

Measuring Greek Public Administration Performance and Risk: Compilation and implementation of a mixed management model

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Abstract

The economic crisis has already created the new characteristics and conditions for Greek public administration implementation and assessment. The Greek public sector today faces a major challenge: to adapt to the new global reality of 'doing more with less' and/or 'doing less with less'. At the same time, risk management has developed into a dominant concept of vital importance for the survival of public organizations as a new methodological approach to decision-making for public officials.

The present study primarily aims at the development of an integrated model of estimating the financial and operational risks constantly faced/encountered by public sector organizations. The model also examines the performance of these organizations using a set of non-financial variables which define it. The research model is supplemented by the analysis of a series of factors which contribute to the revelation of hidden potentials and characteristics of higher level public officials which jointly aggregate to define these concepts.

Key words: Risk, economic risk, operational risk, Performance, Public sector organizations

Introduction

Amidst the financial crisis and an extremely fragile economic, social and political environment, the Greek State is asked to play a more powerful role initiating the complex processes of reforming its functions, in order to create a new, more stable framework for the organization and control for the significant procedures and responsibilities of public administration. In the complex environment in which states operate today, it is vital that we arrive at the proper conceptualization of the mission of public administration and the methods used for its implementation, especially of state agencies under restructure.

For the successful management of the required reforms, saving time or the so-called 'window of opportunity' constitutes the most crucial variable. At the same time, results-oriented goals which will lead to improved performance of the existing processes in the public sector as well as the adoption of risk management policies constitute essential prerequisites.

The creation of a mixed model translating the mission and policies of any state organization into a concise set of performance and risk measurements is still extremely difficult. This is due to several aggravating factors: lack of collective initiative, meritocracy, wasteful allocation of scarce resources, inertia, legalism, management flattening, atrophy of disciplinary law, incidence of least effort behaviors, organizational overlaps and lack of rational planning of new labor positions.

Performance in the new public management

In contrast to the corporate world, where performance is related to the creation of private value, in the public sector performance is related to the creation of public value (Moore 1998). Performance is the degree to which a public organization achieves its set goals given the external factors that it has to face (OECD 2007).

In public administration, two forms of performance are distinguished: *policy performance*, which is related to the success of services provided to cover the needs of citizens and *management performance* which refers to the effectiveness of management in the public organization (Bovaird 1996).

Definitions of performance vary in the literature. Some authors define it as “quantitative representation of quality and quantity of the input, output and the results of the organizations or their programs in their social framework” (Neely et al. 1995). Others define it as the quantification process of effectiveness and efficiency of activities (Johnsen 2005). Efficiency as an economic term refers to the ratio of the used resources to the achievement of the desired result

Efficiency refers to the degree to which customer demands are satisfied in a private or public organization while effectiveness refers to the measurement of the way the organization resources are used to produce a specific degree of customer or citizen satisfaction. Effectiveness also includes the ability of the organization to achieve its set objectives, ‘to do the right job’ (Pollit & Bouckaert 2004, Sherman & Zhu 2006). It is analyzed in the literature as the ratio of the output to the results (Pollit & Bouckaert 2004, Bayne 1996). Efficiency, on the other hand, does not only refer to the achieved result but to the manner in which it is achieved. In this case, the role of management becomes crucial in performance management.

The emergence and implementation of state organization and operation models for measuring performance in the public sector begins in the 1950s. That was the time the first attempt was made to evaluate the condition of the public sector finances (Zervopoulos & Palaskas, 2011). Since then, significant progress has been made. In 1960, during the Kennedy administration in the USA, the Ministry of Defense applied the Planning, Programming and Budgeting System (PPBS) to evaluate financial and policy data. PPBS has also been used by other OECD states and other state agencies in the USA (OECD 1997, Niven 2003). Its evolution was Zero-Based Budgeting (ZZB) which started to be regularly used by states embarking on performance measurement initiatives or replacing older ones. Till the end of the 1960’s, efficiency-effectiveness measurement methods applied in public administration internationally emphasized the evaluation of accounting data and financial indicators (Zervopoulos & Palaskas, 2011).

The attempted redefinition of public administration with a view to increasing public sector efficiency has led many OECD and most SE Europe countries to implement performance measurement methods (effectiveness/ efficiency) investing increasingly more financial capital and man hours (OECD 1997). The definition of effectiveness for the Greek public sector still constitutes a complex endeavor and at the same time a challenge for the researcher. The interest in enhancing its effectiveness tends to increase due to efforts to minimize public sector operational cost and amend its dysfunctions in the framework of radical restructure of the Greek economy.

Risk and its management in the new public management

Risk, on the other hand, is not a unidimensional, sufficiently defined notion. It is a concept whose meaning varies depending on the context it is used in. For the layperson, risk generally means ‘exposure to adversity’ while at the same time it is related to uncertainty and insecurity. According to Borge (2008), risk means becoming exposed to the possibility of a negative outcome (Zapranis 2009). Risk is also defined as the general quantitative anticipation of an impending threat after an evaluation of factors and conditions (Kyriakakis & Kanalis 2006). Other researchers define risk as the ‘possibility of an undesirable event at a given time, in relation to the criticality and importance of the threat for the organization’ (Bester 1996). According to Kefis (2005) the most important risks faced by contemporary financial entities fall into the following categories: business, commercial, credit, liquidity, operational and legal.

States face differentiated risks today. Calculating the risk faced by a state presupposes the estimation of economic, financial and political factors; the latter type including operational risks (Brewer & Rivoli 1990, Root 1972). In the case of Greece, the risks faced by Greek state organizations are attributed to radical decrease of funds (economic risk) as well as the perpetual organizational and administrative reform of the public sector which leads to downsizing of the personnel, changes in its composition, change of responsibilities or even termination of its operation (operational risk).

In economic theory, economic risk is linked to market risk (currency, interest rates, prices of goods, credit) and to liquidity risk (Pomonis 2008). Operational risk, on the other hand, is defined by the Basel Committee as “the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events” (BCBS, 2006:2).

The 2008-2015 financial crisis period in Greece

Throughout its history, even from the years of the Ottoman Empire, Greece has been linked with severe public debt problems. In fact, it has spent more than half of the years since its 1832 independence from the Ottoman Empire in heavy debt. Economists highlight the deeply rooted characteristics of the Greek economy and society which have prevented sustainable economic growth and have created the conditions for the current crisis. Key characteristics of these conditions are: a wasteful state, large and ineffective public administration, widespread tax evasion, extensive clientelism (Nelson et.al, 2011) and, finally, the size of the state, which, measured by any conventional index, has recently increased (Rapanos 2009).

Two additional factors incrementally contributed to the creation of the new post-war economic crisis. First, in the 1990’s when Greece started to prepare for the adoption of the euro currency, its borrowing costs decreased dramatically. The 10-year Greek bond interest rates fell by 18% (from 24.5% to 6.5%) during 1993 and 1999 (Nelson et.al, 2011). Second, the EU member states were committed (and still are) to the regulations of the Stability and Growth Pact dictating restriction of budget deficits (to 3% of GDP) and levels of public debt (to 60% of GDP) for each state. These restrictions are binding and evoke fines amounting to 0.5% of GDP. However, during this period no penalties were imposed by the relevant EU services but simple reprimands in writing. Lenience in the EU audits led to unrestricted borrowing by the Greek government, which seemed unconcerned of the risks underlying such policies. Since 2003 EU started to refer to the relevant authorities more than 30 cases of

member states that had violated the fiscal rules dictated by the Stability and Growth Pact including Greece (Nelson et.al, 2011).

The massive inflow of capital with low interest rates during the 2000's and the international financial crisis of 2008-2009 further deteriorated the structural problems of the Greek economy resulting in non-sustainable public finances. Inevitably Greece was at the center of the Eurozone debt crisis with the highest public debt among Eurozone countries and one of the largest, comparatively, budget deficits. Greece became the first country of the Eurozone to receive intense market pressure and the first to turn to the rest of the Eurozone countries and the IMF for financial aid.

From 2009, investor trust in the ability of Greece to service its debt decreased dramatically. Indicatively, public debt in Greece rose from 106% of GDP to 126% in 2009. These adverse developments soon led to the rise of Greek bond spreads. There ensued a cataclysmic chain of events: Investors grew increasingly nervous due to the staggering debt and, predicting a Greek state bankruptcy, began to demand higher interest rates in order to purchase and hold Greek bonds (Nelson et.al, 2011).

Method

The methodology adopted in this research is the quantitative one, which will be based on the collection of primary data by means of a questionnaire. Quantitative research methodology is based on the analysis of a large body of numerical data that represent the quantity and frequency of occurrence of a phenomenon. (Bell et al.2001). In this context and according to the literature on the issue under investigation, it follows that the most suitable research methodology for the measurement and management of performance and risk in the Greek Public Sector is the quantitative method for the following reasons: a) the large data bank that can be accessed, b) possibility for standardization of the data, c) the suitability of the data for statistical processing, d)the objectivity and generalizability of the conclusions and e) the potential for further analysis by other researchers. The choice of the questionnaire is based on two reasons: First, the questionnaire is characterized by an exceptional balance between cost, validity and effectiveness in data collection. Second, experiments and observation have important limitations. In the field of management, the scientific questionnaire is clearly dominant in frequency as well as in effectiveness (Saunders et.al., 2003).

Research has the following aims: First, to introduce a valid and reliable instrument (questionnaire) which can be used by Greek public sector organization for performance and risk assessment. Secondly, to link administration characteristics of Greek public sector organization with performance. Third, to link perceived organizational risk with performance in Greek public sector organizations. If the aims of the present research are met, monitoring the function of Greek public sector organizations will become more efficient, through the measurement of performance and risk. Furthermore, the research will highlight the characteristics of administrators of public organizations displaying increased performance. This will facilitate the optimal selection of administrative personnel, thus increasing public organization performance.

Questionnaire structure

The questionnaire consists of four (4) parts:

Part One- Demographic information

The first part of the questionnaire records demographic information of the sample and is divided into two units. The questions in the first unit aim to collect data on staff training, skills, advancement in grade and promotion of state organization managers. The questions in the second unit are structured in such a way as to help gain insight into how the organization is structured and how it operates

Part two- Performance Measurement

The basic scale for performance measurement is the scale created Prof. Spangenberg and Prof. Theron (2011) to measure the performance of unit managers/ executive officers. The particular scale, a synthesis of Systems approach (Nicholson & Brenner,1994), Leadership outcomes (Conger & Kanungo,1998) and Time-dimension model of organizational performance (Gibson, Ivancevich & Donnell,1991), is an outstanding instrument for measuring a unit managers' performance.

Part three- Risk measurement

This part attempts to examine and assess the previously mentioned two types of risk faced by the organization: economic and operational risk. The respondents are called to rate the course of these organizational variables two times: one during the recent years and a second one on how they expect these variables to evolve (increase, decrease or remain as they were) in the years to come. Therefore, there are two operational risk scales, the first that measures "present risk" by recording how key organizational variables have evolved during the recent years and the second that measures "future risk" by recording how the managers think that those variables will evolve in the future. In order to measure economic risk, the questionnaire uses the scale which was proposed by the AGA (Association of Government Accountants in the United States of America). AGA is an official body which established the Partnership for Intergovernmental Management and Accountability, with the purpose of detecting and prioritising critical economic issues or threats, and suggesting measures or actions to approach these issues (AGA, 2009). Because the AGA scale was specifically tailored for the USA public sector it was again deemed necessary, as in the case of operational risk, to develop a new instrument specifically modified so as to fit the Greek public sector. In order to do so, the same methodology was followed as in the case of operational risk

Sampling

In the final stage of the evaluation of the present questionnaire, twenty-three (23) questionnaires were distributed to managers of Greek state organizations and other public or parastatal bodies. Of the twenty-three (23) questionnaires, fifteen (15) were answered and returned (ten after a face-to-face interview and five via e-mail), constituting a percentage of 65%. The sample is considered sufficient for the statistical processing and reliability analysis

of the measurement scale used in the present survey. More specifically, the statistical analysis of the pilot test included: Missing Values Analysis and Reliability Analysis-Cronbach's alpha (α)

Results

Total reliability report

The questionnaire comprises 12 scales (cf. appendix), one of which includes 3 subscales and one 8. In total, 23 scales/ subscales were analysed for reliability. Of these, only one scale, Economic risk, required the deletion / omission of four (4) questions for its reliability to be good.

Operational Risk Scale: General Operational Risk Scale (Present):

The general operational risk measurement scale (present) contains 17 questions. The reliability analysis was conducted again through calculation of Cronbach's α coefficient and, as is evident in the following table, the score was high ($\alpha = 0.869$). This score shows that the validity level of the scale is acceptable, and as a consequence, the initial 17- question scale can be used for the purposes of this survey. **General Operational Risk Scale (Future):** The general operational risk measurement scale (future) contains 17 questions. The reliability analysis was again based on the calculation of Cronbach's α coefficient and, as is evident in the following table, the score ($\alpha = 0.821$) indicates that the validity level of the scale is acceptable. As a result, the initial 17- question scale can be safely implemented to serve the purposes of this survey. Of the 15 α scores calculated, the best results were yielded by the omission of the question 'The organization is timely in submitting its financial statements' ($\alpha = 0.162$), which was however, still not acceptable. As a result, the process of calculating α was replicated, in order to spot the question whose omission would improve questionnaire reliability. Out of the 14 different scores calculated, the most optimal was yielded by the exclusion of the question 'The funding of the organization is below tolerance levels' ($\alpha = 0.494$), which in turn was lower than the minimum requirement of 0.7. Therefore, this question was also omitted and the new, 13-question questionnaire was put up for further analysis. This step revealed that, if the question 'the organization's ability to raise funds through borrowing or loans has grown' were to be edited out, the α score would be significantly better ($\alpha = 0.668$), a fact which indicated, however, that the scale would still be unreliable. For this reason, we considered that the analysis process would have to be repeated, omitting yet another question from the scale.

Conclusions

Greek public administration executives face the challenge of earning back the citizens' trust. Prompted by this fact, the present research attempted the development of a comprehensive model of risk and performance management in the public sector. The model was checked for reliability and proved to have good reliability features with the exception of Economic risk scale, from which it was necessary to omit four (4) questions in order for its reliability to be good.

The final contribution of this research lies in the proposal of a valid and reliable instrument that can be used by Greek public sector organizations to measure and link organizational performance and organizational risk and to highlight as well as relate the particular individual manager characteristics of Greek public sector organizations with the performance of the unit they manage. For the creation of the instrument proposed by the present research, a number of

variables have been studied including, executive burn out, remuneration satisfaction etc. –In the international literature there is a wealth of variables that describe levels of the variables under research.

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