

Public Sector Downsizing and Public Sector Performance

Subjects: Public Administration

Contributor: Shahram Kazho

Performance measurement as a social structure considers that institutional rules arise from the interaction of individual reactions. The capability of a country's public sector to provide high-quality goods and services cost-effectively is crucial to foster long-term growth. Governments attempt to identify the most effective production processes to increase efficiency, effectiveness, and performance. On the other hand, performance can be considered a combination of effectiveness and efficiency in the public and private sectors. Public sector performance is considered through its indicators at the international level across countries. A public sector's goods and services can be efficient in volume and quality, with good corporate performance.

Keywords: public sector downsizing ; public sector performance ; budget deficit

1. Public Sector Performance

The field of performance management has been vibrant and productive over the past decades. Many previous studies have been extended with new evidence. At the same time, although the development of tools and measurements remains a major challenge, more and more studies emphasize the importance of factors in achieving performance improvement. ^[1], for instance, examines the main themes, strategies, implications, and challenges of contemporary performance management reform over the past decade. It is also shown that during this period, useful strategies and tools were developed in three areas: objective measurement, subjective measurement, and performance management. Although performance measurement is seen as an essential tool of performance management ^[2], the performance management system obtains information such as performance feedback, salary management, and employees' strengths and weaknesses ^[3].

Several studies and indicators have become available to compare countries' public sectors ^[4]. Performance measurement is a significant tool to achieve better performance in determining targets and performance indicators in the public sector ^[2]. However, performance indicators can emerge as a significant element in improving performance and defining low performance. According to performance indicators, public sector activities can be determined ^[5]. On the other hand, financial measures are used to evaluate performance, such as return on sales, ROI, productivity, and profit per production ^[6]. The Organization for Economic Co-operation and Development has specified reforms to address the growth in public spending. These can be handled under three headings: examining the budget process more closely, making management practices more flexible, and ensuring that public services are more competitive ^[7].

Public sector performance is considered as having indicators at the international level across countries ^[4]. A public sector's goods and services can be efficient in volume and quality, with good corporate performance ^[8]. In addition, performance measurement results may need to be examined in terms of issues that need to be resolved in the public sector. First, communities that can be affected by the program must be considered. Secondly, the indicators that determine success must be suitable for measurement. Finally, the interpretation of outcome measures must be taken into account ^[9]. It is difficult to measure performance in a broader context, where political, economic, and cultural factors can influence measurement application. These challenges appear international rather than short-sighted.

In the current literature, performance is measured with labor productivity, capital efficiency, and total factor productivity ^[10]. Other measures suggest the performance indicator is effectiveness. Research on public performance focuses on activities to increase accountability for its design and management ^[11]. Another important concept is transparency. Firms are expected to be managed transparently, with more reliable information flow ^[12]. Finally, performance can be addressed through accountability. Considering the changing economic and political conditions, the concepts of accountability and performance must be addressed with an operational meaning in the public sector ^[13]. In the light of the above, specific

performance indicators are clearly expressed and used effectively to improve the processes in performance management and policies based on organizational success. The importance of public performance indicators is discussed below.

1.1. Efficiency

Efficiency can manifest itself in the economic and social environment of the public sector ^[14]. In practice, efficient performances are defined as un-dominated performances, i.e., performances located on the “best practice frontier” ^[15]. Efficiency is calculated with the effects achieved concerning the resources used to meet the conditions for maximizing the results of an action ^[16].

The public sector can be downsized inefficiently compared to the private sector ^[17]. One of the main reasons can be the goals that are adopted and pursued in this way. The public sector does not focus on economic benefits like private entities, but aim to provide social benefits for public welfare ^[16]. In this way, performance is realized depending on sub-services, and the ideal performance must be determined for public institutions ^[18].

On the other hand, there may be problems with resource allocation and technical efficiency in the public sector ^[19]. How resource allocation and procedures are handled can be considered as significant to performance. The wasting of resources, such as technically inadequate purchases, poor distribution systems, and staffing redundancy, can occur in this context ^[19]. In addition, inefficiencies can be affected by the political system. The structures and services can be determined in a political way, and regulations can be considered a significant step to increase efficiency ^[20].

In addition, inputs and outputs can be considered among the factors affecting productivity in the public sector. Expenditure for the service and the project may be considered significant in terms of inputs in the public sector. On the other hand, outputs are more difficult than inputs because social and economic consequences are more prominent in the public sector. As social and economic results are more prominent, market value is considered more difficult in terms of the process in the public sector ^[16].

1.2. Effectiveness

Prevailing ideas about the effectiveness of economic and social organizational forms have been developed over the past two decades, primarily under the influence of the New Right ideology ^[21]. Economic efficiency has an essential quality in terms of the efficient social and political fields for governments to achieve their goals ^[21].

Effectiveness is the indicator given by the ratio of the result obtained to the one intended to achieve ^[16]. However, effectiveness can affect efficiency. Elements can be considered a significant factor related to awards, participation of employees in the design process, performance improvement training, the scope of senior management support, and the use of multidimensional performance criteria ^[22]. Management effectiveness, technical training, political support, and external stakeholder engagement are recognized as necessary in performance effectiveness ^[23].

1.3. Transparency

Transparency is a significant issue in public policy, non-profit organizations, international relations, and management research ^[24]. The adoption of transparent policies is thought to provide citizens with the ability to make choices and obtain information ^[24]. Although transparency is seen as necessary, it may seem difficult to understand in public expenditures. This difficulty may develop due to several technical and political processes ^[25]. On the other hand, promoting accountability and legitimacy together with governmental and public participation is considered necessary to ensure fiscal discipline in budget evaluations ^[25]. How transparency mechanisms are structured will shape their impact on public policy and on efficiency, equity, and democratic accountability.

The transparency of government in the use of public funds is one of the widespread issues that have been researched in recent years. In this context, it can be considered that fiscal transparency significantly shapes the duties and functions of the state in the public sector. Fiscal transparency can be considered a clear and comprehensible presentation of the state's duties and responsibilities in terms of taxes, borrowing, and expenditures. In this sense, it is thought that financial resources and markets can work more effectively and reduce uncertainties in policy.

Furthermore, different ideological views and policy suggestions have an impact on transparency. Some researchers have linked transparency to policy processes ^[26]. In this way, it may be helpful to adopt some programs and practices for transparency in the public sector. Programs designed on transparency do not simply involve oversight bodies; they must provide avenues of understanding ^[24].

1.4. Accountability

Accountability is the cornerstone of public governance and management because it constitutes the principle that informs the processes whereby those who hold and exercise public authority are held to account ^[27]. Performance-based accountability requires performance measurement, the ongoing production of information about an organization's actual outputs, and results measured against its goals and objectives ^[28]. Accountability can manifest itself in the public sector in three critical ways. These can be thought of as (1) abusing of public authority and its control, (2) securing resource use, and (3) provision of legal procedures necessary to promote learning ^[27].

The concept of accountability is determined according to performance reports in the public sector. Accountability is thought to emerge with reporting of different performance dimensions in the public sector ^[29]. For this reason, plans and reports must be created to incorporate interpersonal information flow. On the other hand, the three reform areas are considered significant for the public sector, since changes in government happen while trying to respond to various challenges and demands ^[27]. These are authorization or authorization applications, management and collaborative practices, and changes in the government's performance reporting management for results.

2. Public Sector Downsizing

Several researchers have examined why organizations downsize on the basis of fundamental structures. Downsizing may occur depending on internal or external factors. This imposes both financial and labor-related psychological costs on organizations ^[30]. Increasing competitive pressures may cause organizations to reduce their costs, restructure, and even decrease their workforce ^[31]. Any crisis can lead to downsizing by reducing labor requirements within an organization ^[32]. Organizations may require structural redesign, privatization, a decrease in activities, reorganization, or bankruptcy. In addition, job insecurity and organizational change are the main stress factors that cause downsizing ^[33]. Since job insecurity is related to individuals, it may not be fully elucidated as a cause of downsizing ^[34].

The current literature on downsizing is extensive, and downsizing issues from restructuring to the survival of organizations are frequently considered in contemporary management theories. Organizational downsizing has become more familiar with the increase of global competition and the restructuring of the economy ^[35]. Organizational downsizing can be considered the set of activities controlled by organizational management designed to achieve a superior competitive power and increase efficiency and productivity ^[35]. There are specific issues to be realized when developing an organization's downsizing plan. These issues can be determined as economic and legal obligations, human resources policies, and the degree of being ethical in the society in which it operates ^[36].

Downsizing is handled in three ways in the literature: organizational, individual, and global ^[31]. Organizational (strategic) downsizing is related to the organization's expected benefits and goals through its performance, efficiency, and effectiveness; it includes some strategies, such as stress and psychological coping strategies, from an individual perspective ^[31]. From a global or industry perspective, discussions of downsizing include mergers and acquisitions, joint ventures, and market strategies ^[37].

Unlike the private sector, the public sector is managed with different variables and organizational goals. For example, employees' organizational commitment is significant for performance in the public sector ^[38]. It is thought that organizational commitment also has an essential effect on motivation in the public sector ^[39]. For instance, studies have reported significant institutional and social factors in terms of productivity, trust in government, improved management practices, and accountability in the public sector ^[40]. However, performance management is also considered a significant factor, since public sector employees are expected to perform well in a challenging work environment ^[41]. Finally, the public sector is considered significant in terms of strategic management. If commercialization acts as the impetus for public sector entities to adopt a strategic approach to resource management, then employee management plays a vital role in the strategic management process ^[42]. Public participation can be inclusive of having a strategic economic and political role for public services.

The belief in private sector solutions to public sector problems reflects the changing paradigm in public personnel management, which has resulted from the anti-government sentiment in the reinvention movement ^[43]. Managing employment relations is much more complicated than it appears. The problems are legal, managerial, and political, and they have a direct impact on public trust and institutional integrity ^[44].

2.1. Downsizing in the Budgeting of Government

The financial crisis in Europe has dramatically affected the public sector and has led to many reforms ^[45]. However, these effects may differ across countries. For example, Norway is shown as one of the countries minimally affected by financial cuts, while financial cuts in Estonia have manifested themselves as an output through personnel cuts ^[45].

The failure to correctly identify labor redundancies in specific government agencies and state-owned enterprises explains the disappointing results of some of the downsizing operations carried out with World Bank support ^[46]. Economic reform is increasingly more significant for developing countries with a public sector contraction ^[46]. The workforce is usually the organization's most significant expenditure, impacting the bottom line in private industry and the budget in government agencies ^[47]. The downsizing of the state can generally be considered as revenues and expenses in terms of economic output. The state may adopt a policy of reduction in terms of incomes by providing a decrease in tax rates. However, the state can reduce expenditures by making specific arrangements for wages and social benefits.

The issue of how layoffs contribute to the public sector is discussed in the literature. To what extent the public sector downsizing process contributes to the economy is discussed in the literature ^[46]. Therefore, the financial results can be followed in this way: while most cost recovery is limited, explicit subsidies or budget constraints often support state-owned businesses. On the other hand, some public institutions can transfer the resources to the budget; because these transfers and the downsizing taxes can change the balance levels, public sector downsizing may affect the rest of the economy not only through its fiscal impact but also because of its direct impact on private-sector output ^[46].

2.2. Downsizing in the Number of Employees in the Public Sector

In the late 1980s and 1990s, public and industrial reforms, changing labor markets, and public employment policies were affected by many external factors (Colley, 2013). Downsizing processes can cause undesirable results ^[48]. One of these can be considered as labor reduction. Labor reduction may be considered differently by employees and decision makers. Employees expect job security, a fair wage distribution, and various career development opportunities within the organization ^[49]. Therefore, trust can be considered as a significant factor. Recent empirical evidence has shown that perceptions of psychological contract violation have a significant negative impact on employee work attitudes and behaviors ^[49].

On the other hand, the recruitment and selection processes of the public sector differ from the private sector in terms of the complexity of the process, legal frameworks, a detailed examination of the decisions due to appeal processes, age policy, and lack of a for-profit motivation ^[50]. In addition, public services are perceived to be better in terms of tolerance towards inclusive workforces and the combatting of discrimination, and it is considered an institution accepting of older workers ^[50].

2.3. Downsizing in the Structure of Government (Privatization)

Adopting downsizing strategies is necessary for employees to develop relational contracts to survive, such as privatization or procurement ^[43]. Since the development of e-government, many governments have used a public-private partnership model to deliver their official web portal ^[51].

Privatized enterprises may reduce costs due to their competitive environment. Accordingly, privatized enterprises may cause the employment conditions to deteriorate ^[52]. The approaches and strategies that companies can adopt are significant in this situation. For instance, these can include rearranging the working conditions of the companies and reviewing problems. In addition, improvement of occupational safety and various training programs is considered necessary for productivity and to improve employees' skills, adopt technology, and increase job satisfaction ^[53]. According to Kim & Panchanatham ^[54], customization has certain advantages; private companies offer higher incentives than public institutions, providing an advantage in terms of efficiency. Private companies are not affected in terms of political factors, providing an advantage in terms of short-term goals and an advantage to the consumer in terms of competition.

2.4. Downsizing in the Centralization of Government

Public sector downsizing can also be evaluated in terms of the powers of the state. The state has powers in many areas, such as health education justice. Some limitations may come into play in the process of public downsizing. For instance, the preservation of the supervisory authority can be considered when downsizing. It can be thought that the state benefits from many laws, such as trade, debt, consumer, and competition laws in regulating the market. Since budget authority increases over time, a reasonable portrayal of limited government must capture parliament's absolute power to act ^[55]. Accountability can be thought of as a benefit of centralization. Centralization improves accountability, but it precludes the

ability to match local public goods to idiosyncratic local preferences ^[56]. Centralization is also thought to have significant effects on the public, such as size, economies of scale, and incentives. In addition, centralization is thought to affect the size of the state in terms of the financial structure ^[57]. In terms of size, in the context of centralization, the state is thought to secure itself with the taxpayer's income ^[57]. On the other hand, centralization can create a change between economies of scale and lobbying incentives ^[58].

2.5. Public Sector Downsizing and Public Sector Performance

Performance evaluation practices continue to increase in the public sector in America ^[59]. As mentioned earlier, the public sector has undergone substantial reform in the last 20 years. There have been fundamental trends such as downsizing, transparency, cooperation, and e-government in the public sector ^[45]. Downsizing reform offers a broader perspective on improving organizational performance rather than a narrow definition ^[60]. Public sector downsizing is an increasingly important component of economic reform, both in industrial and developing countries ^[61].

On the other hand, performance and efficiency may be considered essential in evaluating and monitoring the implementation of microeconomic reform ^[62]. Performance indicators are necessary to measure the government's financial performance and its effectiveness ^[62]. In addition, the adoption of different performance criteria enables efficiency and effectiveness evaluations in business processes in terms of strategic goals ^[63]. Studies on downsizing are generally thought to be related to performance and employee morale and welfare ^[64]. Studies conducted on downsizing and performance have reported improved performance in the initial downsizing, while ultimately labor decline is associated with poor performance ^[65].

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