PERFORMANCE MANAGEMENT IN THE PUBLIC SECTOR

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ABSTRACT: *Performance measurement has become a central component of contemporary public sector management, driven by increasing demands for efficiency, accountability, and transparency. This article examines the role of performance indicators in public institutions, with a particular focus on the distinction and complementarity between financial and non-financial measures. Through a comparative analysis, the paper highlights the advantages and limitations of financial and non-financial indicators and demonstrates the necessity of integrating both types of measures to capture economic sustainability, service quality, and social impact.*

KEY WORDS: *performance, public sector, financial performance, non-financial performance, efficiency, performance management.*

JEL CLASSIFICATION: *H70, D61, H83.*

1. INTRODUCTION

Performance management in the public sector refers to the systematic process through which public organizations plan, monitor, assess, and improve their activities in order to achieve desired policy outcomes and deliver value to citizens. Unlike the private sector, where performance is primarily driven by profit and market competition, public sector performance management focuses on achieving public goals, using resources responsibly, and responding to societal needs. It integrates strategic planning, performance measurement, evaluation, and accountability mechanisms to ensure that public institutions operate efficiently, effectively, transparently, and ethically. In an environment characterized by increasing public expectations, fiscal constraints, and complex social challenges, performance management has become a critical tool for enhancing service quality, strengthening trust in public institutions, and supporting evidence-based decision-making.

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Performance management in the public sector is crucial for ensuring that public organizations operate efficiently, effectively, and in alignment with their goals and the expectations of the public.

2. CONCEPTUAL APPROACHES TO PERFORMANCE IN THE PUBLIC SECTOR

The concept of performance has been addressed in the management and public administration literature. Early contributions to performance management emphasize its role as a systematic approach aimed at improving both individual and organizational outcomes. According to DeNisi, performance management encompasses a broad set of organizational activities designed to enhance the performance of individuals or groups, with the ultimate goal of improving overall organizational effectiveness. This perspective highlights performance as a dynamic and continuous process rather than a static outcome (DeNisi & Murphy, 2017).

From a strategic standpoint, Armstrong M stress the integrated nature of performance management, arguing that it should be closely aligned with organizational strategy. They define performance management as a means of increasing organizational effectiveness by improving the performance of employees and developing the capabilities of individuals and teams. While their approach originates largely from the private sector, its principles, such as goal alignment, performance measurement, and capability development, have significantly influenced public sector reforms (Armstrong, 2009).

In the context of public administration, performance is often conceptualized as a relationship between objectives, resources, and results. Profiroiu M. argues that public sector performance arises from the simultaneous pursuit of *efficiency*, *effectiveness*, and an adequate *budgetary framework*. This definition underscores the specific constraints of the public sector, where performance cannot be assessed solely through outputs or financial indicators, but must also reflect the responsible use of public funds and the achievement of policy objectives (Profiroiu M., 2001).

Further elaborating on the complexity of public sector performance, Profiroiu A.& Profiroiu M., in their study *The Analysis of Public Sector Performances*, highlight various methods for evaluating the performance of public organizations. They emphasize that assessing public sector performance is particularly challenging due to the difficulty of clearly defining objectives, outcomes, and performance criteria in a context characterized by multiple stakeholders, diverse public interests, and non-market outputs (Profiroiu, A & Profiroiu, M., 2007).

Overall, the literature suggests that performance in the public sector is a *multidimensional and context-dependent concept*, integrating managerial efficiency, policy effectiveness, and societal impact. Unlike private sector performance, which is often measured through profitability and market indicators, public sector performance must account for public value creation, accountability, and long-term social outcomes. Consequently, contemporary approaches support for comprehensive performance frameworks that combine quantitative indicators with qualitative assessments, reflecting both managerial and governance perspectives.

Performance in the public sector can be defined as the degree to which public organizations achieve their policy objectives and deliver public value, while ensuring the efficient, effective, and accountable use of public resources in response to societal needs.

In this context, public sector performance encompasses multiple dimensions, including effectiveness, understood as the achievement of intended policy outcomes; efficiency, referring to the optimal relationship between inputs and outputs; and service quality, which reflects the capacity of public institutions to meet citizens' expectations. Additionally, performance involves accountability and transparency, as public organizations are required to justify their actions and the use of public funds, as well as social impact, which captures the broader effects of public interventions on societal well-being.

Unlike the private sector, where performance assessment is largely driven by financial outcomes, performance in the public sector is inherently multidimensional, integrating economic, social, and institutional perspectives. Consequently, measuring public sector performance requires a comprehensive framework that balances quantitative indicators with qualitative assessments, aligned with public interest and long-term societal goals.

Defining the concept of performance in public administration entities requires a multidimensional approach, given the complexity and diversity of the functions performed by these organizations. Accordingly, performance in public sector can be analyzed through the following *essential dimensions* (Bătrâncea & Bechiș, 2013):

a) *Financial outcome* – this dimension involves assessing the financial efficiency of the entity by analyzing how financial resources are managed to achieve optimal results;

b) *Quality and volume of services provided to the public* – performance is reflected in the entity's capacity to deliver high-quality services in quantities that adequately meet the needs of the population;

c) *Number of service users* – this indicator measures the accessibility and relevance of the public services provided by the entity;

d) *Professional quality of human resources* – staff competences and qualifications constitute a decisive factor of organizational performance;

e) *Credibility of the entity* – public trust in the entity's ability to fulfill its assumed responsibilities is essential for effective public administration;

f) *Compliance with allocated public financial resources* – performance implies adherence to budgetary constraints and the efficient use of available financial resources;

g) *Efficient, effective, and economical use of allocated financial resources* – it is essential that resources are managed not only efficiently and effectively, but also economically, in order to maximize public benefits;

h) *Attracting additional financial resources* – the entity's ability to secure additional financial resources beyond public funding significantly contributes to achieving its objectives;

i) *Outcomes achieved by the public as a result of the services provided* – performance is also measured by the positive impact that public services have on their users;

j) *Competitiveness in the service market* – in the context of competition with the private sector, public administration must demonstrate its capacity to provide services comparable in value and efficiency.

Key dimensions of performance in the public sector refers to:

Efficiency – this dimension refers to the optimal use of available resources in order to achieve the desired results. Efficiency involves minimizing costs and the time required to deliver high-quality public services;

Effectiveness – this reflects the extent to which the objectives of a public institution are achieved. Effectiveness focuses on final outcomes and the degree to which they meet citizens' needs and expectations;

Quality of services – the quality of public services is a key indicator of performance and is closely linked to beneficiary satisfaction. It includes aspects such as accessibility, timeliness, professionalism, and the appropriateness of the services provided;

Transparency and accountability – transparency refers to the openness and clarity with which public institutions communicate and manage their activities. Accountability implies the responsibility of public institutions toward citizens and the proper use of public resources;

Social and economic impact – performance in the public sector is also measured by the impact that public policies and services have on society and the economy. This includes improvements in quality of life, the reduction of inequalities, and the stimulation of economic development.

By analyzing these dimensions, it is possible to achieve a comprehensive and nuanced evaluation of the performance of public administration entities, taking into account both operational efficiency and the impact on the communities they serve.

Performance assessment in the public sector involves multiple challenges, including:

1. *Complexity of objectives* – public institutions pursue diverse and often complex objectives that are difficult to quantify and measure;
2. *Limited resources* – public institutions frequently operate under financial and human resource constraints, which may adversely affect performance;
3. *Political and social pressure* – performance-related decisions and evaluations are influenced by political pressures and societal expectations, which can complicate objective assessment;
4. *Lack of standardization* – there is a lack of standardized performance indicators and evaluation methods, leading to inconsistencies and difficulties in comparing performance across different public institutions.

Defining and evaluating performance in the public sector therefore requires an integrated and comprehensive approach, incorporating both financial and non-financial indicators. Such an approach enables a deeper understanding of how public institutions fulfill their missions and objectives, thereby providing a solid foundation for the continuous improvement of public services (Monea, 2017).

Table 1. Comparative overview of OECD and World Bank approaches to public sector performance

Dimension	OECD Approach	World Bank Approach
Overall focus	Enhancing public governance, accountability, and public value through performance measurement	Strengthening development outcomes by improving efficiency and effectiveness of public spending
Type of indicators	Emphasis on outcome and impact indicators, complemented by qualitative assessments	Strong focus on input–output–outcome indicators and quantitative measurement
Budgetary linkage	Promotes results-based management and strategic budgeting	Supports performance-based budgeting linking resources to measurable results
Standardization	Encourages harmonized frameworks with flexibility for national contexts	Supports standardized tools and benchmarks, especially for cross-country comparisons
Governance perspective	Focus on transparency, trust, and institutional quality	Focus on fiscal discipline, value for money, and service delivery efficiency
Use of performance data	Informs policy design, public accountability, and long-term reforms	Supports resource allocation decisions and development program evaluation

The OECD promotes results-based management and outcome-oriented indicators, while the World Bank supports performance-based budgeting and monitoring systems that link resources to results.

3. TOOLS AND METHODS FOR MANAGING PUBLIC SECTOR PERFORMANCE

Performance indicators are essential tools for evaluating and monitoring the efficiency, effectiveness, and quality of public services.

They can be classified into two main categories:

- **Financial indicators** – these include the budget, operational costs, expenditures, and revenues. Financial indicators provide information on financial sustainability and the efficiency with which resources are utilized;
- **Non-financial indicators** – these are essential for a holistic assessment of performance. Examples of non-financial indicators include: citizens' satisfaction level; response time to citizens' requests; rate of resolution of reported issues; level of transparency and accessibility of information; social and economic impact of implemented policies and programs.

A combination of financial and non-financial indicators is essential for an appropriate assessment of an entity's performance. Financial indicators are crucial for ensuring economic sustainability and the efficient use of resources. By contrast, non-financial indicators are vital for measuring the quality of education, student satisfaction, research impact, and the university's contribution to community development.

Integrating financial and non-financial indicators into performance evaluation provides a comprehensive and balanced perspective on how public institutions fulfill their mission.

Table 2. Comparative overview of performance indicators in public institutions

Specification	Financial indicators	Non-financial indicators
Concept	Quantitative measures derived from financial statements that assess an organization's economic position and financial performance.	Qualitative and quantitative measures that assess organizational performance beyond financial results, including quality, satisfaction, engagement, and social impact.
Advantages	- Objectivity: based on precise and quantifiable financial data, financial indicators provide an objective measure of performance; - Comparability: enable comparisons across time periods and institutions, providing a basis for benchmarking; - Efficiency and sustainability analysis: support the assessment of economic efficiency and financial sustainability.	- Comprehensiveness and relevance: capture essential dimensions of performance not reflected by financial indicators; - Long-term orientation: facilitate monitoring of long-term progress and institutional sustainability; - Assessment of intangible assets: enable evaluation of intangible resources, such as human capital and institutional relationships.
Disadvantages	- Limited scope: do not capture qualitative dimensions of performance, such as beneficiary satisfaction or social impact; - Short-term focus: tend to emphasize short-term financial results, potentially neglecting long-term objectives; - Exclusion of non-financial factors: fail to account for critical elements such as service quality, innovation, and sustainability.	- Subjectivity: may be influenced by subjective perceptions and are often more difficult to quantify; - Limited comparability: lack of standardization can hinder comparisons across different institutions; - Data collection complexity: require diverse and often resource-intensive data collection methods.

The main characteristics of performance indicators are:

- ***Consistency*** **-** performance indicators must enable comparisons over time as well as across different departments or among individuals performing similar activities.
- ***Clarity*** **-** indicators should be simple, precisely defined, and easily understood by all stakeholders.
- ***Controllability*** **-** performance should be measured in areas of activity that involve processes which can be influenced or controlled by management.

- ➢ ***Scope (coverage)*** **-** indicators should encompass all significant aspects of the activity. However, excessive use of indicators may lead to ambiguity and confusion in performance assessment.
- ➢ ***Credibility*** **-** indicators must be appropriate for measuring performance within a specific area of activity and should be based on reliable, accurate, and verifiable sources of information.

The multiple purposes of performance measurement in public institutions, as identified by Behn (2003), are reflected in Table 3. The table outlines the key managerial objectives of performance measurement in public institutions and the types of questions that performance indicators are intended to address. Performance measurement serves not only an evaluative and control function, but also supports budgeting decisions, motivates internal and external actors, and strengthens organizational legitimacy. In addition, performance information facilitates organizational learning by identifying why certain programs succeed or fail, guides improvement efforts by informing corrective actions, and enables the recognition and celebration of achievements. Collectively, these objectives highlight the multifaceted role of performance measurement as a strategic management tool in the public sector.

Table 3. Managerial objectives of performance measurement in public institutions

Purpose of measurement	**Managerial question supported**
Evaluation	How well is the public institution performing in achieving its objectives?
Control	How can public managers ensure that subordinates are acting in accordance with organizational goals and standards?
Budgeting	On which programs, personnel, or projects should the public institution allocate public funds?
Motivation	How can public managers motivate frontline staff, middle managers, non-profit and for-profit partners, stakeholders, and citizens to undertake actions that improve performance?
Promotion (Legitimization)	How can public managers demonstrate to political leaders, legislators, stakeholders, the media, and citizens that the public institution is performing effectively?
Celebration	Which achievements justify formal recognition and the organizational practice of celebrating success?
Learning	Why are certain activities or programs working or not working?
Improvement	What specific actions should be taken, and by whom, to improve performance outcomes?

Source: Adapted from Hada et al. (2017), based on Behn, R. D. (2003), Why Measure Performance? Different Purposes Require Different Measures, Public Administration Review, Vol. 63, No. 5, pp. 586–606.

Bellow, Table 4 highlights the complementary role of financial and non-financial indicators in supporting key performance management objectives in public institutions. The table also shows that achieving strategic and long-term objectives requires an integrated use of both types of indicators, combining financial sustainability with human capital development, innovation, and institutional resilience.

Table 4. Performance indicators and managerial objectives in public institutions

Performance management objective	Financial indicators	Non-financial indicators
Efficiency and resource control	Budget execution; Cost control; Financial sustainability	Process efficiency; Service delivery timeliness
Effectiveness and outcomes	Cost–benefit ratios; Output–cost relations	Service quality; Beneficiary satisfaction; Social impact
Accountability and transparency	Financial reporting; Audit indicators	Performance reporting; Citizen feedback
Strategic and long-term management	Medium-term financial balance	Human capital development; Innovation; Institutional sustainability

Since public sector performance cannot be adequately captured through profit-based measures, a range of alternative performance measurement instruments has been developed to reflect the multidimensional nature of public value creation, such as:

- *Balanced Scorecard* (BSC) which, when adapted to the public sector, incorporates perspectives such as citizens and stakeholders, internal processes, resource management, and organizational learning and development. In addition;
- *Key Performance Indicators* (KPIs) – provide both quantitative and qualitative measures that assess the extent to which public institutions achieve their strategic objectives;
- *Multicriteria evaluation approaches* further enhance performance assessment by combining financial and non-financial criteria, enabling a more comprehensive analysis of outcomes;
- *Technical efficiency analysis* such as Data Envelopment Analysis (DEA), is employed to compare the relative efficiency of institutions in transforming inputs into outputs, thereby supporting benchmarking and evidence-based decision-making in public administration.

3. CONCLUSIONS

Performance measurement is a means of demonstrating how efficiently resources are used in the delivery of services and in achieving established objectives. In the field of financial management, performance measurement contributes to the improvement of the budgeting process by enabling objective decision-making regarding the allocation and reallocation of public financial resources, cost reduction, and the investment of additional funds.

This article highlights the central role of performance measurement in strengthening management and accountability within public institutions. By distinguishing between financial and non-financial performance indicators, the analysis demonstrates that each category addresses different managerial objectives and captures distinct dimensions of organizational performance. Financial indicators remain essential for ensuring economic sustainability, efficient resource allocation, and fiscal control, while non-financial indicators provide critical insights into service quality, stakeholder satisfaction, social impact, and long-term institutional development.

The findings underline that reliance on a single category of indicators offers only a partial view of performance and may lead to suboptimal managerial decisions. Instead, an integrated performance measurement framework - combining financial and non-financial indicators - enables public managers to better align evaluation, control, budgeting, motivation, learning, and improvement processes with institutional objectives. Such a balanced approach enhances transparency, supports evidence-based decision-making, and contributes to the effective fulfillment of public sector missions. Future research may further explore the operationalization of integrated performance systems and their impact on organizational outcomes across different public sector contexts.

In conclusion, the implementation of an effective performance measurement system in the public sector not only supports the principles of transparency and accountability but also contributes to the continuous improvement of public services, delivering tangible benefits to communities and society as a whole.

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