

# Does Public Administration Reach Performance in the Sphere of Subsidies Relations? The Case of the Czech Republic

Eliska Pastuszkova

**Abstract**—Subsidies represents one of the most frequent fiscal relations between public administration institutions and other subjects in the economy. All entities they participate on the process of public choice have different preferences and expectations from the public budgeting system. These preferences and expectations differentiate depending on which side of the public budgets these subjects are situated – if they represent subsidies providers, or, conversely, they are receivers from public funds. The aim of this paper is to find out whether public administration is able to reach performance in subsidies relations in the Czech Republic. The analysis uses performance measures which are based on so called „3E“ principles – Economy, Effectiveness and Efficiency. The findings in the research confirmed the pressure especially of subsidies providers, i.e. public administration institutions, on respecting all 3E principles.

**Keywords**—Subsidies, performance, public administration, effectiveness, economy, efficiency.

## I. INTRODUCTION

FROM way back, inequality represents one of the main economic motives in the world, when the principal reason of inequality is an amount and a placement of natural resources and an ability of various subjects to handle it. Subsidies represent a way how the public sector tries to solve this inequality.

The basic mission of public sector (with public administration within it) is to ensure and provide public goods and services. Subsidies represents the way how it is possible to ensure and support positive externalities, i.e. such goods which are of additional benefit to wider society.

The question is whether the public administration, as a main provider and together a possible receiver of subsidies, deals effectively with these public funds, i.e. whether the sense of the subsidy has the right effect.

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The aim of this contribution is to analyze subsidy relations among public administration and all other subjects of national economy and to identify the connection with public administration performance in conditions of the Czech Republic.

## II. PROBLEM FORMULATION

### A. Subsidies as one of the main fiscal relations

Legislation of the Czech Republic adjusts the concept of subsidies in the Act Nr. 218/2000 Col., on budgetary rules. [1] offers a broader definition of the term "subsidy". He states that subsidy represents "funds provided natural and legal person for a given purpose (so called specific grant) and funds without the specific purpose focused only to supplement the lacking sources on particular governmental level (so called global or nonspecific grants)." The European Charter of Local Self-Government (1988) mentions the term "subsidy" in the Article 9 Financial resources of local authorities. It is stated there that "grants to local authorities shall not be earmarked for the financing of specific projects. The provision of grants shall not remove the basic freedom of local authorities to exercise policy discretion within their own jurisdiction." [2] We can find many other definitions of the term "subsidy" or "grant" in relevant literature but all of them specify the term as a financial support from public budgets intended for natural or legal persons. Although this definition is very general it describes the basic essence of subsidies – relation between the providers, i.e. public budgets, and receivers. Among receivers, natural persons and legal persons of private and also public sector are to find.

Another reason for providing grants is based on a province delegation from the state level to self-government level in case of providing of specific public goods and services. Then the state budget provides subsidies for this transferred authority.

In public sector, the subsidies are provided from various budgets on various governmental levels. The public administration represents almost always a provider of subsidies. The subsidies flow to receivers' budgets from supranational, national, regional or municipal governmental level. In case of the Czech Republic, the European Union represents the most important subsidies provider on the

supranational level. On the national level, providers of subsidies are defined in § 14 of Act Nr. 218/2000 Col., on Budgetary Rules. According to this Act, the providers of subsidies are specified institutions of state administration [3]. These state administration institutions provide subsidies almost to budgets on lower governmental levels, i.e. to municipal and regional budgets. On the regional level, regions, regions of cohesiveness, micro-regions and voluntary alliances of municipalities represent the providers of subsidies. Municipalities as such themselves can also provide grants from their budgets but they represent more often the receiver of subsidies than the provider. They can provide subsidies from the municipal budget to legal persons of public and private sector and to natural persons.

According to the § 14 of Act Nr. 218/2000 Col., on Budgetary Rules, the receiver of a subsidy is any natural or legal person. However, this person must fulfill all criteria of relevant grant program or legislation.

### *B. Performance of public administration*

If we want to assess the success of public administration using performance measures, it is necessary to define the term performance at first. The definition of performance or performance measurement is not very clearly defined anywhere in the literature. As [4] states, „performance measurement is a topic often discussed but rarely defined“. The same authors [4] present their own definition how to understand the performance and its measurement: „Performance measurement can be defined as the process of quantifying the efficiency and effectiveness of action“.

From the literature research in this area (for ex. [5], [6] and other) it is visible that the main focus on the business environment and the non-profit organizations that have a huge potential for further research on the adaptation of objectives and performance management tools for specific needs of public administration. According to [7], public organizations do not have a clear performance measurement system that would adequately reflect efficiency and effectiveness. Solving the current problems of public administration requires the implementation of effective financial management tools that have been already proven in the private sphere. Through these methods, there is a convergence of private and public organizations. Although some differences are slowly fading away, the public sector will always differ in its nature from the private one.

Understanding the concept of public administration performance has still been developing in connection with changes in the economy. The specialized literature has been dealing with the issue of performance of public sector; see e.g. [8], [9], [10], [11], [12], [13], and [14]. Some authors, see for. ex. [15], [16], focus especially on the effectiveness on various governmental levels, in this case on the regional level. All of the reforms undertaken in the public sphere are accompanied by the consideration of the effectiveness of the performance of public administration activities; see e.g. [17].

Despite the permanent validity of public choice conclusions, the public sector is affected by basic economic principles application – it means economical, effective and efficient spending of public funds. In assessing the effectiveness of fiscal relations, the principles of “3E’s” can be successfully used [18].

These principles include requirements for economy, effectiveness and efficiency. In the private sector, they represent basic conditions for successful business but the same must pay for public funds. The model concept of the “3E’s” is (for ex. according to [19], see also [20]), considered the basis for performance monitoring in public administration, when based on the objectives which are provided inputs, i.e. resources that are in the form of personnel and material securing transformed into outputs. Outputs are developing effects which public administration is interested in. In the Czech Republic, the principle of “3E’s” is a basic principle for the area of financial control in public administration under the rule of statutory regulations (Act No. 320/2001 Coll., on Financial Control).

Economy asks for the lowest possible expenditure of funds within the appropriate quality (performance in relation to price), the evaluation criterion for input based on the principle of doing things inexpensively. Efficiency follows achieving the necessary outputs for little money, the relationship between inputs and outputs based on the principle of doing things the most suitable way. Effectiveness expresses the degree of progress towards the set objectives (Do we have what we wanted?), the evaluation criterion for output based on the principle of doing only those things that really need to be done [21].

It is possible to extend the basic principle of “3E’s” to “6E’s”, i. e. Equity, Environment and Ethics. Equity means an effort to do things properly, especially in relation to the surroundings. Environment expresses a responsible attitude towards the working and living environment and Ethics asks for an emphasis on the legal and moral conduct of the management and employees.

Especially ethics plays a significant role in the management of entities of national economy, not only companies but also institutions of public administration. Good ethical climate provides positive working environment in which is possible to solve problems more easily. Therefore, the financial management in public administration cannot be seen in any case from the economical aspect only, but it is necessary to take into account all aspects, financial and nonfinancial criteria.

### III. PROBLEM SOLUTION

As in all financial relations, it is possible to identify two groups of subjects that have different goals – receivers and providers of funds. In case of subsidies relations, these subjects are represented by receivers of this financial support and providers of this support [22]. Various non-profit organizations, businesses, local or regional governments

belong to most common groups of subsidies receivers and various levels of government (supranational, national, regional and local) represent the providers of subsidies.

Each of these two groups stands in a quite different position.

If we think about hypothetical motives of subsidy provider and receiver, then following relations to 3E principles are expected (see Figure 1):

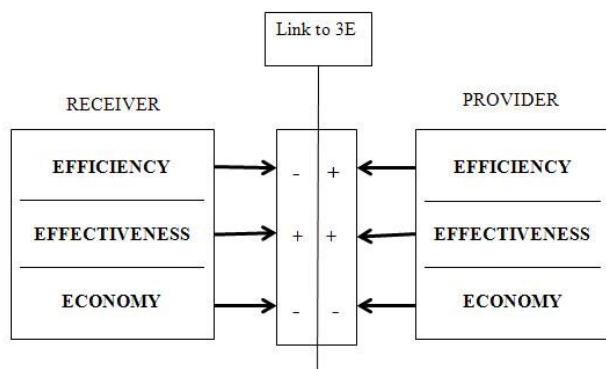


Fig. 1 Model of expected subsidies relations and their link to the principles of “3E’s” in conditions of the Czech Republic (Source: own processing)

In Figure 1, the (+) means that a positive link between the subject (provider or receiver of subsidies) and one of the 3E principles is expected and the (-) symbol means that a negative link is expected.

In conditions of the Czech Republic, it can be assumed that the *effectiveness* is the most important principle for *provider* of subsidies. The main aim of subsidy is to achieve its purpose (in case of specific grants) or a support of specific groups of subjects (in case of non-specific grants). The next important principle for subsidies provider is the *efficiency* – there is a specific amount of funds allocated in the subsidy which must be used in that way that benefits are maximized and costs are minimized. In case of the last principle – *economy*, it can be anticipated that a provider does not have a capacity to oversee all the possible lower prices of relevant goods or service used in all projects.

In case of *receivers*, the situation looks completely differently. It can be assumed that the receivers of subsidies try to achieve the highest possible subsidy and go after their own interests which cannot be identical with the aim of the subsidy. The principles of *efficiency* and *economy* are not fulfilled in this case. We can assume the positive relation from the receiver side only in case of one of the 3E principles – *effectiveness*. The receivers put emphasis on fulfilling of this principle almost during the process of project preparation, because all receivers want to fulfill their own interests by grant projects.

The research team formulated following hypotheses in the field of subsidies:

Hypothesis 1: It can be assumed that receivers of subsidies respect only the effectiveness principle.

Hypothesis 2: It can be assumed that providers of subsidies respect efficiency and effectiveness principles, but there is no respect to the economy principle.

#### A. „3E’s“ principles in subsidies relations in the Czech republic - research

The research conducted by the author and the research team in 2011 has focused on the verification of this hypothesis. This research was conducted in all regions of the Czech Republic by means of questionnaires and structured interviews. The authors drew up questionnaires for different groups of receivers and providers of subsidies.

Among receivers of subsidies, companies, non-profit organizations, municipalities and regions were integrated. The large proportion in receivers representation had companies which represented 48 % of respondents, municipalities and regions represented 43 % of all respondents and 9 % belonged to non-profit organizations.

Public administration institutions on various governmental levels were classified among providers of subsidies. The largest proportion in respondent sample represented municipalities and regions as subsidies providers (94 %), the rest of the respondents (6 %) were represented by ministries of the Czech Republic as subsidies providers on the state administration level.

Tab. 1 Main characteristics of the research (Source: own processing)

Research:	Subsidies and their link to the „3E’s“ principles in conditions of the Czech Republic
Data collection and processing:	2011, all regions of the Czech Republic
Form of data collection:	questionnaire survey, interviews with respondents
Number of delivered relevant questionnaires:	384
Groups of respondents:	
<ul style="list-style-type: none"> <li>Receivers of subsidies</li> </ul>	<ul style="list-style-type: none"> <li>Companies (48 %)</li> <li>Non-profit organizations (9 %)</li> <li>Regions and municipalities (43 %)</li> </ul>
<ul style="list-style-type: none"> <li>Providers of subsidies</li> </ul>	<ul style="list-style-type: none"> <li>Ministries (6 %)</li> <li>Regions and municipalities (94 %)</li> </ul>

The research was carried out by 384 respondents in the period January - March 2011, respondents answered questions, which expressed their views on the economy, efficiency and

effectiveness of subsidies relations among public administration and other subjects in the economy. Therefore they did not respond directly to the question whether players on both sides of this relationship (i.e. receivers and payers) expect fulfillment of the “3E’s” principles. Various questions were directed to respondents very clearly to the following six research questions within the final evaluation:

*Receivers of subsidies:*

- 1) Do the receivers of subsidies respect achieving effectiveness? It means the orientation on the outcome – “do they have what they wanted”?
- 2) Do the receivers of subsidies respect (or try to achieve) minimization of costs while maintaining quality?
- 3) Do the receivers of subsidies respect (or try to achieve) minimization of costs and maximization of outputs?

*Providers of subsidies:*

- 4) Do the providers require achieving effectiveness? It means the orientation on the outcome – “do they have what they wanted”?
- 5) Do the providers require minimization of costs while maintaining quality?
- 6) Do the providers require minimization of costs and maximization of outputs?

Individual answers were matched with category “Yes – the principle is respected” or “No – the principle is not respected” according to predefined classification key. The answers “Other” or those with no clear relation to both categories were excluded.

*B. Subsidies receivers and their relation to “3E’s” principles - results*

As it is evident from absolute figures (see Figure 2), in reality the receivers of subsidies respect only two principles, i.e. effectiveness and economy. The efficiency principle which represents the connection between costs and outputs seems to be not so important for subsidy receivers, resp. the receivers do not try to achieve its fulfilling.

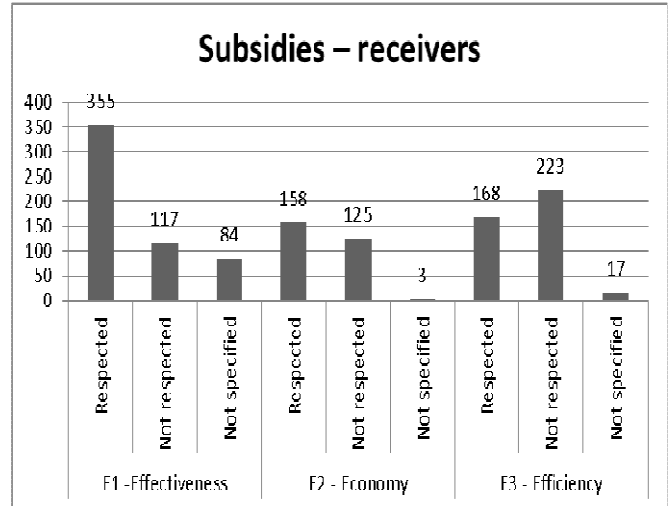


Fig. 2 Do subsidies receivers respect “3E’s” principles? Total numbers of answers (Source: own processing)

The results are more explicit in relative expressions (see Fig. 3, Fig. 4 and Fig. 5). The predominance of the respect to effectiveness and economy principles is to see in case of subsidies receivers. On the other hand, most of the answers related to the efficiency principle represent a disinclination for respecting this principle.

Looking at the principle of *effectiveness* (E1), the difference in respondents’ answers seems to be dominant. 64 % of respondents they represent the subsidies receivers believed that it is important to focus on a result, i.e. to get what they want. 21 % of respondents expressed a lack of interest in respecting of effectiveness principle; respectively they do not assign big importance to this principle (Fig. 3)

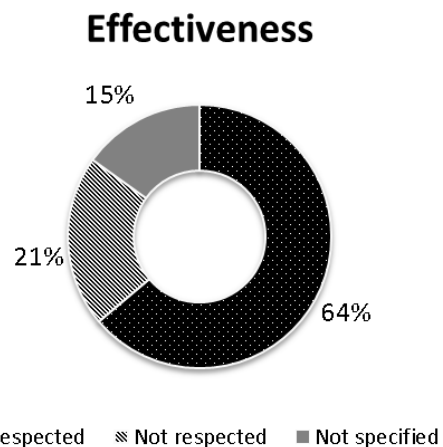


Fig. 3 Do subsidies receivers respect the principle of effectiveness? (Source: own processing)

The situation seems to be clear in relation of subsidies receivers to *economy* principle (E2). In this case, overall majority of respondents (55 %) expresses the opinion that it is necessary to try to achieve the cost minimization while maintaining the quality of provided goods. Minor part of respondents (44 %) believes that this principle is not respected; respectively they themselves do not respect this principle in their position of subsidies receivers (Fig. 4).

The difference between presented opinions is not as dominant in this case; respondents seem to be divided approximately into halves – less than one half means that it is necessary to respect the economy principle, the second half does not care too much about minimization of costs while maintaining the quality of provided goods.

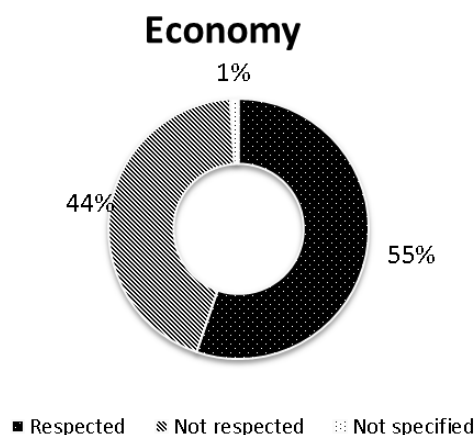


Fig. 4 Do subsidies receivers respect the principle of economy? (Source: own processing)

The situation is similar in case of *efficiency* principle (E3) where financial relation between inputs and outputs of subsidies receivers is examined. Figure 5 shows the predominance of answers expressing disrespecting of efficiency principle (55 % of respondents). These subsidies receivers are not concerned above all about the minimization of costs and maximization of outputs when providing subsidized goods. On the other hand, 41 % of subsidies receivers expressed the respect to efficiency principle (Fig. 5).

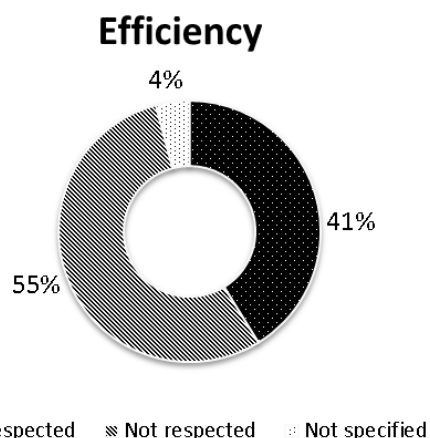


Fig. 5 Do subsidies receivers respect the principle of efficiency? (Source: own processing)

*C. Subsidies providers and their relation to “3E’s” principles - results*

The absolute figures (see Fig. 6) show that in case of subsidies providers, i.e. ministries and self-territorial governmental units, all of the 3E principles are respected. It is obvious that all governmental levels expect fulfilling of effectiveness, efficiency and economy principle within the frame of provided grant programs.

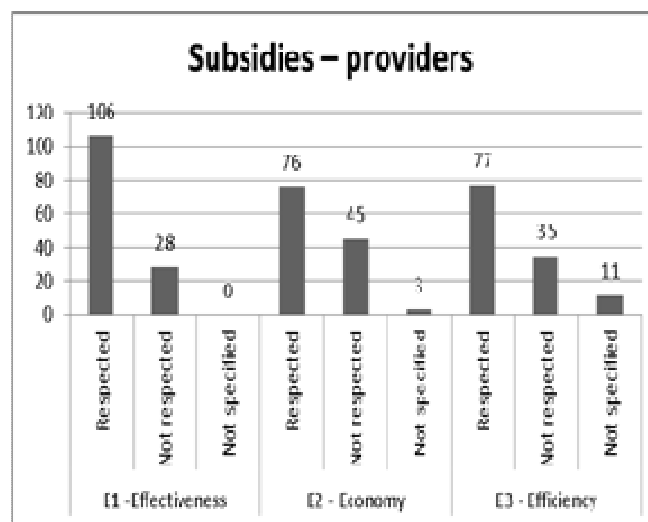


Fig. 6 Do subsidies providers respect “3E’s” principles? Total numbers of answers (Source: own processing)

The results are shown also in relative expression (see Fig. 7, Fig. 8 and Fig. 9).

In case of effectiveness principle (E1), the requirement of

subsidies providers for respecting this principle is absolutely obvious. 79 % of respondents expressed the opinion that they reckon an orientation on a result for provided funds, i.e. providing such goods and services that correspond to instructions of grant programs. 21 % of respondents expressed the opposite opinion. These respondents seem to be not interested in the output of provided funds.

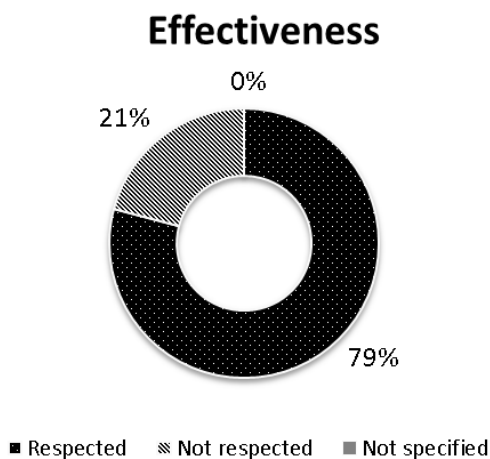


Fig. 7 Do subsidies providers respect and require the principle of effectiveness? (Source: own processing)

The situation is similar in relation of subsidies providers to the *economy* principle (E2). Two thirds of respondents expect such use of provided grant funds that costs of subsidized goods are minimized. One third of respondents does not respect this principle, respectively it does not care about it, and whether receivers of grants minimize providing costs of subsidized goods (Fig. 8).

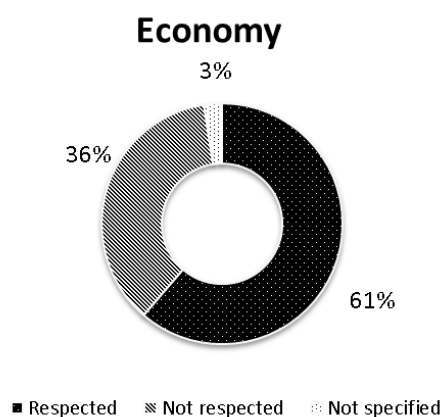


Fig. 8 Do subsidies providers respect and require the principle of economy? (Source: own processing)

A similar situation is in relation of subsidies providers to the *efficiency* principle (E3), where the financial relation between inputs and outputs of subsidized goods is examined. The predominance of answers that express the effort to respect this principle from the providers' side is to see. As in the previous case, two thirds of respondents demand maximally effective treatment with provided funds, i. e. minimization of costs and maximization of outputs. One third of respondents does not share this opinion, respectively they are not interesting in it and they do not examine the relation between inputs and outputs in case of provided grants (Fig. 9).

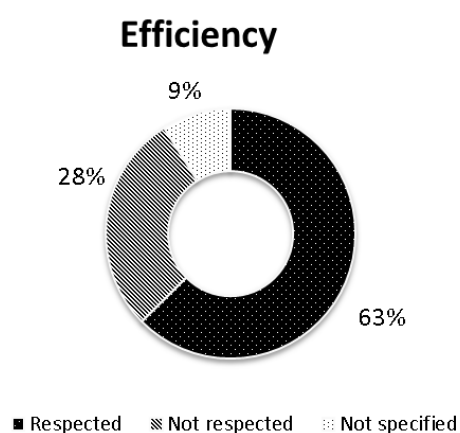


Fig. 9 Do subsidies providers respect and require the principle of efficiency? (Source: own processing)

#### D. Summarization of results – subsidies receivers

The research proceeded from models of assumed behavioral pattern of public administrative institutions and other subjects in frame of subsidies relations.

While the goal of each public institution should be ensuring of its functioning in accordance with effectiveness, economy and efficiency principles, the results of the research in the sphere of subsidies show that those principles are in general partially respected. The models assumed that subjects on both sides participating in the subsidies relations are highly motivated to respect 3E's principles only in case of effectiveness principle.

In case of subsidies receivers, the hypothesis 1 was formulated:

*Hypothesis 1: It can be assumed that receivers of subsidies respect only the effectiveness principle.*

As the research has shown, the real situation in conditions of the Czech Republic seems to be little bit more positive than expected. This can be seen in Tab. 2 that presents the results for subsidies receivers (the answers from the category "others/not specified" or those with no clear relation to both categories are not included into this table).

Tab. 2 Relation of subsidies receivers to the “3E’s” principles- summarization (Source: own processing)

RECEIVERS OF SUBSIDIES (numbers of answers in relative expression)		
	The principle is respected	The principle is not respected
E1 - Effectiveness	75%	25%
E2 - Economy	56%	44%
E3 - Efficiency	43%	57%

Hypothesis 1 expected respecting only the effectiveness principle from subsidies receivers. This was confirmed in the research, but respondents expressed also the effort to achieve also the economy in their subsidies relations. *The hypothesis 1 was not verified; respectively it was verified partially.*

#### E. Summarization of results – subsidies providers

The following hypothesis was formulated for providers of subsidies:

*Hypothesis 2: It can be assumed that providers of subsidies respect efficiency and effectiveness principles, but there is no respect to the economy principle.*

As the research has shown, also this hypothesis has been verified only partially. This can be seen in Tab. 3 that presents the results for subsidies providers (the answers from the category “others/not specified” or those with no clear relation to both categories are not included into this table).

Tab. 3 Relation of subsidies providers to the “3E’s” principles- summarization (Source: own processing)

PROVIDERS OF SUBSIDIES (numbers of answers in relative expression)		
	The principle is respected	The principle is not respected
E1 - Effectiveness	79%	21%
E2 - Economy	63%	37%
E3 - Efficiency	69%	31%

Hypothesis 2 expected that most of the subsidies providers respect the efficiency and effectiveness principles, but there is no respect to the economy principle. In this case, the expectation was not fulfilled in one point, namely in economy principle. *The hypothesis 2 was not verified; respectively it was verified only partially.*

#### IV. CONCLUSION

The research results brought an interesting finding out which results more positive for the sphere of subsidies than it has been expected by the research team.

Hypothesis 1 assumed that receivers of subsidies respect

only the effectiveness principle and most of the receivers do not respect fulfilling of economy and efficiency principles. This hypothesis has been confirmed only partially. Respondents representing subsidies receivers (companies, non-profit organizations and self-government) expressed their effort to respect effectiveness and economy principles; on the other hand they do not respect the efficiency principle. It can be stated that the subsidies receivers' link received funds to a result of the project but together with it they try to achieve the cost minimization in most of the cases. On the other hand, they are not motivated to achieve the maximally possible difference between inputs and outputs, i.e. cost minimization of funded goods or services and outputs (resp. benefits from outputs) maximization. The hypothesis 1 was confirmed only partially, namely in case of effectiveness and efficiency principles. The economy principle was not expected in case of subsidies receivers, but the research showed the real respect to this principle which is a really positive result.

The research verified that subsidies providers, among them all governmental levels – state (ministries), municipalities and regions – respect all three principles. They try to achieve using the funds on that way that costs are minimized, a quality of provided goods or services is maintained, funds are used on stated aim and outputs are maximized together with cost minimization. As in the first case, the hypothesis 2 was confirmed only partially, in case of effectiveness and efficiency principles. The respect to the economy principle was not expected by the research team, but it was shown in reality which is the positive result again.

All results are definitely positive for the sphere of subsidy providing in conditions of the Czech Republic. The research confirmed the pressure of subsidies providers, i.e. public administration institutions, on respecting all 3E principles. It emerged in case of subsidies receivers that it would be convenient to increase the effort from the subsidies providers' side to force receivers to treat received funds maximally economically.

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