EFFICIENCY VS EFFECTIVENESS IN ROMANIAN PUBLIC INSTITUTIONS
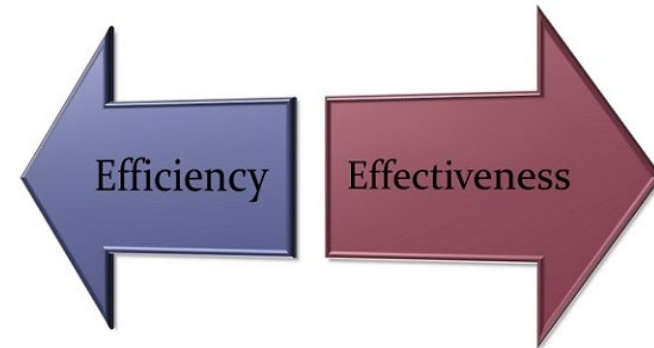
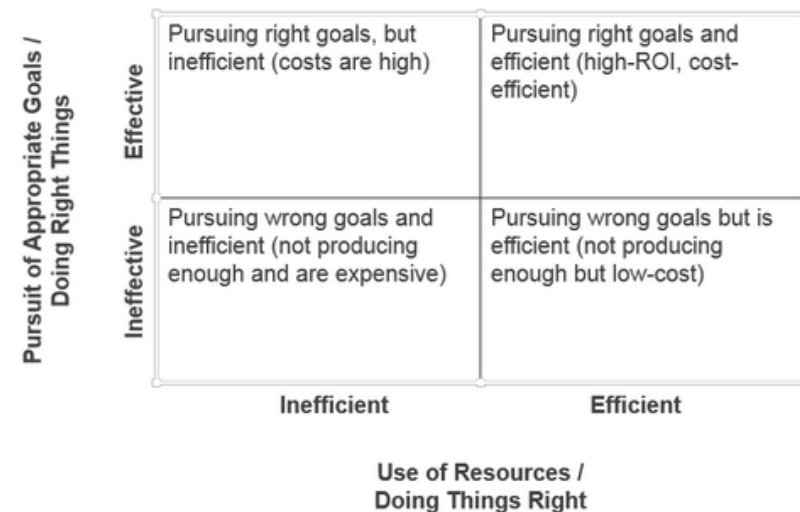Alina Iuliana TĂBÎRCĂ

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- **Effective** *(adj.) – Adequate to accomplish a purpose; producing the intended or expected result.*

- **Efficient** *(adj.) – Performing or functioning in the best possible manner with the least waste of time and effort.*

Efficiency ← | → Effectiveness

	Inefficient	Efficient
Effective	Pursuing right goals, but inefficient (costs are high)	Pursuing right goals and efficient (high-ROI, cost-efficient)
Ineffective	Pursuing wrong goals and inefficient (not producing enough and are expensive)	Pursuing wrong goals but is efficient (not producing enough but low-cost)

Pursuit of Appropriate Goals / Doing Right Things

Use of Resources / Doing Things Right

Being effective is about doing the right thin while being efficient is about doing things r

Comparation

Public Organizations	Private Organizations
Are usually monopolies	**Operating on competitive markets**
Serve the citizens	Maximize the investment's profit
Are driven directly or indirectly by politicians, which should reflect the interests of the citizens.	Leaders of companies are responsible to shareholders, to the boards; they seek profit maximization.
State organizations are more rigid due to the process of decision making and Implementation.	Are more flexible, easier to manage because the decision is taken by a single leader.
Distribute, redistribute and regulate resources.	Produce and distribute resources.
Are sometimes poorly funded, more or less.	Are financed under its productivity or if investment the decision is feasible.
Citizens are often poorly informed and suspicious of government.	Investors and shareholders are well informed and the ongoing activities of the company and the market evolve

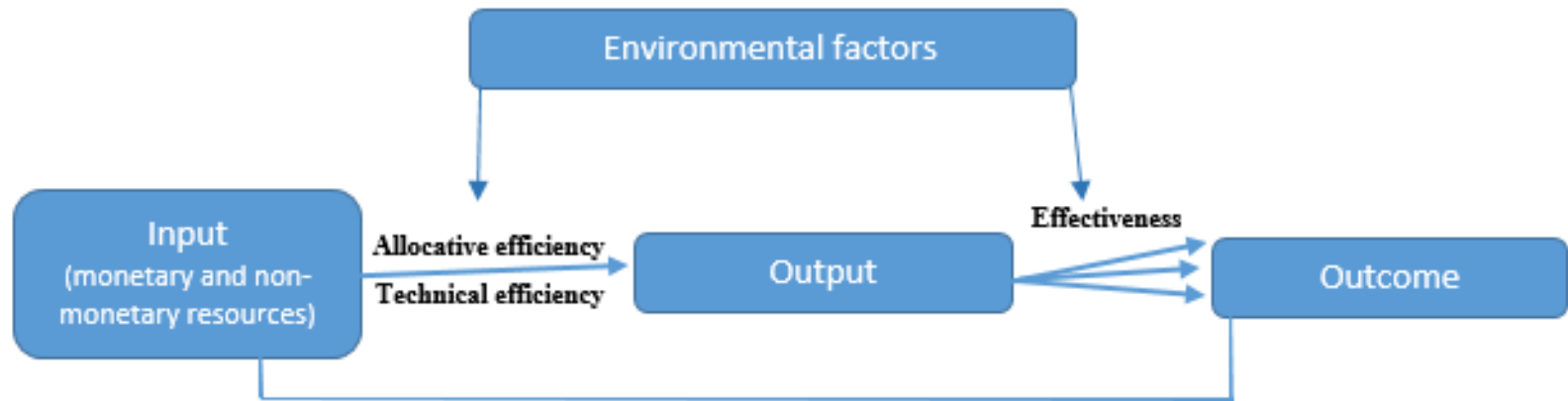*Source: Kotler P., Lee N., 2008, p.18.*

The efficiency of public expenses implies a relation between the economic and social effects resulted from implementing a program and the effort made to finance that program.

The effectiveness is the indicator given by the ratio of the result obtained to the one programmed to achieve.

Peter Drucker believes that there is no efficiency without effectiveness, because it is more important to do well what you have proposed (the effectiveness) than do well something else that was not necessarily needed.

The effectiveness is a necessary condition to achieving efficiency.
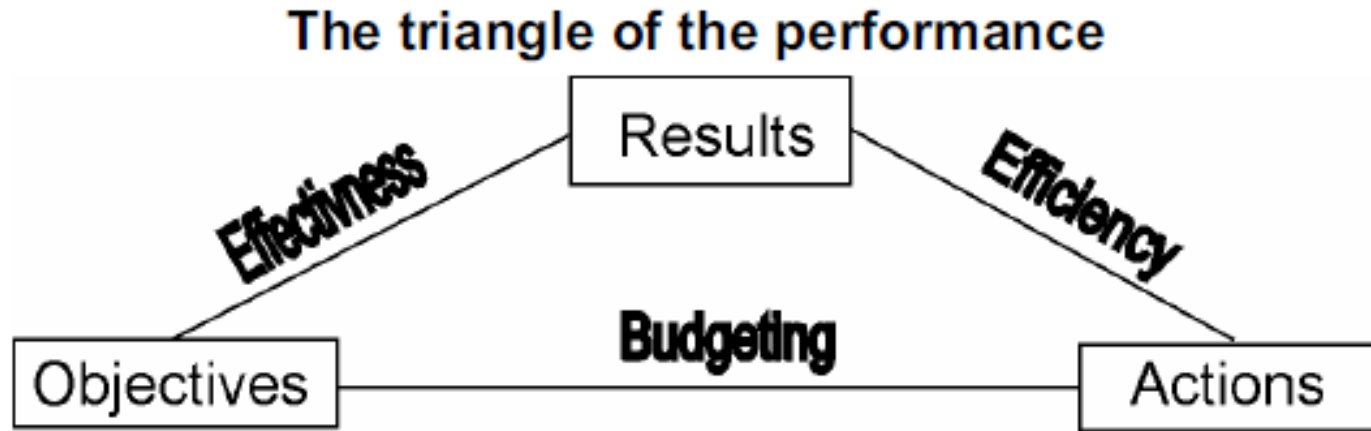
The relationship between the efficiency and the effectiveness of public sector

Source: Mandl and All*, 2008*

The effectiveness, in terms of this study, implies a relationship between outputs and

Effectiveness is harder to achieve than efficiency, since the latter is not influenced by outside factors.

The triangle of the performance

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                          ┌─────────┐
                          │ Results │
                          └─────────┘
           Effectiveness              Efficiency

┌────────────┐      Budgeting      ┌──────────┐
│ Objectives │─────────────────────│ Actions  │
└────────────┘                     └──────────┘
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Performance assessment can be achieved through some measurement categories:
1. *Measuring the resource economy;*
2. *Measuring the costs;*
3. *Measuring the efficiency;*
4. **Measuring the effectiveness;**
5. *Measuring the quality of services;*
6. *Measuring the financial performance;*
7. *Measuring the overall performance.*

- The general form of the score function measuring the performance of the public sector in EU is the following:

$$f(x) = \alpha_1 * X_1 + \alpha_2 * X_2 + \cdots + \alpha_7 * X_7$$

Where:

α_1 = importance related coefficient

X_1 = indicators of the public sector's performance

$$\alpha = \frac{p + \Delta p + m + 0.5}{-\Delta p' + \frac{N}{2}}$$

Where:

p = sum of obtained in line score of the used criteria

Δp = difference of the used criteria score and the last level criteria score

m = the number of criteria that have a lower number of points than the used criteria

N = the number of used criteria

$\Delta p'$ = the difference between the used criteria score and the first level criteria score

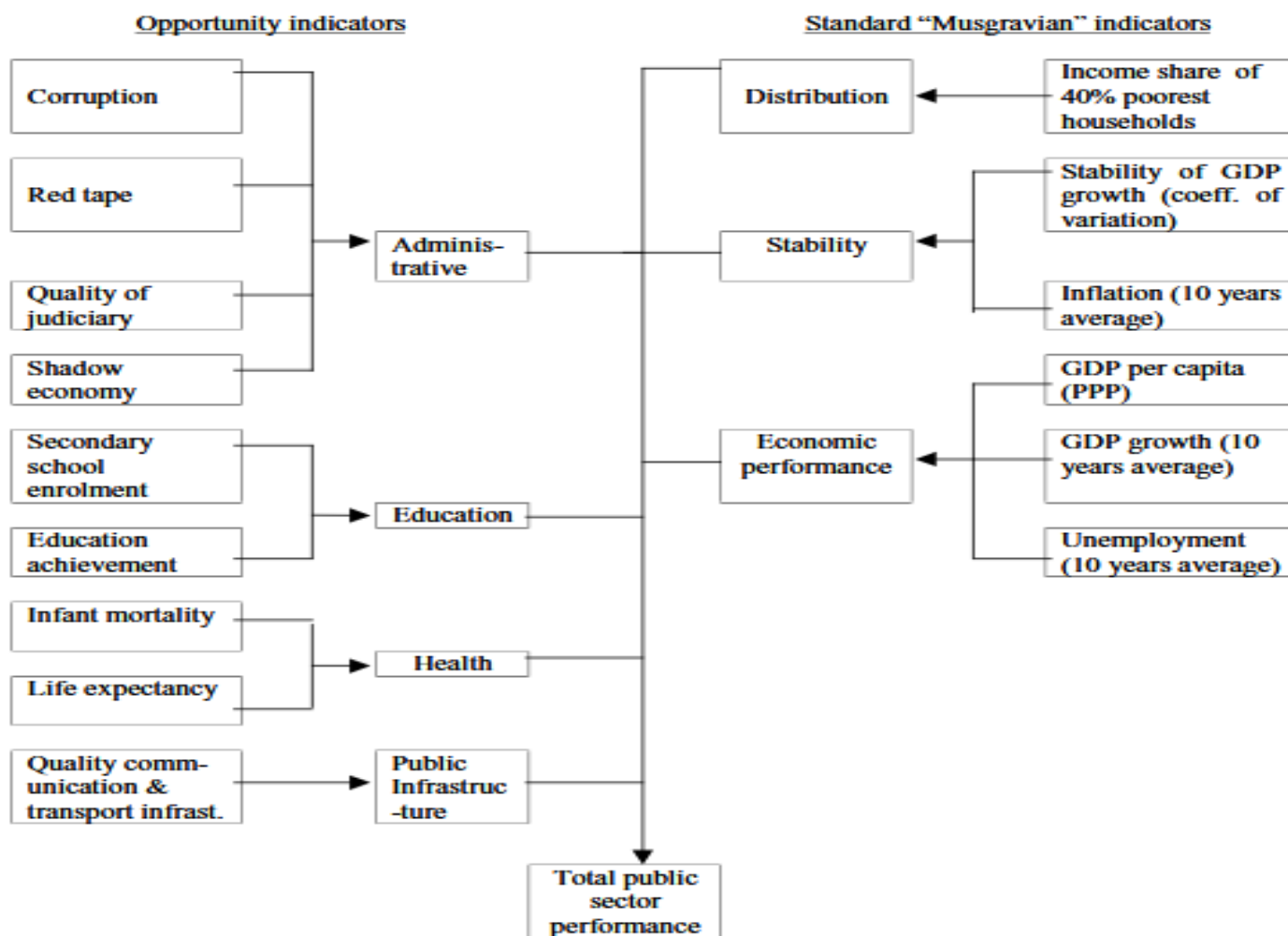In this study we pose the following research questions:

How do countries perform in terms of the outcome indicators, that is, in terms of the goals that their public policies aim to achieve?

Which countries/regions perform best? Which countries/regions do worst?

Which countries have shown the biggest improvements since 2008?

Research Study

- Following the relation from the previous slide, Afonso A., and all, in their paper, propose for measuring the overall public sector performance an indicator (PSP), obtained on the basis of a set of seven sub-indicators, each of them developed themselves on indices. The objective of the next study is to elaborate a score function regarding the performance of the public sector at the level of member states of UE.

- The score function will contain seven indicators, four opportunity indicators and three "Musgravian" indicators; however, each indicator is composed of a variable number of sub-indicators weighted equally in the construction of the parent indicator.

Research Study

- The score is obtained after the matrix calculation of the level of importance of each indicator compared to the other indicators by determining coefficient of the determination, calculating according to GDP per capita. Weights or importance-related coefficients obtained are presented in the following table:

	X1	X2	X3	X4	X5	X6	X7	sum score	points	level	coeff
X1		0,5	0,4	0,3	0,4	0,5	0,5	0,3	2,9	3,00	3	1,196
X2		0,5	0,5	0,3	0,5	0,5	0,5	0,3	3,1	3,50	5	2,094
X3		0,6	0,6	0,5	0,6	0,6	0,6	0,5	4	4,30	7	3,343
X4		0,5	0,4	0,3	0,5	0,5	0,5	0,3	3	3,20	4	1,489
X5		0,5	0,4	0,3	0,4	0,5	0,5	0,3	2,9	3,00	2	0,761
X6		0,4	0,4	0,3	0,4	0,5	0,5	0,3	2,8	3,00	1	0,702
X7		0,6	0,6	0,4	0,6	0,6	0,6	0,5	3,9	4,20	6	2,917

PSPUE SCORE= 1.196 x X1 + 2,094 x X2 + 3,343 x X3 + 1,489 x X4 + 0,761 x X5 + 0,702 x X6 + 2,917 x X7

- **X1 = administrative**, which is composed of 4 sub-indicators: *corruption* ; *red tape*; *quality of judiciary*; *shadow economy;*
- **X2 = education:** which consists of 2 sub-indicators : *secondary school enrolment,* taken from the UNESCO statistics and *education achievement*
- **X3 = health**, which is composed of 2 sub-indicators: *infant mortality* and *life expectancy,* both calculated and published by the World Health Organization.
- **X4 = public infrastructure**, which has one sub-indicator – *quality communication and transport infrastructure –* and for its quantification we used the results published by World Economic Forum, results for the second pillar of competitiveness, infrastructure
- **X5 = distribution**, which is based on one sub-indicator, *inequality of income distribution,* which is the ratio of total income received by the 20% of the population using data published by Eurostat.
- **X6 = stability**, indicator based on equal weights of the following 2 sub-indicators: *stability of GDP growth* (coefficient of variation) and *inflation* for the period 2008-2017
- **X7 = economic performance**, which was based on 3 sub-indicators: *GDP per capita* (PPP), *GDP growth* and *unemployment* for the last 10 years, during 2008-2017

PSP score function in UE

Country	PSP score	Administrative	Education	Health	Public Infr	Distribution	Stability	Ec. Performance
Finland	10,558	0,88	0,99	0,99	0,81	0,57	0,58	0,72
Luxembourg	10,147	0,83	0,73	0,92	0,88	0,39	0,42	0,91
Slovenia	9,674	0,63	0,93	0,99	0,72	1,00	0,12	0,60
Austria	9,342	0,94	0,83	0,55	0,90	0,48	0,98	0,77
Estonia	9,276	0,85	0,85	0,91	0,77	0,34	0,58	0,56
Germany	8,932	0,88	0,80	0,49	0,93	0,80	0,55	0,75
Ireland	8,819	0,72	0,94	0,54	0,77	0,44	0,47	0,81
Netherlands	8,650	0,78	0,85	0,45	0,98	0,51	0,41	0,79
Denmark	8,644	0,97	0,86	0,42	0,85	0,50	0,58	0,77
Sweden	8,458	0,90	0,66	0,63	0,86	0,48	0,06	0,76
Belgium	8,379	0,78	0,83	0,45	0,82	0,54	0,64	0,73
Italy	8,281	0,58	0,94	0,58	0,80	0,28	0,45	0,66
Czech Republic	8,279	0,66	0,79	0,58	0,64	1,00	0,58	0,61
France	8,238	0,86	0,78	0,42	0,95	0,47	0,57	0,69
Portugal	8,033	0,79	0,79	0,58	0,87	0,30	0,37	0,58
Spain	7,950	0,79	0,76	0,58	0,91	0,20	0,12	0,64
United Kingdom	7,732	0,90	0,79	0,40	0,92	0,34	0,02	0,69
Cyprus	7,661	0,55	0,81	0,46	0,78	0,44	0,62	0,63
Lithuania	7,548	0,85	0,85	0,54	0,66	0,11	0,43	0,54
Malta	7,448	0,66	0,78	0,46	0,69	0,49	0,42	0,61
Greece	7,414	0,48	0,94	0,46	0,72	0,26	0,54	0,57
Hungary	7,283	0,71	0,83	0,46	0,59	0,48	0,51	0,53
Poland	7,135	0,74	0,86	0,38	0,68	0,44	0,39	0,53
Latvia	6,826	0,82	0,83	0,37	0,60	0,23	0,45	0,51
Croatia	6,582	0,70	0,48	0,46	0,65	0,39	0,62	0,51
Slovakia	6,378	0,70	0,72	0,31	0,54	0,57	0,16	0,57
Bulgaria	4,917	0,65	0,44	0,22	0,45	0,00	0,64	0,47
Romania	**4,739**	**0,72**	**0,48**	**0,15**	**0,39**	**0,21**	**0,28**	**0,49**

PSP for Romania

Country	PSP score	Administrative	Education	Health	Public Infr	Distribution	Stability	Ec. Performance
UE average	7,976	0,761	0,790	0,527	0,754	0,438	0,448	0,643
Finland	10,558	0,88	0,99	0,99	0,81	0,57	0,58	0,72
Romania	4,739	0,72	0,48	0,15	0,39	0,21	0,28	0,49

Conclusions

Policy makers need to find ways to increase the performance of the public sector by addressing the following priority issues:

- Increasing economic stability;

- Improving the quality of public infrastructure;

- Incrementing administrative performance by fighting corruption, reducing state bureaucracy, increasing the quality of justice and strongly reducing the shadow economy with at least 13 percentage points of GDP;

- Increasing the quality and performance of education;

- Extending the distribution of income and reducing disparities in income between different categories of population in Romania;

- Augmenting the performance of the health system;

- Obtaining visible results regarding economic performance.

Thank you for your attention!

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