

PUBLIC SECTOR
IN TRANSITION

UNIVERSITY OF TARTU
FACULTY OF ECONOMICS AND BUSINESS ADMINISTRATION
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PUBLIC SECTOR IN TRANSITION

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FOREWORD

Public management has to respond to many challenges. On a macro-level they are related to **demographic changes, financial crisis, public deficits** and to transnational **integration processes**. These developments change the quality and quantity of public services. Extended or globalized markets require new institutions for effective cross border co-operation.

New Public Management (NPM) which emphasises the role of markets has promoted a more entrepreneurial provision of public services by the private and public sectors. Privatisation leads to market differentiation for educational, infrastructural and social services. Less accessibility of services for poorer citizens may be a consequence. Public service provision with a purchaser-provider approach has led to complex governance structures and regulation mechanisms. Core public administrations and public enterprises have to adapt to those developments and must re-position themselves in this more fragmented provision of public services.

Public sector transition has resulted in a world-wide reform agenda. New Public Management has developed numerous reform initiatives with sometimes unsuccessful increases in efficiency and effectiveness in the public sector.

This book is based on selected papers from those presented in the 13th International Symposium on Public Sector Management which took place in Tartu, Estonia in July 2013. The contributors to this book assess alternative approaches to reforms of the public sector. The articles focus on similarities, differences and outcomes of the transformation processes in countries with different administrative

traditions in an international comparative perspective. All in all the articles in this in-collection include findings from seven countries (Austria, Canada, Estonia, Germany, Japan, Latvia and Lithuania) as well as two addressing policy reforms in the European Union.

This research monograph provides a special focus on the Baltic countries that had to manage a **transformation of the public sector** from the central planning economy to a democratic public management. The three Baltic countries which became Members of the European Union in 2004 are still in the phase of transforming the public sector. After a decade of experience with public management the time has come to evaluate if the NPM concepts have lived up to their promises and how they could be improved further. Therefore the 13th International Symposium on Public Sector Management was organized by the Faculty of Economics and Business Administration at the University of Tartu to collect and discuss experiences with public management in transition. The articles were peer reviewed and are now offered to the public through this publication¹. We thank the reviewers for their very constructive suggestions which helped to improve the quality of this academic publication.

The contributions by authors are assigned to four sections. The first assesses basic changes in public sector management. New Public Management strategies are discussed in the second chapter. Fiscal management issues are addressed in the third section. Appropriate management tools such as performance measurement and accounting issues are dealt with in the fourth section.

In the **first section, on basic changes in public management systems, Toru Sakurai** addresses the very relevant issue of how alternative **privatisation** approaches affect the **provision of universal**

¹ The event and the publication were sponsored by the Faculty of Economics and Business Administration, the University of Tartu and by the Estonian Science Foundation. There was also individual support of the participants by various organisations such as university faculties, colleges, foundations, projects etc.

services. Toru Sakurai compares the case of privatisation of postal services in **Japan** with that in **Germany** and places them in an international context of other **postal reforms**. The author also investigates whether **universal services** are maintained as an outcome of the privatisation process. Germany's privatisation is a more radical and a more complete one. As a result, more post offices were closed in Germany than in Japan. Japan's incomplete privatisation has the effect that the service network is more protected. Therefore the services are more accessible. In contrast to other studies Toru Sakurai takes also the dependencies between postal services and financial services, provided by the postal service companies into account. He analyses conflicts between German Post AG and German Post Bank AG with respect to transfer pricing and during different merging/de-merging phases. The in-built conflicts have led to a situation in which the universal services provision is more reduced than in Japan.

Peter Eichhorn focuses on serious problems in the **corporate governance** of public enterprises in **Germany**. Peter Eichhorn investigates the **inability of politicians** to carry out their general role as supervisors of enterprises owned by states or municipalities. On the one hand, politicians are appointed to the supervisory boards as stakeholders of the public owner and for safeguarding public interest beyond the financial bottom line. On the other hand, supervisory board members have to give the management enough space to act as an enterprise. This is especially problematic in the case of large-sized, joint-stock companies of federal, state or local governments, where company interests come first, if the public enterprises are organized as private limited companies. Peter Eichhorn debates the reasons for these supervision failures. The author recommends that politicians should act as principals and that management by objectives-principles should be implemented.

The role of **research and innovation as a basis for evidence-based public policy** are discussed by **H. Ian Macdonald**. Based on

examples of public policy failures in **Canada**, the author makes the case for a more evidence-based public policy. Ian MacDonald also identifies various approaches towards public policy research. He observes a growth of implicit public policy research, carried out by extra-governmental bodies.

The **second section on public management strategies** starts with an article on challenges and public management strategies to cope with the consequences of an **aging society**. The paper written by **Hiroko Kudo** is based on the assumption that societal structures impact the effectiveness of systems. Economic growth after WWII brought along a substantive expansion of public services at the local government level in **Japan**. As a consequence of aging and a low birth rate, Japanese local governments face difficulties in stabilizing local communities and maintaining high social welfare standards. Since the 19th century, Japan has a policy to merge municipalities, which was intensified when Japan implemented NPM. The Japanese central government pursued a stick-and-carrot-approach. As the government cut back grants to smaller municipalities, their financial situations got so problematic that they agreed to merge. For analysing the agglomeration processes of Japanese local governments Kudo uses the governmentality concept by Michel Foucault which implies more attention should be paid to the populations' characteristics, cultures and identities.

David Barrows and **Sylvia Palka** explore under which circumstances **government bailouts of private firms** can be regarded as an effective public policy. After classifying different government interventions and bailout options, Barrows and Palka present a **Government Intervention Matrix** as an analytical tool for establishing a more systematic approach to government bailout decisions. The proposed intervention matrix is a tool with a potential for deciding which industries are worthy of investment, which firms to bail out, and which firms should be left to fail. The Government Intervention

Matrix assesses firms against two dimensions: attractiveness of the relevant industry and the firm's competitive strength in the industry. This tool is applied to the Port Hawkesbury paper mill in Nova Scotia, **Canada**. The case study shows that government's decision to repeatedly bail out the paper mill represents an ineffective public policy.

Martina Eckardt and **Peter Friedrich** deal with the **European Grouping of Territorial Cooperation** (EGTC) as a legal form to create a cross border **Functional Overlapping Competing Jurisdiction** (FOCJ). This **EU-wide** instrument aims to improve public management efficiency. FOCJ can vary significantly in terms of membership, internal structures and tasks. With their paper the authors contribute to the development of an economic theory to explain the formation of FOCJ, the fees and contributions paid and the competition between FOCJs. To assess whether EGTC can enforce the FOCJ, the authors discuss its possibilities and recent experiences with the implementation of this company form. Based on their findings on advantages and disadvantages of FOCJs, Eckardt and Friedrich also present steps to be taken for improving the EGTCs' regulatory framework.

Kaia Kask discusses the implementation of new public management principles in **public real estate management in Estonia**. The Estonian central government applied private sector best practices of corporate real estate management (CREM) in the central government's public real estate asset management (PREAM). In order to evaluate the Estonian reforms, four main models of PREAM are identified and analysed. The author performs a fiscal impact analysis and a benefit-cost analysis (BCA) of the four models. The results are much influenced by the level of discount rate applied to long-term cash-flow forecasts. Based on her analysis Kask shows that CREM is applicable in the public sector. The author concludes with a discussion with respect to which of the PREAM models is most applicable for special purpose properties.

Martina Rechberger and **René Clemens Andeßner** draw the reader's attention to enhancing public governance by **outcome-based contracting** in **Austria**. Contracts between the public sector and non-profit organisations should include explicit performance standards. Against this background, the authors present two case studies on the effects of an "**outcome-based contract system**" in the welfare state regime in Austria. The analysis of the two cases shows that although no common understanding of outcomes exists, it is possible to identify organisation-wide outcome objectives. Furthermore, the cases demonstrated the restricted freedom in the individual performance contract designs. There is a shift towards meta-level structures for designing and negotiating the appropriate performance standards. This is in line with traditional corporatist structures in the Austrian welfare state regime.

Inta Brūna and **Ruta Šneidere** focus on transformation processes in the **higher educational system** in a transformation country. They investigate the case of **Latvia**. In 2009 the Council of the European Union developed a strategic framework for European cooperation in education and training (ET 2020). This framework requires each EU-member state to formulate an adequate approach for modernising its educational system. In their empirical analysis the authors evaluate the compliance of the 19 measures included in the action plan (2013–2014) of the Latvian Ministry of Sciences with the EU-guidelines. Their analysis revealed that several measures are not in line with the EU-guidelines and the authors make suggestions with respect to improve compliance of the Latvian central government with EU reforms in higher education.

The **third section** of the book deals with **fiscal problems** of public management. **Viktor Trasberg** focuses on **structural changes in EU taxation** during the last decade. The European Commission called upon the member states to create a more growth-friendly tax structure. Viktor Trasberg looks at the general tax developments,

the structures of tax types in the EU-member states and changes in the tax bases of the older and newer EU-countries. During the last decade the average total taxation burden has only slightly declined. While the EU 15 plus countries have been relatively stable in their taxation structures, the new EU 10 countries have increased the importance of consumption taxes while decreasing direct taxes.

Lūcija Kavale and **Inga Būmane** introduce the reader to the **new public finance policy** that followed in **Latvia** after the recent crisis. The economic and financial crisis created particular challenges for Latvia as a transformation country. The public sector of Latvia has experienced dramatic changes: among them a sharp decrease of GDP; a decrease of budget revenue and an increase of unemployment. This coincided with a decline of territorial cohesion, an increase in unregistered employment and a high foreign debt burden. Moreover, a decrease of salaries took place that has resulted in extensive emigration. In the paper the authors investigate the problems of the public sector after the crisis and critically evaluate the state policy of public finance. The authors provide recommendations for a more sustainable public finance policy in order to ensure socio-economic development and decrease inequalities.

In **section four on public sector performance and management**, the sub-chapter of **Rūta Klovienė** and **Loreta Valančienė** focuses on the state of the art of **performance measurement of Lithuanian municipalities**. Lithuania has started to implement performance measurement in the public sector, but it was a top down implementation. Against this background the authors evaluate the maturity of the performance measurement systems and its relevance for the daily management practices in Lithuanian municipalities. Ruta Kloviene and Loreta Valančiene empirical findings show that there is still a poor application of performance measurement in the local communities reviewed. Senior municipal managers fail to realize the benefits and potentials performance measurement offers for municipalities.

Furthermore, there is a lack of motivation. The lack of understanding can also be found at the levels of lower municipal managers.

Karina Kenk and **Toomas Haldma** focus on **performance measurement and management in Estonian local governments**. The authors assess the use of performance information by local governments along the Plan-Do-Check-Act-cycle. Furthermore, Karina Kenk and Toomas Haldma explore how various factors have influenced the adoption of performance management. As an analytical tool they use Lüder's Financial Management Reform Model. Their findings show a weak link between municipal strategic planning and annual budgets. A further weak causal relationship exists between strategic goals, corresponding performance measures and attainment of strategic goals. The authors conclude that the annual budgeting, reporting and decision-making follow a closed-loop cycle. Furthermore, the failure to integrate strategic planning into the management process results in weak accountability. The influence of legal regulations also impedes the design of performance management system.

As in other EU-countries, the accounting of public property has to be improved. This topic is examined by **Lina Dagilienė** and **Violeta Mykolaitienė**. In **Lithuania** state-owned property should be valued applying the fair value principle. In practice the financial statements are not in line with this, as the country is still in a transition phase. In Lithuania the most important accounting issues concern the correct accounting for mineral resources, land and forests. The authors analyse the current accounting practices and make recommendations with respect to improvements in the recognition of these assets.

New Public Management initiated changes in the management accounting of public universities. **Dorothea Greiling** and **Susanne Kirchhoff-Kestel** give an overview on the state of **university cost accounting** and its challenges in **Austria** and **Germany**. Based on a qualitative research design, the article compares the state of the art of cost accounting in the two countries at the university level. The

most dominant purposes are examined as well as the design and the relevance of cost accounting for intra-university coordination. Universities in both countries made considerable progress with respect to cost-type and cost-centre accounting. With respect to cost-unit accounting a pragmatic attitude can be found. More advanced forms of cost accounting play a negligible role. The role of cost accounting within the universities' management control is still in progress. There are a number of areas for improvement, e.g. allocation of overheads or meaningful indicators to specify research output.

This overview indicates that this publication addresses transformation issues at various levels. At the supra-national level are the contribution by Eckardt and Friedrich and Trasberg. Transformations in the EU-policies in higher education serve as a motivation for Bruna and Sneidere to look at the respective implication in Latvia. Also the article by Greiling and Kirchhoff-Kestel focuses on the higher education sector, but this contribution looks at management accounting practices. The sub-chapter by Dagiliene and Mykolaitiene addresses financial accounting practices. The articles by Kloviene and Valanciene, Haldma and Kenk, as well as Kudo, deal with transition necessities and transition approaches on the local government level. Special public policy fields are addressed by Barrows and Palka.

Beyond the EU the article by Sakurai compares privatisation of postal services in Germany and Japan. Cross-sector aspects are addressed by Kask with her focus on real estate management. The sub-chapter by Andessner and Rechberger looks at the interface between public and the non-profit sector.

General issues with respect to NPM are addressed by Eichhorn and Macdonald. They draw our attention to principal agent problems as well as the lack of rational decision making.

If we look at the reform agenda of New Public Management it can be stated that often the implementation of a management practice proved to be more difficult than expected. Beyond the mere technical

FOREWORD

level attention should be paid to contextual and cultural factors. The publication also shows that the problem of incomplete reforms is not an issue which is only faced in transition countries. If we divide the countries analysis into late and first movers with respect to public management reforms, the reform urgency and reform dynamic has been higher in the transition countries.

With this scholarly collection we contribute to the academic debate on transitions in public management reform countries. Hopefully, this selection of papers will entice practitioners and academics to carry out further studies which help to improve the efficiency, effectiveness and governance of public services.

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