PERSPECTIVES OF PERFORMANCE MANAGEMENT MODELS IN HUNGARIAN PUBLIC AND NONPROFIT ORGANIZATIONS

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Viktória Bodnár, Ph.D.
Budapest University of Economic Sciences and Public Administration
Department of Management and Organization
Tel: +36-1/2188040
E-mail: vbodnar@zeus.bke.hu

György Drótos, Ph.D.
Budapest University of Economic Sciences and Public Administration
Department of Management and Organization
Tel: +36-1/2188040
E-mail: gdrotos@zeus.bke.hu

Éva Révész
Budapest University of Economic Sciences and Public Administration
Department of Management and Organization
Tel: +36-1/2188040
E-mail: erevesz@zeus.bke.hu

DRAFT VERSION
ABSTRACT

In the last 15 years, both the philosophy and the tools of performance management, successfully applied in the business sector, have increasingly spread in not-for-profit organizations. A huge variety of business methods and techniques are available for the realization of performance-oriented thinking. Research focusing on the application of performance management systems has antecedents mostly in the competitive business sector in Hungary. Only a few cases studies are available about the application of performance management concepts in not fully business-oriented organizations: most of them examined public utilities from this point of view. Therefore, the principal orientation of our research group is to accomplish an exploratory research using a combination of different research methods like questionnaire-based surveys, interviews, and case studies. The recent phase of our research is analyzing questionnaires. The goal of this phase is to explore and better understand the special performance aspects of the Hungarian not-for-profit organizations, their definition of organizational performance, and the characteristics of applied performance management systems.

INTRODUCTION

Efficiency, productivity, effectiveness, goals, impacts, responsibilities – the key notions of performance-oriented thinking and performance management, which are mainly applied by private sector organizations to improve their activities. Viewed in a historic perspective, efficiency has always been an expectation for the operation of public organizations [Bouckaert, 1992], and even in Max Weber’s definition of bureaucracy rationality and efficiency are the most important elements. Public management has long been based on the ideology of efficiency, however this cannot be the ultimate goal of an organization, since it only deals with the question of how things are happening, while ignoring why.

Nowadays, efficiency has been replaced by performance, which beside efficiency embraces the ultimate goals and impacts of a particular organization too. In the last 15 years, both the philosophy and the tools of performance management, successfully applied in the business sector, have increasingly spread in public organizations.

The rise of new public management (NPM) movement and the ever significant nonprofit sector have led to an increased attention to performance measurement and management models in some Hungarian not fully business-oriented organizations, too. Our research goal is to monitor the spreading process and impacts of performance management methods in Hungarian not-for-profit organizations.
THEORETICAL OVERVIEW

Questions related to the implementation of performance management systems have caught the attention of academics in the field of management control, intra-organizational co-ordination and managerial accounting. Empirical research, conducted during the 1980’s at Western companies, identified the following major tendencies in performance evaluation:

- United States and Western Europe: short-termed time horizon, dominance of aggregated financial indicators, emphasis on internal constituents of organizational performance [Kaplan, 1984; Drury, 1992].
- Japan: longer-termed time horizon, balanced focus on quality and costs, stronger role of market and customer orientation [Hiromoto, 1988].

A central element in the critiques of performance management systems was that they were not adequate for supporting corporate operations, particularly not in today’s market and technology driven environment. Contemporary organizational environment is characterized by dynamic market relations and by accelerating pace of technological innovations. Here the task of management systems is not only to plan and control the short-term performance of the various units, but also to support management in its task to identify and nurture the future competitive advantages and market potential of the company.

A possible response to these challenges could be the creation of new systems for planning and evaluating organizational performance. New systems that also try to react to the critiques outlined above. The Balanced Scorecard concept with its comprehensive theoretical framework, developed by D. Norton and R. Kaplan, or the Performance Prism model by A. Neely, C. Adams and M. Kennerley may be promising candidates for this role. The idea behind the BSC concept is to balance all the different aspects of performance, the Performance Prism offers also an integrated performance system based on requirements of the key stakeholders [Kaplan, 1996, 2000; Neely, 2002].

Before introducing the performance management practice of the not-for-profit organizations, it is worth examining the present trends and changes of the public and nonprofit sector for the better understanding of the context of our research.

Over the 1980’s there was a move in the public sector of Western European countries and the U.S. towards the New Public Management (NPM). This movement began in the United Kingdom under Prime Minister Margaret Thatcher and in the local governments of the U.S. The NPM doctrines have quickly achieved mainstream influence, and generated administrative reforms over Europe and the United States. Most of attributes of NPM are generally shared by the public administration academics. Its main undisputed characteristics are [Gruening, 2001]:

- separation of politics and administration;
- accountability for performance, performance auditing, performance measurement;
- privatization, contracting out, budget cuts;
- decentralization;
- strategic planning and management, competition;
- changing management style, personnel management, flexibility;
- more extensive use of information technology.
These changes and reforms have got many causes, but there is no consensus about their priorities. According to the original notion, the NPM was the consequence of the economic recession and tax revolts. Nowadays, the success of NPM is often explained by the increasing complexity and interdependence of the social sub-systems.

These phenomena might have contributed to the rise of the nonprofit (civil) sector, too. In the Western states the nonprofit sector plays an important and growing political, social and economic role. In the background of this process the failure of the welfare state and the neoliberal economic policy, as well as the revolution of information technology [Salamon-Anheier, 1996] are the most widely mentioned tendencies.

The rise of new public management and the growing role of nonprofit sector have led to an increased attention to performance measurement of public services [Hood, 1995]. In the Western countries the public and nonprofit organizations began to apply different performance management tools.

Of course, public sector and nonprofit sector are still different categories with special context. Moreover, for our research, it is advisable to distinguish sub-sectors within them. In the next section we will introduce our model of the sectors of social activities.

There are different approaches to classify the sectors of social activities. According to the most accepted model the “visible, formally existing” sectors are the sphere of business, public, and nonprofit organizations, while households and grey/black economy constitute the “less visible, informal” sectors. With regard to our research, the first three (visible) sectors have relevance.

The diffusion of performance management methods might be understood in the three sector model, because in this model we can focus on all of the possible adaptation processes not only the one from private to public organizations. The starting point of the model is that public, nonprofit and private organizations have several different characteristics.

The primary goal of a private (business) organization is to serve consumer’s needs to achieve profit. The organization makes independent decisions, and takes risks. An important condition for this type of organizations is the market context.

The different institutions of central and local governments fall under the category of public organizations. By definition the common attributes of these institutions are that their operation is financed by central or local governmental sources, their goals and activities are defined in a top-down way, and their organizational structure is hierarchical.

The widely accepted definition of the nonprofit sector is rather new, it is a result of the 1992 research program of the Johns Hopkins University [Salamon-Anheier, 1996]:

1. These organizations are not profit-oriented, their profit is not divided among the founders.
2. These organizations do not depend directly on the central or local governments.
3. These organizations operate within formalized frames.
4. Volunteering and philanthropy play an important role in their operation.
5. The public benefit is one of their main values: they act on the community’s interest.
In many countries as well as in Hungary the three sectors could be clearly distinguished in the aspect of law and regulation (see Figure 1). The boundaries of the sectors are more blurred, however, if we see the daily operation and the financial sources of these organizations as well (see Figure 2).

The convergence of the sectors enables and even necessitates the diffusion of management concepts. Organizations located on the boundaries of different sectors (see Figure 2) may serve as transmitters of successful methods. Beside them, the inter-sector mobility of managers, external consultants, management publications and conferences, as well as sector-independent computer systems might serve as a means of knowledge transfer. Also very important can be those multi-sector ventures, in which employees belonging to the organizations of different sectors work with each other and share experiences and techniques.
FRAMEWORK OF THE RESEARCH

The authors are members of Budapest Performance Management Research Centre (BPMRC) which, as part of the Faculty of Business Administration at Budapest University of Economic Sciences and Public Administration, is an independent and self-supporting academic institution. It was founded in 2003.

The research center's mission is to support the development, implementation and evaluation of performance management concepts and methods in different sectors on the basis of fundamental and applied academic research.

The research center focuses on multidisciplinary analyses of performance planning, performance measurement and evaluation, and performance reporting issues in their organizational context in a scientific way. The center will make its research results accessible and transferable to the international academic community, and also to policy makers and managers of private and public sector.

The BPMRC has a four year research program\(^1\) (2003-2006) which is funded by Hungarian Scientific Research Fund (OTKA). The research goal of this program is to monitor the spreading process of performance management methods in the Hungarian business and not-for-profit organizations.

RESEARCH PROGRAM

Application of performance management methods in not-for-profit organizations raises several questions: what factors motivate an organization operating in the public or nonprofit sector to apply a methods? How do these organizations define their performance? What are the most important aspects of organizational performance? What roles do consultant, institutional norms, and fashion play? In our research program we focus on these questions.

The intention of this program is to carry out an exploratory, hypothesis based research. In Hungary the public and nonprofit sectors were not examined from the perspective of performance management systems until now. The methodology of our research is both quantitative and qualitative. Quantitative analysis is based on data from organisational database and questionnaires, qualitative research will be carried out by interviews, participative observation, and case studies.

As preliminary hypotheses, we assume that:

1. Performance management systems are most developed in the Business Sector.
2. Performance management innovations are spreading from the Business Sector. “In-between”, “halfway” organizations may play a transmitting role.
3. Traditional bureaucratic rules already do not, long-term social effects/expectations do not yet govern Hungarian organizations. The patterns of classic market economy dominate.
4. Still, sectors exhibit significant differences in what are the “important” performance dimensions.

\(^1\) Titles of researches: 1. Perspectives of performance management models in public and non-profit sectors: Trends for the next decades of the Hungarian economy (T 043109); 2. Contribution of performance management systems of efficient and effective functioning of the sectors (F 042915)
RESEARCH OBJECTIVES AND METHODOLOGY OF THE FIRST PHASE

The recent, exploratory phase of our research was a questionnaire based survey. The objectives of this phase are:

Ø To understand the special performance aspects of the Hungarian not-for-profit organizations.
Ø To explore how members of different organizations understand „performance”.
Ø To explore the basic elements of performance management systems implemented in different organizations.

The applied self-completed questionnaire consists of three open format and five semi-open, multiple-choice questions (see Appendix). Approximately 500 questionnaires were circulated via professional networks (at conferences and postgraduate management courses). The response rate is 11.6% (58 questionnaires), and 54 questionnaires were suited for analysing.

The content of questionnaire: Basic data about the organization, open definition of organizational performance, statements about organizational performance related to its content, and requirements of key stakeholders, most important aspects of performance, and elements of applied performance management systems.

Figure 3 shows the structure of the sample. Only one questionnaire had come back from nonprofit organizations, so by analysing we concentrated on data form business, public and business-public (“in-between”) organizations.

![Figure 3: Structure of the sample](image)

RESULTS


We asked the respondents about elements of the applied performance management systems (PMS). The next figure shows which PMS elements are applied in each type of analysed organizations (see Appendix, 7th question of questionnaire).

Figure 4: Elements of performance management systems (% in responses)

Based on this figure “in between” (business-public) organizations show familiarity with the business sectors concerning organizational level performance management. On the other hand, these organizations are akin to public organizations concerning individual performance methods. A possible reason of the phenomena: “In between” organizations often operate in the legal form of business entities, “corporations”. External requirements for “performance reports” (balance sheet, p/l statements) as well as the relative lack of predictability and protection drive these organizations to apply organization level metrics. However, in terms of individual accountability these organizations are still similar to public organizations where the domination of “collective action” has not been challenged yet.
Based on these results our first and fourth hypotheses (1. Performance management systems are most developed in the Business Sector; 4. Still, sectors exhibit significant differences in what are the “important” performance dimensions) can be accepted. Concerning two other hypotheses we need further researches.

**FURTHER STEPS**

We intend to further analyse data collected in the first phase, it means:

- Content analysis of answers to open questions;
- Multi-variable analysis focusing on possible cause-and-effect relationships.

In the next phases of our research program we would like to collect and analyse further data based on case researches covering typical organizations of the different sectors and sub-sectors, and parallel case analysis.

**REFERENCES**


APPENDIX

QUESTIONNAIRE

Contribution of performance management systems to efficient and effective functioning of the for-profit, public and nonprofit sectors – Perspectives of the Hungarian economy