Performance measurement model formation in state-owned enterprises

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Abstract

State-owned enterprises play a considerable role in many economies. Especially the performance of state-owned enterprises emerged as reforms in many countries were implemented. This was not an exception in Lithuania. The main aim of this article is to investigate the conceptual framework of state-owned enterprise in Lithuania and to analyze how the performance measurement system in state-owned enterprises should be constructed when incorporating various regulators. To achieve the aim the scientific literature analysis, logical analysis, modeling method was used. The results obtained will allow to better understand the conceptual framework of state-owned enterprises in Lithuania, also the disclosure of the specific characteristics and evaluations of state-owned enterprises would allow easier select methods, measures and the correctness of performance measurement application.

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1. Introduction

The world over there has been a growing debate on the roles of the State in economic development. In an environment of increased globalization and liberalization, reforms in the public sector have been inevitable primarily for three reasons: greater economic efficiency through increased private initiatives in economic activities; achieving...
higher levels of economic growth and employment; and reducing budgetary deficit. (Bose, 2011) The most recent literature review indicates that regarding efforts to consolidate public sector households and the reform of public-service-provision by the state, there has been an international trend to outsource public sector services away from the core administration (Almquist et al., 2012; Provan and Milward, 2001). In this context, the sociopolitical and economic importance of state-owned enterprises (SOE) have strongly increased in importance regarding the effectiveness, efficiency and quality of public service provision as well as public financial management (OECD 2005). In the debate about performance measurement and sustainability and transparency, it is of great importance to focus more strongly on SOEs. It is especially necessary to examine how public authorities report on performance and financial figures of their SOEs to provide a sound overview for enabling performance measurement, sustainability and transparency (Lamprinidi and Kubo, 2008; Ball and Bebbington, 2008). According to the Corporate Governance Guidelines of State-Owned Enterprises of the OECD, the ownership entity should develop consistent and aggregate reporting on SOEs and publish an annual aggregate holdings report on SOEs (OECD, 2005).

In Lithuania SOE reform was also commenced with the goal of making the State a professional and responsible owner of these enterprises, actively seeking for more efficient performance of SOEs. However, the scientific literature lack of information, in both theoretical and practical aspects, though this issue is widely studied by western scientists. In this article the conceptual framework of SEOs and recent reform applicability in Lithuania will be explored. In addition, seeking to construct possible performance measurement model for the state-owned enterprises, which corresponds with the overall state-owned enterprises strategy of Lithuania, the various external and internal regulators must be taken into account.

The main aim of the article is to provide a more in-depth understanding of state-owned enterprises and how the performance measurement system in state-owned enterprises should be constructed where not only the external and internal regulators, financial and nonfinancial and regulatory characteristics must be included, but also sustainability and transparency would be reflected.

2. Literature review

Over the last few decades globalization of markets, technological changes and deregulation of previously monopolistic markets have called for readjustment and restructuring of the state-owned sector. The term “SOE” OECD (2005) refers to enterprises where the state has significant control, through full, majority, or significant minority ownership. However, it is clear that the state-owned enterprises differ in significant ways from publicly traded and privately owned companies, and are apt to have problems of efficiency that good governance may remedy. Sokol (2009) albeit with the US context in mind, quotes the World Bank definition of a state-owned enterprise as a “government-owned or government controlled economic entity that generates the bulk of its revenues from selling goods and services.” They form an important part of the global economy, but studies suggest that they tend to be less efficient than analogous private companies, because of lack of incentives associated with government ownership, and are associated with lower economic growth in developing countries. SOEs differ from private firms in that their goal is not necessarily profit maximization (Pratuckchai, Patanapongse, 2012). Whincop (2005) adds that the state-owned firm main goal is to maximize social welfare. However, still, as a part of the public sector, these enterprises have also to properly reflect the performance into the annual reports.

According to the Corporate Governance Guidelines of State-Owned Enterprises of the OECD (2005) SOEs are often protected from two major threats that are essential for policing management in private sector corporations, i.e., takeover and bankruptcy. More fundamentally, corporate governance difficulties derive from the fact that the accountability for the performance of SOEs involves a complex chain of agents (management, board, ownership entities, ministries, the government), without clearly and easily identifiable, or remote, principals. To structure this complex web of accountabilities in order to ensure efficient decisions and good corporate governance is a challenge. Building on practical experience, Guidelines provide concrete suggestions on how such dilemmas can be solved. For example, they suggest that the state should exercise its ownership functions through a centralized ownership entity, or effectively coordinated entities, which should act independently and in accordance with a publicly disclosed ownership policy. The Guidelines also suggest the strict separation of the state's ownership and regulatory functions. If properly implemented, these and the other recommended reforms would go a long way to ensure that state
ownership is exercised in a professional and accountable manner, and that the state plays a positive role in improving corporate governance across all sectors of our economies. The result would be healthier, more competitive and more transparent state-owned enterprises. Europe Commission (2010) claims that it is important not to forget when reporting on performance of SOEs, activities must include not only national aspirations: to develop the rule of law, eradicate corruption, ensure fairness, financial transparency and democratization, but also the global priorities should be included: to reach the integrated smart growth, sustainable energy, and the plans of integrative growth efficiency with clear objectives involving citizens into development and implementation of these plans.

There are many different insights of how state-owned enterprises performance could be measured. Baldrige National Quality Program propounds to use a State Enterprise Performance Framework for Excellence, which is derived from the Malcolm Baldrige National Quality Award criteria as a tool for measuring the performance in state-owned enterprises. The measurement model incorporates seven main components of the framework, namely Leadership for State Enterprise Organizations, Planning for State Enterprise Organizations, Customer and Stakeholder Orientation, Measurement, Analysis and Knowledge Management, Human Resource Orientation, Process Management, and Results of Business.

Pratuckchai, Patanapongse (2012) suggest to look at the state-owned enterprise as systematic model, consisting of externality and internality. According to the authors, environmental changes such as political, economic, social and technological changes both directly and indirectly affect organizational effectiveness. So Lithuanian’s state-owned enterprises have to align their organizational policy with the government’s policy while they have to adjust their policy towards economic change. In addition, a state-owned enterprise has to adjust itself towards public needs. That means state enterprises have a duty to create what Mark Moore called “public value” or value that can satisfy public expectations (Moore, 1995). Florio and Fecher (2011) add a state-owned enterprise, like a standard organization, has to be responsive to technological change. Appropriate innovative technologies must be adopted and adapted to strengthen organizational effectiveness. Information and knowledge on the external system helps management to adapt rather than to control. Responsible organizations should follow what Darwin said, “It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.” Meanwhile, the internality of a state-owned enterprise can be based upon controllable variables, which are mainly the components of the internal system. The following components can be stated as inputs, processes, outputs and feedback. As a result, each of these components can be divided into sub-components and key performance indicators can be created for further measurement (Pratuckchai, Patanapongse, 2012).

The next aspect, which should be taken into consideration, is control mechanisms. Appropriate and applicable laws, rules, regulations and standards of the organization should be revised as to be suited to both the external and internal environment of the organization. In addition, organization structure should be revised so as to be suited to the changing environment. A strategic plan and action plan with appropriate performance measurements should be formulated periodically or at least once every five years. Also organizational culture should be revised so as to be suited to the changing environment. In addition, appropriate motivation and incentives should be used as a measurement for the effectiveness of the organization. Pock (2007) suggests in order to be highly effective in performance, a training curriculum on attitudes towards colleagues at the workplace and better attitudes towards the organization should be developed to be suited to the changing environment. This is because if the personnel of the organization have positive attitudes towards their colleagues and their organization, it will be easier to attain better management control.

3. Method

The theoretical article can be divided into analytical and methodological parts. The scientific literature and strategic document analysis, logical analysis methods that involves the generalization of theoretical propositions is applied in the analytical part to analyze the conceptual framework of state-owned enterprises and their reporting features. Theoretical modelling is part of a post positivism and explanatory type of the study and is based on the knowledge exclusivity and their collection. The collection of knowledge can be obtained only by using critical theoretical evaluation and it’s modelling. The aim of these methods is to adapt quantitative considerations for state-
owned enterprises environmental monitoring, hoping to see the complexity issues of performance measurement that others may underestimate when developing the models of performance evaluation.

In the methodological part modeling method is used. This method is based on normative assumptions according to experiences of various business organizations and peculiarities arising in state-owned enterprises when creating the performance measurement model adapted to state-owned enterprises. In all performance measurement system is analyzed according to consistency of institutional, contingency and complexity theoretical assumptions.

4. Results

In the theoretical part of the article the conceptual framework of state-owned enterprises is being analyzed. Also the attention is being paid to the recent state-owned enterprises reform performed, where the general strategy were created. What is more, the performance measurement system is being developed, where the internal and external regulators are incorporated, the impacts of the reform changes, also the sustainability and transparency aspects are being involved.

The main result of this study is developed performance measurement. This article provides a more in-depth understanding of how the performance measurement system in state-owned enterprises should be constructed where not only the external and internal regulators, financial and nonfinancial and regulatory characteristics are included, but also a detailed performance measurement and the use of its results to improve overall performance is ensured.

However, it is very important to recognize that the mission of performance measurement model in state-owned enterprises is not only to prepare the performance measurement systems, but also to help these institutions to implement the changes related to the preparation of performance measurement system and the use of performance measurement information, to ensure the conditions necessary for the effective performance measurement system functioning, also to minimize the complexity underlying aspects of performance assessment. What is more, it is important the identification of factors that determined the SOE’s or its subdivision’s performance measurement results. According to the separated complexity elements, internal and external factors that may influence local activities can be distinguished. The assessment of the impact of these factors can help to improve the future performance. It is therefore proposed to identify such factors that would enable to identify positive and negative factors influencing the activities of the SEO.

5. Discussion/Conclusions

Disclosure of the specific characteristics and evaluations of state-owned enterprises would allow to easier select methods, measures and the correctness of performance measurement application. After all should be resolved the issue of designed performance measurement system adaptation, created system’s monitoring and assessment of change. In light of this, the present article, in its focus on the relationship between governance and performance, contributes to a field of research that is topical and expected to be important for maintaining and enhancing public services in the years ahead.

References


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