute before visiting a doctor. That was impossible in the previous system since data had to be updated at the person's workplace. The terminals can also be used to get other information on the basis of interactive applications that are controlled by the touch-screen commands from the citizen.

Terminals are connected to the central server in the capital, where all the data about insurance comes from at the time of the update. A central server gathers this data from other servers of the Institute and Adriatic insurance company. Each transaction takes about 10 to 20 seconds (Popovič, 2000). Besides the network of banking machines, the health insurance network is one of the largest in the country. At the time the network was built, the existing network of the Institute was used and was upgraded at the same time to better serve the new purpose.

Alternative Solutions

As mentioned before, several acknowledged experts from different fields participated in the project development. They performed a series of preliminary

research studies on possible organisational and technological solutions. The key role in selecting the solution was the need for technology, which enables secure access to sensitive personal data and serves as patient identification. Experiences from other European countries were also important. Therefore, they made some further research on the needs and feasibility of electronic card introduction in Slovenia and also the analysis of available card technologies, which had substantial consequences on the contents, organisation and course of the project.

Experts studied and compared characteristics of four types of technologies: smart card, optical card, magnetic card and memory card technology (see Table 1). The selection of technology depended on contents, nature and data protection demands. On this basis, experts suggested the European smart card technology, which, due to its capabilities and security options, has proved to be the most suitable for applications in health care and insurance. The card microchip is a miniature computer, which, by its operation and operating system, grants access to the insured person's data stored in the insurance card only according to appropriate access keys.

Table 1

Advantages and disadvantages of different card technologies

	Advantages	Disadvantages
Smart cards	support processing advanced capabilities (microchip) data security (enable cryptography and electronic signatures)	price
Optical cards	high capacity	slow data access poor data security level expensive readers no interoperability between card manufacturers poor international application
Magnetic cards	price	low capacity poor data security level
Memory cards	high capacity structured memory space interoperability among card manufacturers	not support processing

They based the decision on the following advantages of smart card technology (KZZ, 2001):

- the smart cards comprise a microprocessor-based circuit, which supports active and controlled data interchange with the environment instead of a merely passive data storage;
- it is so far the only adequately verified and established card technology for the purposes of health care and health insurance;
- it supports subsequent recording and application of an enhanced set of key medical data;
- it upgrades the level of information technology infrastructure already achieved in Slovenia;
- by means of the parallel introduction of the health professional card, it guarantees the optimum data security capabilities;
- it is recommended by the competent European Union bodies and is introduced by other European countries; therefore, it is becoming a de facto standard in the field of health care.

Based on this and other analyses carried out, the project board adopted decisions about the content and data set on the card, determined the sequence for the introduction of the particular elements of the system, and suggested suitable technology, ways and methods for further work.

Implementation of the Project

As already noted, the project was implemented in two main phases: the pilot phase and the national level phase. The Institute decided to verify the regularity of the concept of the health insurance card system, before its introduction on the national level, in the region of Posavje. The reasons for the pilot project was the need to verify system operation in practice with as little disruption and costs as possible, and to eliminate eventual defectiveness and mistakes (KZZ, 2001). In addition, not all the procedures, for example card introduction and exceptional situations (card reader failure, card loss, terminal failure) could be envisaged and verified by laboratory tests. In the pilot phase, approximately 440 professional health cards and 70,000 health insurance cards were distributed and 21 self-service terminals were installed in the selected region.

As shown in Figure 6, in June 1998, experiences from the pilot project were discussed at an evaluation conference with international participation (Košir, 1999). The pilot project evaluation, carried out by international experts, established that the health insurance card pilot project corroborated all the substantial goals set, was in compliance with the project terms of reference and was carried out in accordance with the health insurance card system introduction plan (KZZ, 2001). The card was well accepted by insured persons and employers, as well as health care professionals and Institute staff, since they all benefit from the promised advantages and improvements (relieving of the health care staff of administrative tasks, simple updating the card through self-service terminals without a third person, more time for doctors and pharmacists expert work, etc.). The health care staff also expressed the wish for a card extension to

include other medical data. The pilot project was completed within the planned time and financial requirements The card technology proved appropriate, regarding both its conformance with standards and with planned functions. The card data security is provided at the appropriate level. The organisational approach to card introduction in the pilot region was demonstrated as successful, and, therefore, suitable for introduction at the national level.

Figure 6
Timeline of the project

Sep 1995	Start of the project.
Oct 1995 – Feb 1998	Analyses, health card system design, preparations for pilot project.
Mar 1990 – Jun 1998	Pilot project implementation in one of ten regions (70,000 cards, 21 terminals).
Jun 1998 – Sep 1999	Evaluation of the pilot project and preparations for national implementation.
Oct 1999 – Jun 2000	National implementation in all regions. The implementation was done on the "one region at a time" principle.
Oct 2000	The Health Insurance Card becomes the only valid document in health insurance.
May 2001	Introduction of the convention certificates ordering process on terminals for enforcement of health services during temporary foreign residence.
Sep 2001	A project group for extension of smart card functions established by Ministry of Health.

After the successful pilot project, the national introduction of the health insurance card started in October 1999. Approximately two million health insurance cards and 20,000 professional cards were distributed. About 5,300 card readers and 275 self-service terminals were installed (Sušelj, 2000). Since October 2000, the health insurance card is the only valid document for receiving services deriving from health care and health insurance needs (KZZ, 2001).

Conclusions

Results of the Project

With the introduction of the new information system, Slovenian health care gained a new and modern information system, which is transparent and upgradeable. These characteristics are important for the future since there will be new possibilities for the system's usage. The capabilities of connecting this system with other information systems that are implemented in Slovenia have

also been identified. One such example is an idea for connecting health insurance smart cards with a smart card for digital signatures in public administration; this is in the implementation phase in Slovenia right now. As we can see, smart cards are becoming the main media for storing identification data, a tool for accessing computer networks and a tool for a safe access to locally stored data as well, not to mention the digital signing of different data.

However, the already identified numerous advantages that this information system offers for insured people on one hand, and the providers of the health care and health insurance on the other, are briefly summarised in the following:

- Simplicity and quality: updating a compulsory health insurance card once a month at one's place of work is no longer necessary. Updating is simple with a self-service terminal once every three months, and even once a year for children and pensioners.
- Accessibility and independence: updating can be done at one of the 275 terminals in Slovenia quickly and whenever a person wants (every day from 6am till 10pm). Therefore, a citizen can independently update his own administrative data.
- Less work: the providers no longer have to manually enter the insured person's data for the purposes of invoicing their services to health insurance providers. There are also fewer procedures in the enforcement of the insured persons rights.
- Better data quality: by entering the data only once, the number of errors that occurred during manual data entry in the past has decreased significantly.
- Security: data is stored on a smart card in a way that prevents access to users without certain rights. So, professional smart cards owned by different providers must be used. In this way, data cannot be read by an unauthorised person.
- Transparency: the providers have an exact and up-to-date summary of citizen insurance rights.
- Statistics: the Health Insurance Institute can easily log the accomplished services and consider this data to adequately issue the payments. At the same time, a higher effectiveness with different analyses about medicine consumption is achieved.
- Standards: the system is adjusted with Slovenian laws and other standards that are well known in health care. The system design strictly follows the European Union recommendations regarding card technologies. This guarantees compliance with relevant standards and opens the door to harmonisation with health care and health insurance systems around Europe. Similar card technology infrastructures are being planned and introduced in other European countries.
- Upgradeability: The smart card technology enables an additional adding of new data in the future. These data could be blood group, allergies, vaccinations, important clinical states, and other information. The system

also enables electronic connection to different expert systems that are used in health care.

- New electronic services: Since June 2001, a citizen can order a conventional certificate to enforce his insurance rights while staying abroad on self-service terminals.

Future Plans

As mentioned before, the system had only administrative functions in the first phase. But the technological infrastructure, which was applied, enables the gradual extension of the system's functions in fields which already have been initiated in the pilot project, and from the users which participate in such development and introduction activities on the international scale (Sušelj, 2000).

This was proven by the introduction of the convention certificates ordering process for enforcement of health services during temporary foreign residence. The service was introduced in June 2001, and is free of charge. The certificates can be ordered through self-service terminals. They come via ordinary post to the address, which is recorded on the card chip within three days.

In 2001, an extensive campaign was launched to inform the Slovene public on the gathering of voluntary declarations of commitment to donor organs and tissues for transplants after death. The corresponding data item will be recorded in the health insurance card chip, where the data section is already provided (KZZ, 2001).

The introduction of electronic prescriptions (e.g., electronic medical technical aid order forms) is intended as the next step in the health insurance card development. In the future, electronic prescriptions will bring a range of benefits to doctors, pharmacists and insured persons: greater transparency on prescription and consumption of treatments, reduction of administrative work and mistakes, greater quality of prescriptions and issuing of treatments and, in the end, greater quality of health services (KZZ, 2001).

An application for a health folder data transfer is also planned. The solution presents a list of folder numbers in a particular health institute, and, therefore, offers help in collecting dispersed documentation about the patient (Pehani, 2000).

At the moment, the card holds no medical data such as blood type, allergies, vaccinations and important clinical conditions, although the card has the capacity for this. When this will be realized depends on legislation and other standards, which will fully regulate collecting, keeping and transferring medical data, and assuring appropriate organisation and security of data.

Lessons Learned

The phase approach was used in the implementation of the project, as well as in extending the functions of the system. Therefore, it started with the pilot

project and the implementation of the administrative functions only. Because of the complexity of the system, a smooth and untroubled transition to the new way of operation had to be assured. It is not acceptable to allow interruptions in the operation, not even for a couple of hours or days. The pilot project enabled the testing of the system in a small area and to make some corrections considering technical problems and user opinion. Only after the successful implementation of the pilot project did the national level introduction of the system start.

When the system was introduced, new ideas and suggestions arose. Therefore, it was very suitable that the system was designed with great attention to scalability. This provides the capacity to easily add new functions to the system in the future.

Because of the fact that the system is open and standardised, the technology can be used in other systems, not only within health insurance. For example, health professionals can also use professional cards for access to several databases within the health care information system. Health insurance cards will also be used by pharmacies to work with electronic prescriptions. Finally, the use of international standards offers possibilities of harmonisation of the health insurance and health care system in Europe.

In system development, the existing information infrastructure was used to the greatest possible degree, by which the project costs were significantly reduced.

Several institutions, health care staff, and the entire public were informed of the goals, organisation and progress of the project from the very beginning. In this way, they were better prepared for use of the new system and had the possibility to participate in the development and implementation of the project.

In summary, in 2000, the Health Insurance Institute introduced the modern electronic health insurance card into Slovenian health care. The card signifies a faster and more pleasant entrance to the health care system and a new phase in the development of a modern and common health care information system in Slovenia.

The introduction of the health insurance card system certainly brings simplification of processes in enforcement of rights from the health insurance, accounting of health services and connected rights and obligations between the Institute and providers. But an even greater effect will be attained when all health services providers use electronic commerce technology in all fields of operation. Only then can all the savings, shorter processes, procedures and tasks times and rationalisations in the field of health care and health insurance be assessed.

Questions for Discussion

1. What advantages did the introduction of the "smart card" bring to the public and the health administration?
2. Explain the advantages of the "phased approach" to the implementation of the system.
3. How was the issue of privacy of personal data considered in the development of the health system?

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Telecottages and the Modernization of Public Services in Hungary: The Case of the Village of Jászkísér

Károly Jókay *

Introduction and Context of the Telecommunications Revolution

Hungary has a unique NGO-based network of small community telecenters or telecottages that grew from merely 7 in 1996 to over 400 by the end of 2001. These community-access and support organizations exist primarily in small villages of populations of less than 5,000, with the smallest telecottage village having just 300 residents. With over 3,100 towns in the country, Hungary's telecottages are found in villages with an average size of around 1,500. Telecottages in Hungary are unique in that these are not government agencies, nor do they belong to the private sector. In each case, the "owner" or manager of a telecottage is a bona fide registered non-profit organization that forms a unique partnership with the local (municipal) government, the private sector and citizens. Telecottages are not cyber-cafes, nor are they arms of the national government's efforts at creating an e-government, universal access or distributed public administration. Despite the "NGO" and strictly non-profit, public service orientation of the telecottage movement, they have spawned two national organizations that lobby for and on behalf of increased and diversified funding from all levels of the public sector. There exists a Hungarian Telecottage Association, and a completely separate legal entity, the Telecottage Public Purpose Corporation.

The rapid increase in the number of telecottages, each an independent legal entity, from a handful in 1996 to nearly 400 by the end of 2001, coincided with an era of rapid growth in the telecommunication sector in Hungary. The number of telephone lines tripled from a little over 1 million in 1990 to over 3 million by 2000, with ISDN and ASDL available nationwide.[1] In addition, Hungary has over 4.3 million GSM subscribers with three digital service providers in the 900 and 1800 mhz ranges. Data from October 2001 indicate that GPRS and WAP are universally available in Hungary, not just in the large metropolitan centers. Several regional telephone operators provide local service, and full liberalization of long distance, international and local service took place in December 2001. Summing up fixed and mobile subscribers, there are over 70 lines available per 100 residents (Hungary's population is slightly over 10 million at the end of 2001).

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[1] See www.hif.hu, the homepage of the Hungarian Communications Authority, and the Government Commission for Informatics, www.ikb.hu, for more information.

Telecottages are not primarily substitutes for a telephone, the Internet, WAP, SMS or other forms of communication. In fact, many of the original 31 telecottages funded in 1997-1998 by the United States Agency for International Development (USAID) did not have digital phone lines when they opened. Access to communications even via mobile phones is relatively inexpensive and universally available. Telecottages grew during a rapid expansion in the IT and communication sector and benefited from the universal availability of digital phone lines as well as from the popular effect of the Internet and email usage. However, those who benefit the most from internet access and office technologies are those who can most likely afford these technologies in the villages. Hence, they do not necessarily wait for the arrival of a telecottage, nor constitute the profile of the average user.

Telecottages have affected the Hungarian government's national telecommunications and information technology strategy directly. The creation of telecottages and support for existing telecottages has become a popular expense item for many ministries, national authorities and even the Prime Minister's Office. (see www.meh.hu). In a major new effort to ensure a telecottage in each NUTS IV level microregion, the government announced a "white spots on the map" program in late 2001 to ensure universal telecottage access in each microregion.

This case study will not focus on the spread of technology through the telecottages nor on how telecottages became accepted by mainstream funding agencies, both foreign and domestic. Instead, by analyzing one of the first telecottages in the country in the Village of Jászkísér (population 6,200), this case will demonstrate the effect of the telecottage movement on aspects of decentralization, public administration reform, and the reorganization of the delivery of public services at the municipal and microregion (NUTS IV) level.

Telecottages are not merely collections of dispersed best-available technology; since communication and information technology are both commodities in the near future. Instead, the success of telecottages is due to the public service, community organization, and self-reliance that they provide to often economically depressed and isolated areas:

- They firstly provide self-organization skills, survey local needs, and thereby demonstrate that even a divided community can be successful in attracting funds from the outside.
- The secondary effect is of course access to information and the ability to communicate and process data of all sorts needed to improve life in a village.
- The tertiary effect of telecottages could be, in the near future, the realization of the principle of "subsidiarity," an oft-cited EU goal, in which problems are solved effectively at the lowest possible level of administration. Telecottages, through effective and localized delivery of government services (via contract), could affect national policy were the feedback mechanism more interactive.

General Information About Telecottages in Hungary [2]

Before presenting information about Jászkísér, a brief history and description of the telecottage movement in Hungary is necessary. In addition, telecottage "civilian technology" has spread to Yugoslavia, Slovenia, Romania and more recently, Slovakia.[3] Organizers in these countries have direct ties to some of the veteran telecottage organizers in Hungary, and have benefited greatly from the spread of donor support for such efforts. Background on the Hungarian movement may assist advocates in other parts of emerging Europe in their efforts to modernize rural regions.

In the early 1990s librarians in Hungary began to notice descriptions of Danish and Swedish telecottage initiatives in the professional literature. They thought that modernizing and extending library services would lead directly to tele-service centers. The goal was to make available, on a broad scale, new information sources, channels, media and tools to a variety of users who otherwise did not have access to such services. They thought foremost of small communities in the countryside where resource-poor small libraries could renew themselves by taking on new functions and, thereby, strengthen their positions. These initiatives resulted in several articles, a publication that ended up being very useful ultimately, as well as a telecottage that closed in 1994 after only a few months of operation.

At the end of 1993 during a community development program in Csákberény, a small mountain community in mid-western Hungary, it became apparent to all participants that there was a demonstrated need for an office accessible to all, where one can go for information, use computers, make telephone calls, send faxes (the Internet was unknown here at that time), take care of business, as well as hold events. This community initiative involving volunteers, and financial support from the local government, the business sector, and from the national level Welfare Ministry, resulted in the establishment of a telecottage in 1994. That is when everyone began to understand why the librarians' efforts were unsuccessful. The local communities did not understand, nor did they become stakeholders in the cause.

Fifteen individuals representing various professions, such as librarians, computer specialists, sociologists, journalists, public administration experts, and village developers, established the Hungarian Telecottage Association at the

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[2] This section relied upon information available to the public on the Hungarian Telecottage Public Purpose Corporation's home page, www.telehaz.hu, and an update of the author's study (co-written with Gábor Bihari) entitled: Telecottages in Hungary: The Experience and the Opportunities, published by IGE Limited, Budapest, 1999. The booklet is downloadable in its entirety at www.ige.hu. An additional source of primary information dated 1998 but still valid is the screenplay of a film entitled "Our Telecottage," funded by USAID, that can also be downloaded at www.ige.hu.

[3] For Romania see: www.telehaz.ro and www.telecentru.ro. For Yugoslavia see www.teledom.org.yu, www.ljig.net, www.ivanjica.net.

end of 1994. They thought that as the number of telecottages grew, they would hand off the leadership role to them.[4] The goal was to turn Csákberény's initiative into a national movement by encouraging the establishment of more telecottages, representing their interests and supporting their needs as a network, as well as by seeking resources on their behalf. All this should become a national program. In 1996, a decision was made to write a book to popularize telecottages.[5] The decisive move, however, was a conference organized by the Association, where the organizers won the support of the "Democracy Network" (DemNet), and that of Hungary's Office of the Prime Minister.

The director of the USAID-funded "DemNet" program decided to launch a grant competition to establish telecottages in the shortest possible time. As a result, between 1997 and 1998 thirty-one new telecottages were established in Hungary. This multiphase project provided about 1.5 million dollars in support. Concurrently, the Hungarian government, more exactly, the Office of the Prime Minister, noticed this "grassroots" movement and offered to support the movement within the framework of its national modernization program.

If there is a telecottage close by, more and more small villages establish simple access points called telecottage satellite offices. These small units have a few computers and a telephone line, and are able to gain access to the services of the nearby telecottage either electronically or through other mechanisms. In the context of the social welfare sub-program (from now on), the services of the telecottages will be used to organize and assist the work of the village "caretakers." The organization of village caretaker[6] telecottages is under way and satellite telecottages make their work easier by combining their minibus services with telecottage services. Village caretakers are trained to take full advantage of computer and communications technology.

Defining Telecottages: Minimuma and Monitoring

As the number of telecottages grew and competition for funds became more intense, it became more and more convincing that a definition was needed for exactly what telecottages are or could be. There are so many similar initiatives around the world and in Hungary that delineating the boundaries seemed necessary. It is by no means a perfect definition, but continuous refining of the

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[4] This actually happened in December 1997, by which time 25 telecottages were in operation.

[5] The book "Let's Build a Telecottage" appeared in the spring of 1997 to great acclaim. It was not reprinted only because in the meantime the next book had to be written on the "dream come true."

[6] Currently, there are about 400 central government grant-supported village caretakers in Hungary (the numbers are growing) in villages with fewer than 500 inhabitants, bad communications, transportation and lacking public services. They have minibuses and offer various types of assistance to people in need (transportation, shopping, taking care of official matters, organization and information). This idea is very popular.

"telecottage minimum" is also part of the task. These are the minimum standards expected by the Association of institutions who wish to use the name telecottage.

A. Operational Characteristics

1. Public benefit, "NGO-ness," societal oversight: Telecottages in Hungary each serve their own community. Since the community's "modernization brainpower" should belong to all, it has to operate under community oversight.
2. Open services that constantly adapt to serve the community's changing needs: Telecottages are not defined by their once and forever services, but rather by a multiplicity of ever changing services and infrastructure, and their ability to serve the public.
3. Community space and memory, a public forum, and a catalyst: As far as the community is concerned, one of the most important functions of modern information technology is assuring the free flow of information, capturing useful information, and accumulating such as a form of collective community memory.
4. Public services for everyone. Telecottage activities should be available to all. A telecottage cannot serve only a certain social group, stratum, club or organization. It has to be accessible to everyone within the community and to outsiders alike.
5. Responsible, independent, competent manager and servicing organization: Telecottage activities mean predictable and guaranteed services for users. This has to be accompanied by professional operation and a business-like attitude sufficient to sustain the facility.
6. Modern information and communications technology: Telecottages operate as a sort of community "access point" to modern information and communications technology available simultaneously to several users. Telecottages are also access points to business and public services in general.

B. Basic Services

1. Headquarters, service center for NGOs: Telecottages must have the capability to serve as the home and service center of NGOs located within a community. New NGOs should not have to build and maintain a new institution that they cannot maintain and sustain into the future.
2. Cooperation and assistance in arranging official matters: Effective access to information should be used to guarantee that citizens can take care of their official business in the simplest possible manner, at the least amount of cost, and with the least inconvenience.
3. Providing Internet access: The Internet needs to be available to all who want to use it, and cannot, or do not want to purchase access at home. Telecottages not only link the clients to the world, but also help them to make the best use of the Internet for their own goals.

4. Email for all citizens: All members of the community gain access to email through the telecottage. Each citizen should have a private mailbox and address that is password protected.

5. Public interest information: Methodological collection and dissemination of national, regional and local information on behalf of local users does not take place only electronically, but traditional bulletin boards and newspapers also have a role to play.

6. Local advertising, local news centre: Telecottages collect and disseminate local news within and outside the community. They provide opportunities for business, public interest and governmental advertisements and notices to be placed in various formats and ways.

7. Office services (for example, office space, fax and copying): Providing "an office to everyone" is the most basic and most popular telecottage service. These office services are critical for efficient capacity utilization as well.

8. Use of multimedia: Modern computer equipment provides multimedia functions as a basic function. Additional services related to multimedia provide information, work opportunities and entertainment. Multimedia and Internet usage are the technical basis of distance learning and teaching.

9. Computer use: Telecottages must provide computer services, including access for distance workers. This includes both occasional and regular equipment use on a fee basis.

10. Computer games: Telecottages must make computer games available for users of all ages. Using computers for games and entertainment is an important step in developing a new information and communications culture.

These criteria are used, for example, to determine eligibility in calls for proposals aimed at existing telecottages. Furthermore, the right to use the name "teleház" or telecottage in Hungary is linked to membership in the Telecottage Association. Naturally, membership means adherence to the minimum standards defined above. Other facilities in Hungary that offer computer services, Internet, games, etc. for the general public for a fee may be similar to telecottages, but are not considered to be telecottages by the profession. Unfortunately, the name "telecottage" has become a bit too popular, with grant programs and grantees using the term liberally without sufficient attention to all of the points above.

Services Delivered

There is a saying that telecottages do everything for which they are equipped and there is a demand. Hungary's situation is typified by the large number of very small villages (about 1,800 villages have fewer than 1,300 residents, and 2,500 have fewer than 3,000 people—with a total of 3,200 incorporated municipal units of every size in the country). These villages usually lack state and public service delivery institutions, and have retail and business services of inferior or limited quality (for example: education, culture, social services, transportation, mail service, bank services, retail goods etc.). Job opportunities are also limited.

The basic reason for this is that the scale economies to efficiently provide these services and to create job-sustaining businesses in such small villages are simply not present. People living in rural areas thus pay a premium price expressed in terms of travel time, higher shipping costs and more expensive information. These same people also have a much lower income than those living in cities. Telecottages seek to act as service and information middleman in all of these areas. There are currently 50-60 local services being provided by telecottages, though not all of them in each place.

The following chart lists the wide range of present and future services, each of which could generate revenues beyond start up capital grants for continued operations, upgrades of equipment and depreciation.

Examples marked with a star appear in multiple telecottages. (Table from Jokay and Bihari, Telecottages in Hungary, (1999) table 6, pp. 35-44.) For more current information see www.telehaz.hu

The Case of Jászkísér [7]

Jászkísér is a 600 year-old village of 6,200 residents in Central Hungary, about 100 kilometers due east of Budapest on the northern edge of the plains. The villagers are primarily engaged in agricultural activities. The municipal government has a budget of 20 million euros. The elementary school has 650 pupils, of which 40% are Roma. The village has a Roma self-government as well as several Roma NGOs. Unemployment in 2001 averaged 16%, about two and half times the national rate. Consequently, social problems predominate discussions in the village council. The village used to have small-scale wood processing, machinery and food processing plants before 1990 and the transition to the market economy. Many of these firms survived the transition, albeit they employ only a fraction of the previous workforce. These firms own buildings, undeveloped land and other assets that could be sold to investors. Any civil initiative would have to first address the unemployment and social sector before tackling economic development or similar issues.

In 1994, several concerned citizens established the Jászkísér Childrens' Foundation, thus becoming the first legally constituted NGO in the village (other associations such as sports and fishing clubs were entirely informal). The foundation's primary goal was to assist in the development of the village's children. In 1996, the Foundation applied for a grant to a US-funded organization called Demnet, and in 1997 established Hungary's third telecottage. Since then, because of the telecottage's services, presence, and positive example, 23 new NGOs were established in the village. The telecottage serves all of them,

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[7] The author is indebted to Mr. László Balog, (baloglaci@vnet.hu) founder of the Jászkísér telecottage, for giving an extensive interview, as well as providing access to various grant applications and other materials describing the telecottage's history, prospects and plans for the future. Mr. László Osváth assisted the author in conducting the field research.

Table 1

Examples of telecottage services and revenue generation*

Activity	Whence comes the money?
Advertising*	Telecottages have several advertising outlets to offer: inside and outside the building itself, internet*, newspapers,* and other publications.* Brokering local, micro-regional, county and national advertising, as well as processing such requests is another revenue source.
Alarm monitoring, remote sensing	In return for certain fees, telecottages can make communications lines and computers available to volunteer police forces to provide an effective alarm system for a community.
Babysitting, playroom services	Babysitting can be combined with computer games and other group and playroom activities.
Bookkeeping and software support	In a telecottage, several bookkeepers may use a single set of software simultaneously. License fees are low so using these services is more economical for clients, especially in the start up phase. Payroll clients pay a surcharge for equipment use beyond the standard fees to the telecottage.
Business brokering, branch office, agency	A telecottage's permanent and contract employees can assume a variety of agent and representative roles, for example trade, banking, insurance, internet subscriptions, real estate, advertising,* business information and consulting, press clipping, public opinion surveying and market research.
Business brokering on a local level	Another set of promising sources of revenue are the various business brokering, intermediation service, and virtual market provision opportunities (maintaining a supply and demand database on an accessible local computer). Telecottages also maintain lists of goods and services providers, have collections of prospectuses and brochures, as well as samples of local products. In addition, telecottages also offer local service and manufacturing capacities in the hopes of earning commission.
Cash and in-kind donations	Cash and other donations come from 1 % of income taxes as designated by donors (a unique opportunity in Hungary for NGOs with special legal and tax status), sponsoring memberships, membership fees from other NGOs, sponsorship, donations from native sons living far away, raffles, donations at charity events, and many other opportunities to solicit donations.
Clubs*	Telecottages can rely on membership and service dues paid by members of clubs such as film, music, artistic, computer, language, etc., clubs.
Computer access	Among office services, time-based use of computers and software is the most widespread. This service can be significantly expanded if available software is adjusted to and acquired for local needs.
Computer consulting, technical advice, repair and maintenance	Repair and other hotline services in villages with a telecottage is important since there the number of home computers is spreading fast and local citizens need help. This could take place on a retainer, fee for service or combined billing basis.
Copying Services	Copying services provide a steady and good source of revenue, especially if these services are more economical than elsewhere. There are such copiers and duplication machines available that are not expensive, do not require special training and can handle medium-sized jobs (between 100 and several thousand copies, such as local newspapers) more economically than traditional office copiers
Demonstration telecottage services, and telecottage innovations	Telecottages act as demonstration and test bed sites for equipment and software providers. As a part of marketing expenses, equipment providers make cash or in-kind donations to telecottages.
Distance work: performing, brokering and servicing	Performance of distance work is more likely a future growth sector among telecottages. Brokering distance work and providing office use provide revenue to telecottages. This income is set to rise if telecottages can offer competitive bids for services on the incipient "distance work" market.
Education, organizing courses, supporting courses	Education (we expect distance learning) is the most widespread and most significant source of revenue for telecottage. First of all, this means language and computer instruction, as well as practical vocational training and refresher courses.

Program management; headquarters for regional economic development efforts	Telecottages earn fee-based revenues to cover a portion of their operating expenses by serving as micro-regional program management centers, initiating development proposals, collecting regional development information, etc. Furthermore, telecottages can perform specific tasks on behalf of a regional development organization or association.* Additionally, telecottages can earn revenue by managing development programs.
Public Administration Tasks (via contracting out)	There are several categories in which telecottages can provide services by signing contracts with local governments: social welfare activities, child welfare activities, services for village caretakers, public information services, simple administrative tasks,* regional information services,* and environmental protection.
Sales	Examples of direct sales by telecottages: books, gifts, handicrafts, antique books, bus passes, telephone cards, books on local interests, maps, envelopes, stamps, postcards, computer disks, used computers, etc.
Sharing of facilities and costs	The building, equipment, communications lines and staff could be shared if another institution acts as a host for the telecottage (or visa versa). Examples include schools, cultural centers, libraries, mayors' offices, railway stations, etc.
Snack shop, coffeehouse, tea room operations	Like cyber cafes, telecottages often serve (or offer self-service) coffee, teas, sweets and pastry products.
Special Events Organization	Telecottages earn revenue by offering venues and other services for art shows, family events, balls, street fairs, village festivals, arts and crafts camps, sports events and other occasions. (advertising,* donations,* retail sales,* entrance fees, space rental, auctions, and many others)
Tele-carpool, ride-sharing services	A telecar optimizes travel arrangements using cars, minibuses to their full capacity, offering more comfortable travel for telecottage clients. Revenues accrue from splitting efficiency gains resulting from ride sharing (the transportation provider, rider and telecottage share the gains). This is not yet a popular option.
Telephone answering services, message forwarding, call center operations	Call center operations offer a special opportunity for telecottages. Call centers are used to handle marketing surveys, public opinion research, sales campaigns and informational campaigns. Call centers answer questions, and compile and forward information for the client. Special call center firms forward requests for services to potential contractors such as telecottages. This only works with multiple phone lines.
Telephone, fax services and message forwarding	Telecottages often offer phone services. This is not a significant source of revenue unless it is linked to other services such as message forwarding and faxing. It is important that the telephone equipment (and telecom company) be able to measure and bill the cost of services to the client.
Tourist services	Brokerage of guest rooms, providing tourist information, publicizing programs, organizing youth and children's camps, etc., is a widespread service. There is a certain level of tourism among telecottages and their supporting NGOs based upon mutual trust. This usually means village tourism. Tourism in general is a revenue growth opportunity in the future.
Translations	Either directly in the telecottages' scope of operations or through distance workers, telecottages can offer translation services. The telecottage usually earns a commission* and charges for office services.
Used computers, computing equipment sales	Used computers with less than optimal processors are perfect for computer games, instructional programs, review sessions, etc.
Volunteers: accepting volunteer labor in return for discounts, etc., in marketing campaigns	Telecottages provide facilities and equipment to events organized by NGOs,* clubs,* instructors, consultants, and agents for the purpose of providing services (training, advisory services, information). In most cases, volunteers working at the telecottage do not charge for their time. In return, certain service providers offer significant discounts and free services to the telecottage such as advisory services and health screening. For marketing reasons service providers grant these services at a discount in order to gain access to the market provided by telecottages and their environs.
Word processing, documentation	In this case, a telecottage employee or contractor performs this work on behalf of a client.
Videoconference services	Videoconference services belong in the not too distant future. In its simplest form, picture telephones are used. A more complicated use involves business negotiations, distance learning and conducting conferences.

Grant-seeking, assistance in grant-seeking	A significant portion of a telecottage's direct revenues consist of international, national, regional, county and local grant support. Assistance in filling out grant applications comprises fee-based revenue either as a percentage of funds awarded or as a fixed fee.
Interest	Especially within the context of successful grant competitions: telecottages can temporarily earn interest on advance payments and other committed yet unspent idle funds. This is a risk-free source of revenue.
Internet, business brokering, e-business	Internet-based retail sales offer more and more opportunities to telecottages in commission-based sales*.
Internet, homepage programming and maintenance	Preparing and maintaining home pages for the village, local government, small businesses, local NGOs and citizens. This includes selling advertising* on these home pages; advertising that generates significant revenues.
Internet, local service provision	The simplest service is providing local access and individual email addresses to everyone. Recruiting internet subscribers on a commission basis* is another option.
Internet, telecottage network content provision services	Telecottages could provide content to the telecottage network, or to a broader circle of clients in those areas in which they have particular expertise. (For example, internet radio for telecottages, organic farming, exchanges of children, etc.)
Internet telephone services	Internet telephony is still a part of the future, but technically it is already feasible.
Lending	The lending of multimedia and music CDs, household appliances, tools, videos, and more expensive books (such as handbooks and encyclopedias).
Local media	Publication of local newspapers* is the most common service offered. But telecottages operate local cable systems and offer studio space to local radio stations. Public relations activities also generate indirect sales potential such as advertising* and public service announcements.
Obtaining government (matching) funds	Telecottages can receive wage subsidies from county labor offices, job creation grants, block grants from local governments as well as in-kind cost sharing from the local mayor's office. In-kind cost sharing offered by the local government is the most common form of grant earned by telecottages. The use of draftees doing alternative civilian public service is a special cost-effective method for reducing expenses.
Office leasing and other space leasing	Telecottages can lease space for fixed terms to the following types of clients: distance workers, "instant offices," village caretakers, village managers, regional development managers, other advisors, NGOs such as vineyard cooperatives, etc.
Performing Public Administration tasks, advice on official matters	Governmental agencies and organs may contract with telecottages to perform administrative duties* and to provide public administration services to the public. Eventually, under certain conditions, telecottages could perform "distance" public administration on behalf of governmental agencies. A new area of operation is in an experimental phase: telecottages could serve as "remote document centers."
Photographic and video services	Digital camera services, digitizing photographs, printing photos from video and other scanning activities are lucrative when combined with color laser printing. Telecottages can sell entirely digital photo albums, a product with virtually no material expenses.
Postal services in the telecottage	Tele-post offices offer this service. Traditional and modern postal services are combined in some telecottages. Here the line between the post office and telecottage "blurs".
Printing preparation, organization, publications	Telecottages can provide all types of printing preparation such as telephone books, yearbooks, newspapers,* local calendars with advertising,* cookbooks, postcards and special publications. With appropriate equipment and preparation, more complicated jobs could also be serviced by telecottages.

providing office and grant-seeking assistance to individuals, NGOs and small business. In the beginning, the organization had only three computers, a copier and one phone line. (In 1994 the village only had manually-switched telephones). By 2001, all of the phone lines were ISDN, with a network of 12 computers, a color laser printer and all other necessary office equipment.

The telecottage in Jászkísér, like many others throughout the country, is successful in seeking funds for its capital investments and upgrades for equipment. All telecottages face difficulties in generating enough operating income to cover labor and overhead costs. For example, Jászkísér telecottage's annual revenue for 2000 was 16,000 euros. Only 6,000 euros were generated from user fees and charges. The balance was obtained from various donors and government agencies. This, of course, does not include capital grants from government programs and from umbrella NGOs distributing funds on behalf of international donors such as Phare. As a positive example, the telecottage in Jászkísér was able to cover about 90% of its labor costs with grants from the Labor Center, a government agency responsible for training and placing the long-term unemployed. The telecottage in Jászkísér is a leader in developing experimental programs with various government agencies in order to earn its operating revenues. In 2002, the telecottage will begin to offer rehabilitation services for the Social Welfare Ministry for handicapped people. In return, the Ministry will fund several positions at the telecottage from central funds. If Jászkísér's experiment works, the Ministry will consider taking the program nationwide at the micro-regional level. In this way, individual telecottages may have a long-term impact on better and more customized central government services. A key problem, however, is communicating these isolated successes to the appropriate policymakers, then converting the lessons learned into line items in the national budget to be redistributed along normative, or fee for service lines to NGOs and other alternative service providers.

In terms of generating other aspects of operating expenses, the Jászkísér telecottage and its NGO "owner" enjoy several types of in-kind revenues and contributions that do not show up in the financial statements. The local agricultural cooperative makes an old building available, free of charge, to the telecottage. By mid-2002 the telecottage will move to a brick building on the main square, but for the first 4 years of operation the cooperative's unused building enabled the NGO to have a permanent base for its efforts, at no direct cost. The Childrens' Foundation pays operational expenses such as utilities, telephone charges, wages, taxes and other material costs. The municipal government provides very little cash or in-kind support. In most telecottage villages in Hungary, the municipal government offers office space, and often covers heating and other utilities that apply to municipally owned buildings. Jászkísér telecottage, in its efforts to offer the "minimum" level of service, as well as to assist other NGOs, must constantly reinvent the revenue-generating services it provides. Jászkísér telecottage has outgrown its initial office, and has been offered free use of a municipal building.

This building, on the main square between the Catholic and Protestant churches, will serve another function. The telecottage conducted a survey on the state of the handicapped in the village, and discovered that there are no employers able to employ the handicapped. The telecottage prepared a proposal for the County Labor Office to set up a high tech printing facility that will be built around the needs of the handicapped. The telecottage was awarded 24,000 euros, or 1.5 times its total annual operating budget, to remodel the currently unoccupied and rapidly depreciating building. The telecottage will move to the refurbished building, and is committed to employing the handicapped for at least three years in its printing facility. Four new employees, all handicapped, will be added to the telecottage's current staff of four. The "teleprint" press will seek clients in Central Hungary and hopes to become self-sustaining, recycling the profits back into the telecottage.

The Hungarian government's intention to create e-government, electronic signatures, virtual tax returns and an even more decentralized public administration do not yet rely on the telecottage network. Telecottages will not substitute for 220 "document centers" in 220 cities across the country where all types of documents and filings may be processed. Drivers' licenses, vehicle registration, small business registrations, ID cards, passports and voters' registration are handled by document centers funded by the Interior Ministry (www.bm.gov.hu) and maintained by municipal governments. Given the need to protect and process sensitive personal and business data, telecottages will not have access to the government's secure data network. These document centers essentially remove paper-processing burdens from local public administration and municipal offices. Telecottages may link to this effort by providing information to clients at the village level, downloading forms and assisting citizens in filling them out.

Telecottages, if they are as intuitive as the one in Jászkísér, will have a role in assisting central and regional offices of agencies and ministries in identifying problems, finding clients (for example, where do the handicapped live?), suggesting alternative service delivery methods and vehicles at the local level, and acting as a liaison on behalf of the national government at the local level. Telecottages, in this sense, make a significant contribution not by housing distributed technology, but rather by being the credible local service provider. Post office efforts at adding public access computers to its outlets failed miserably because no effort was made to meet local needs for consultation, and instead technology was disbursed from the center with no assessment of what human services were truly in demand. Central government efforts at "subsidiarity," taking services down to the lowest level, will only succeed if these services are introduced by local organizations with legitimacy in the community.

After nearly 5 years of operation, the telecottage in Jászkísér has not been able to directly influence the delivery of government, administrative or public services by central agencies. However, the telecottage movement's leadership efforts at convincing national agencies to make better use of telecottages will

eventually result in a per-capita "telecottage normative" paid to municipalities to cover the operating expenses of telecottages that, for many reasons, provide priceless social benefits with hard costs, and lack the ability to assess reasonable user fees to recover all costs. László Balog, founder and leader of the Jászkísér telecottage, is convinced that such a normative will be forthcoming, and cited the example of village caretakers who waited over 4 years for the Welfare Ministry to recognize their success before a normative was introduced. Jászkísér's efforts at providing labor market services to County Labor Offices, on behalf of the handicapped and special needs employees, should bear fruit within two years.

Telecottages such as Jászkísér add much needed and often missing "civil technology" to central efforts such as introducing e-government, electronic signatures, electronic tax filings and on-line municipal administration. Telecottages build awareness and recognition among members of the public, so e-government, once it arrives earnestly, will be easily introduced in the villages with telecottages. In Jászkísér, the arrival of the telecottage did not preempt private efforts at gaining access to the Internet. Instead, the awareness of what was available in the telecottage contributed to private subscriptions to Internet providers. In 1997 upon commissioning of the telecottage there were no home computers and no Internet subscriptions in the village. After 4 years of telecottage services, 50 local families bought computers with Internet service.

E-government in general is still in gestation; in other words, it will only truly operate if telecottages gain the skills to pass information back up to the national level, rather than simply providing access to information from top down. Data protection and privacy laws are very strict in Hungary, often considered hindrances to data storage and retrieval efforts, so telecottages, as private, non-profit organizations, are not authorized to handle, store and transmit personal information related to many public administration functions that they could, from a technological perspective, already offer in 2001.

Future Plans

The Prime Minister's Office asked the Hungarian Telecottage Association to develop a concept for the National Telecottage Program. The Office committed itself to offer a grant competition to support the implementation of the concept. By the end of 2001, there were 221 operating telecottages in Hungary with an additional 158 under development after receiving funding. The operating telecottages oversaw an additional 38 micro-offices, with 53 new branch offices expected to be completed shortly. By 2004, under ideal conditions, about 500 to 800 telecottages will "blanket" the country. These telecottages will be connected to about 1,000 to 1,500 satellite offices. Each telecottage is independent.

Usually a local NGO owns the assets, and they provide the legal and business framework needed for lawful operations. Typically, local governments provide support with contributions of office space, personnel, financial resources,

and through contracting out of public services to the telecottage operator. Often the host institution itself is an entity affiliated with the local government (library, school, and community center). The operator could often be a private firm that signs a contract with the owner, usually an NGO. These hybrid structures are very flexible (if needed, these structures can appear to be non-profit, business-oriented or take on a public administration image), diverse, and they all adjust to local conditions.

Lessons Learned

Telecottages, as of late 2001, have had limited impact on the design of central government decentralization reforms. In a sense, each of Hungary's 3,100 local governments, with its own mayor, staff and council, are already decentralized. What is lacking on the part of line ministries is an outreach effort to use the ever-growing telecottage network to decentralize and customize service delivery. Telecottage programs are sponsored by several line ministries, by the Prime Minister's office, and by special commissions for e-government and informatics. But these are still access and technology-driven efforts with little emphasis on adding value by customizing national programs, such as for employing the handicapped as in Jászkísér, through the telecottage network. Four years of telecottage expansion have not yet proven to be enough for the feedback loop to reach the affected ministries, though offices of national programs located regionally or at the county level have modified their programs, budgets and activities based upon needs transmitted by telecottages. A challenge for the first few years of this century is for the 400 telecottages to influence national policy through highlighting isolated but intense examples of success.

A second general conclusion is that public administration modernization has been assisted by the multiplier effect of telecottages. In 1997 there was only one legally registered NGO, there are now dozens of special purpose NGOs. These organizations predominantly serve social and economic development needs, the same niche that traditional top down ministry programs cannot simply meet by spending more resources. The Jászkísér telecottage has prepared a multimedia CD presentation of the various vacant lots and excess labor available in the community, and that CD has attracted several small foreign manufacturers already. With a low budget effort based upon an intense knowledge of local resources, a telecottage can supplant the work of regional and national development agencies that spend a lot of resources, but, cannot genuinely show results.

Thirdly, e-government and the gradual electronization of public administration functions, tax filing, etc., once online, will be much simpler in those 400+ villages that have already been trained by the telecottages. The level of Internet awareness is demonstrably higher in those villages as evidenced by sales of PCs in allegedly backward remote areas serviced by telecottages. A certain level of

readiness, awareness and consciousness for e-government will make its implementation much simpler upon rollout.

Fourth, national programs, ministries and commissions are still concentrating on increasing the number of telecottages and servicing the blank spots on the map. This will soon be replaced by a need to refine content. The need to refine content or the type of revenue generating services will fit in handily with the government's long-term plans for universal access and e-government. Telecottages will be ready once a true commitment is made at top levels to fully use the legitimacy and acceptance, in other words goodwill, generated towards the Internet and email by existing telecottages.

National agencies have in a sense incorporated the numeric expansion of telecottages into their budgets without considering the structural impact of decentralized services and customized locally delivered services. Local legitimacy based upon a realistic estimation of needs, combined with national services modified in accordance with local needs, is a special niche that only NGO-based "human capital" intense organizations can provide. Dispersing high technology into villages and remote areas alone is not adequate without the acceptance and the "civil technology" that telecottages in Hungary provide, and are willing to share with their neighbors in Hungary and abroad.

Questions for Discussion

1. What are the most significant factors for successful implementation of the telecottages?
2. How would you classify services provided by the telecottages referring to the classification of e-government services presented in the Table 2 (Green Paper)?
3. Will the "telecottage initiative" survive after PC and Internet usage becomes common to the majority of the population in an individual county?

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