

# **Answer From Entities Of The Public Finance Sector To The Idea Of New Public Governance – The Bsc In The Public Sector**

*Anna Stronczek, PhD*

*Elżbieta Marcinkowska, PhD*

AGH University of Science and Technology,  
Faculty of Management, Poland

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## **Abstract**

The idea of new public governance puts emphasis on the proper determination of objectives and the monitoring of results, the effective management of finances, the determination of service standards, the use of benchmarking or human resources management. Such approach requires the implementation of appropriate tools supporting management processes. Therefore, it is very important to extend the accounting system of the entities from the public sector with methods and tools of management accounting. This article focuses on finding the answer to the question which tools of management accounting may be helpful and may support managing in entities from the public sector. First, we made a short review of previous research on the application of management accounting instruments in entities from the public sector. Next, we examined which tools and methods of management accounting intend to support the examined entities when they implement integrated IT systems and thus we learned which tools they use. Then, we paid special attention to the use of BSC in a public entity, namely a hospital.,

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**Keywords:** New Public Management, Balanced Scorecard, public sector

## **Introduction**

The concept of new public governance has been evolving (New Public Management) since the 1980s (first of all, in Anglo-Saxon countries). Its creation and development was inspired by the private sector. New public management (NPM) as a collection of practices that involve structural reforms to promote an entrepreneurial spirit amongst providers of State-funded services, measurement of the provision of those services using accounting techniques and subsequent evaluation of the value of those services by regulators [Ashworth et al., 2002; Lapsley, 2008]. The postulated

and observed changes in the public sector included a gradual replacement of the bureaucratic model with modern management methods. New public governance amounts to seven basic features [Hood 1991]:

- the introduction of managerial management in the public sector,
- clearly defined standards and measures of activities,
- greater emphasis on control over an entity's results,
- focus on the disaggregation of entities from the public sector,
- the introduction of competition into the public sector,
- the use of management techniques and methods used in the private sector,
- focus on greater discipline and savings in using possessed resources.

For simplicity's sake: the basic assumptions of this idea involve the use of market mechanisms towards the public sector, the promotion of competition between service providers, the transfer of control to the local community, the decentralization of competences and the introduction of participatory governance [Hoggett 1991]. According to this concept, administration should focus on results and not on outlays, as well as on objectives and the mission rather than on rules and regulations. The idea of new public governance puts emphasis on the proper determination of objectives and the monitoring of results, the management of finances (effectiveness), the determination of service standards, the use of benchmarking and modern human resources management. Such approach requires the implementation of appropriate tools supporting management processes. Therefore, it is very important to extend the accounting system with methods and tools of management accounting.

The changes in the approach to management in the public sector described above were firmly emphasized in Poland by the Polish Act on public finance [Act of August 27, 2009] which introduced numerous elements of this new concept and used instruments making it possible to improve the effectiveness of the execution of public tasks. The Act included, e.g. the obligation to exercise management control and new organizational forms of entities from the public finance sector.

This article focuses on finding the answer to the question which tools of management accounting may be helpful and may support managing in entities from the public sector. First, we made a short review of previous research on the application of management accounting instruments in entities from the public sector. Next, we examined which tools and methods of management accounting intend to support the examined entities when they implement integrated IT systems and thus we learned which tools they use. Then, we paid special attention to the use of BSC in a public entity, namely a hospital.

### **Instruments of managerial accounting in entities from the public sector**

Managerial accounting has many instruments making it possible to support management of a company as a whole and its particular function areas. It may be assumed that its modern solutions adapted to the current requirements and needs of the management staff are particularly significant. Therefore, it is not surprising that its tools and methods are widely applied in entities from the public sector.

The literature on the subject contains many instances of research on the implementation of managerial accounting methods in entities from the public finance sector. These include, among others: the suitability of the system for reporting achievements [e.g. Pettersen 2001, Carlin, Guthrie 2001], the selection of financial and non-financial measures of achievements [among others Spiegelman 2001, Lee 2008]; the use of relative methods of measuring achievements, e.g. benchmarking [Johansson, Siverbo, 2009]; the impact of the acceptance of new legal solutions on changes in management accounting systems [Cavalluzzo, Ittner 2004]. Examples of such research in Polish literature include: on the tools of managerial accounting that may be used on managing a commune's finances [Mikulska, 2011], the application of controlling to build trust towards a self-government territorial entity and inside [Marzec, 2011].

### **Tools of managerial accounting that self-government territorial entities wish to use – overview of research**

The tools used by entities from the public sector were examined by analyzing contracts for integrated IT systems with which they wish to support the implemented tools of managerial accounting. Each time we examined the descriptions of subjects of the contracts, namely the appendix to SIWZ (the Terms of Reference). We found these elements of the description of the subject of the contract interesting that refer to the possibility to implement tools of managerial accounting in entities from the public sector.

The conducted research was mainly aimed at recognizing the situation in entities from the sector public by:

1. obtaining the answer to the question: how do the tools and methods of managerial accounting intend to support the examined entities by implementing integrated IT systems,
2. the determination of information needs in the examined entities, resulting in ensuring an effective implementation managerial and operational tasks the entities face.

The research was conducted in the form of an analysis of appendices to SIWZ <sup>53</sup> randomly selected from ones published in the Public Procurement Bulletin [<http://bzp1.portal.uzp.gov.pl>]. The following inquiry was introduced into the search engine: services (type of contract), open tender (mode of contract), announcement on awarding the contract (type of announcement), subject of contract: software. 30 announcements meeting the basic condition were selected – they were related to the purchase of integrated management systems. The methods and tools of managerial accounting the examined entities have and they wish to support with an IT system were determined on the basis of the description of the contract (Table No 1).

Table No 1. Methods and tools of managerial accounting required as system functionality

Methods, tools	Included in the requirements as system functionality	
	1	2
		3
Analysis of costs and benefits for making short-term decisions	5	16.67%
Analysis of deviations of actual amounts from budget amounts	18	60%
Analysis of the profitability of investment projects	6	20%
Analysis of incurred costs and earned revenues	11	36.67%
Activity-based budgeting	4	13.33%
Budgeting of revenues and expenses	21	70%
Calculation and analysis of the unit cost	7	23.33%
Measurement of achievements using measures of a financial nature	17	56.67%
Measurement of achievements using measures of a non-financial nature	7	23.33%
Variable cost account	4	13.33%
Balanced scorecard	5	16.67%

It is not surprising that the tool most often required in the description of the subject of the contract was the option to conduct operational budgeting, the analysis of the deviations of actual amounts from budget amounts, the analysis of incurred costs and earned revenues. With regard to the Polish Act on public finance referred to above, it is surprising that the tool to analyze cost drivers and to measure achievements with the use of measures of a non-financial nature was not indicated. It should be emphasized that the ordered systems provide the possibility to easily implement subsequent tools and methods of managerial accounting.

<sup>53</sup> SIWZ – the Terms of Reference, is the main document during a procedure for awarding a public contract. It contains, first of all: the conditions to be met by the contractor, the list of elements that should be included in the tender as well as the basic data on the contract.

### **Implementations of the balanced scorecard in a public hospital**

The strategic balanced scorecard is a tool aimed at translating an organization's vision and strategy into a set of measures classified into four perspectives: financial, customer, internal processes and development. The financial perspective indicates whether and to what extent the implementation of the organization's strategy contributes to the growth in the company's value. In the customer's perspective, the management defines the actual and potential recipients of services and segments of the market in which the entity will compete as well as the related measures of efficiency and effectiveness. The internal processes perspective identifies the key innovative and operational processes. The fourth perspective – development, identifies the resources the organization needs to develop to create the grounds for long-term development and improvement. It is clear that conceptualization locates the financial objectives as the final point of BSC efficiency management purposes which appears in conflict with the objectives of the majority of public sector organizations. In turn, Kaplan and Norton (2001) suggest that even though BSC was originally intended for commercial companies, it may be easily adapted to use in organizations from the public sector by changing the priorities in the scorecard's perspectives. In the event of entities from the public sector, we may identify all perspectives of result measurement, while the financial perspective in this case may be not so much the objective but rather a limitation. These organizations need to limit their expenses to the amount planned in the budget following, at the same time, the principle of savings and thrift.

The balanced scorecard has been the tool used to assess an organization's achievements in the healthcare system for two decades. In the healthcare area, for example, studies of BSC implementation have been conducted in a variety of countries, including the UK, Canada, the USA, Australia, Sweden, The Netherlands, Singapore, Afghanistan, and New Zealand (Chang et al., 2002; Chow-Chua, Goh, 2002; Zelman et al., 2003; Peters et al., 2007; Aidemark, Funck, 2009). It is used by hospitals, clinics and other entities operating in this system. The first publications which suggested the use of the balanced scorecard in management of a hospital appeared as early as in the middle of the 1990s, shortly after the presentation of this concept by its creators Kaplan and Norton in 1992 (Baker and Pink 1995, Zelman 2003; Griffith et al. 2002; Auger and Roy 2004; Young and Tung 2006). In the articles, the authors presented the application of BSC in hospitals and benefits resulting from this application.

Hospitals are a specific group of entities in the healthcare system. Treatment in hospitals is the basic element of the healthcare system. The majority of resources, both tangible and personal ones, present in the healthcare system is involved in medical activities conducted by hospitals.

Consequently, almost half of all cash funds spent by the payer annually on purchasing medical benefits is directed to hospitals. Additionally, these entities and strongly diversified in terms of their size, the scope of provided services, their legal form.

Taking into account the specific nature of the operation of hospitals, the measurement of achievements should be adapted to the implemented objectives and the conditions in which the hospitals function.

The balanced scorecard proposal by Kaplan and Norton presents the organization's achievements in four perspectives: financial, customer, internal processes and development. It uses not only traditional financial indexes but combines them with non-financial indexes. The implementation of BSC in hospitals has many common points with BSC in other sectors of the economy. However, due to the specific nature of the functioning of hospitals, there are areas characteristic of this type of organizations. For example, the strong diversity of key stakeholders is a troublesome issue. Employees, families of patients, doctors, the founding authority, the payer, suppliers, local communities and state authorities are distinguished apart from the group of patients. The achievement of the assumed objectives by all groups is difficult for a hospital and results from the conflict of interest between these groups. The patients expect high quality of provided services with the use of the latest diagnostic and medical solutions. Such approach is in conflict with the expectations of the founding authorities putting pressure on the rational use of a hospital's limited resources.

In addition, hospitals today need to deal with numerous unfavorable factors, such as the growth in the demand for medical services resulting from the growth in the number of the elderly or the development of civilization diseases. This leads to rapidly growing costs of treatment.

Hospitals are not focused on profit but new regulations (in Poland: the Polish Act on Medical Activities) oblige hospitals to earn profit. Losses incurred by a hospital lead to the commercialization of hospitals which, as commercial companies, are obliged to generate positive financial results. The valid legal regulations force them to rationally conduct their activities and oblige them to avoid financial losses.

Therefore, the measurement of a hospital's achievements is a multi-faceted measurement. This results from the specific nature of hospitals. Thus, the customer's perspective is dominant in the hospital's BSC. The priority is the implementation of the mission and the satisfaction of stakeholders. The financial perspective is of secondary importance. Although it is not key today, positive financial results are a necessary condition for the survival of hospitals from the long-term perspective.

### BSC in Kraków Specialized Hospital– case study

The Rydygier Specialized Hospital in Kraków was established in 1986 and is one of the largest hospitals in Małopolska in terms of the number of beds, the number of staff and the number of hospitalized people. Several years ago, the hospital prepared and developed BSC. The main strategic objective of the hospital was and is the desire to confirm its position as one of the most important providers of medical services in Małopolska. The hospital prepared the BSC distinguishing four basic perspectives typical of this tool.

Table No 2. BSC of the Rydygier Hospital in Kraków

<b>STAKEHOLDER PERSPECTIVE</b>	
<b>Objectives</b>	<b>Measures</b>
Build the satisfaction of patients and their families	<ul style="list-style-type: none"> <li>- number of complaints from patients and their families</li> <li>- percentage of patients hospitalized for whom individual treatment and care plans were developed,</li> <li>- test results of patients' satisfaction</li> </ul>
Improve the availability of medical services, especially highly specialized and unprofitable ones	<ul style="list-style-type: none"> <li>- number of patients awaiting unprofitable medical services,</li> <li>- number of new specializations and medical technologies,               <ul style="list-style-type: none"> <li>- bed occupancy rate,</li> </ul> </li> <li>- shortening the time of waiting for highly specialized services</li> <li>- test results of patients' satisfaction</li> </ul>
Strengthen the reputation of the Hospital	<ul style="list-style-type: none"> <li>- number of publications on the Hospital and its employees (building the Hospital's positive image),</li> <li>- test results of patients' satisfaction,</li> <li>- number of press publications on the hospital,</li> <li>- receiving the CMJ and ISO certificate,</li> <li>- place in the Polish ranking of hospitals,               <ul style="list-style-type: none"> <li>- number of treated patients</li> </ul> </li> </ul>
Perform statutory tasks in conditions of financial stability	<ul style="list-style-type: none"> <li>- financial result,</li> <li>- level of debt</li> </ul>
Provide medical services of the required quality for a moderate price	<ul style="list-style-type: none"> <li>- percentage index of meeting the payer's detailed requirements</li> <li>- price offer at the level +/-10% of the average for the products of comparable hospitals</li> </ul>
Adjust the scope and number of medical services to the needs of the regional community and the payers	<ul style="list-style-type: none"> <li>- level of contract implementation,</li> <li>- degree of shortening the waiting list</li> </ul>

<b>INTERNAL PROCESSES PERSPECTIVE</b>	
<b>Objectives</b>	<b>Measures</b>
Improve and simplify regulatory internal processes	- percentage of positions with access to the Internet
Create conditions for the formation and implementation of innovations	- number of reported/implemented innovations, - number of implemented (3-year cycle) new medical technologies
Implement programs for quality improvement	- received certificates - index of the implementation of accreditation standards
Perfect and standardize healthcare	- number of developed standards of clinical conduct, - index of the implementation of accreditation standards
Simplify the delivery management process	- number of business partners, - quantity of purchased assortment
Improve the effectiveness of using resources	- average time of hospitalization (at wards/in the Hospital), - bed occupancy level, - number of surgery procedures, - surgery rooms usage index, - stock level of the Dispensary

<b>DEVELOPMENT PERSPECTIVE</b>	
<b>Objectives</b>	<b>Measures</b>
Perfect the employees' skills	- number of trainings annually (index per employee and training cost index per employee)
Build satisfaction employees	- the level of the employees' satisfaction (survey), - staff turnover index
Provide leadership on various levels of management	- level of the Managers' preparation for human resources management (survey)
Improve organizational culture	- level of the employees' identification with the Hospital, - level of the employees' awareness of the Hospital's mission and objectives
Build a comprehensive IT system supporting management	- number of key areas of management in a hospital covered by computerization, - level of integration of IT systems, - index of software integration (percentage of integrated programs to the total number of programs used in the hospital x 100%)
Develop highly specialized medical technologies	- number of highly specialized medical technologies
Reward effectiveness and innovativeness	- number of outstanding employees

<b>FINANCIAL PERSPECTIVE</b>	
<b>Objectives</b>	<b>Measures</b>
Achieve and maintain a positive profitability of revenues	- revenue profitability index (sales)
Optimize financial liquidity	- liquidity index
Improve the efficiency of operation	- operational index, - administrative costs control index, - turnover, current assets, fixed assets index
Improve the efficiency of managing resources	- work efficiency/1 employee, - productivity of fixed assets, - level of financing growth in assets from cash flow
Maintain the ability to service debt	- debt and debt service level
Increase relations of the strategic budget to the operational budget	- relation of modernization and development costs (including training) to current costs

Source: Prepared by the author on the basis of the Strategy of the Rydygier Specialized Hospital in Kraków

The hospital presented strategic objectives and measures to which it suggested actions making it possible to achieve the assumed objectives in the prepared BSC. Then, after one year, the hospital conducted an assessment of the degree of the implementation of the adopted strategic objectives on the basis of the prepared BSC. The majority of the assumed objectives was completed. The majority of the formulated objectives was implemented in the stakeholders' perspective. Access to medical services was improved, the hospital's position and reputation was consolidated. With regard to the internal processes perspectives, the hospital simplified and improved its regulatory internal processes. In the development perspective, the hospital improves the qualifications of employees, conducts assessments of the employees' qualifications and applies a remuneration system related to the evaluation of positions and the effects of work through the proposed actions.

The hospital managed to work out a large success in the financial perspective. The hospital obtained a stable financial situation, obtained a positive financial result.

## **Conclusion**

According to the idea of modern management in the public sector, public entities successfully implement modern management methods applied in the practice of private business entities. One of the contemporary tools of managerial accounting, which were immediately applied in the public sector, is the Balanced Scorecard. The application of this solution allows entities to translate their strategy into objectives the implementation of which is confirmed by measures grouped in four perspectives. Actions are subordinated to objectives and measures.

BSC was introduced in the hospital presented in the article. Strategic objectives were defined, measures were assigned to objectives and actions through which the hospital should achieve the intended objectives were indicated. The conducted assessment of the implementation of the adopted strategy based on BSC confirms the achievement of the majority of assumed objectives, particularly those presented in the stakeholders' perspective and the financial perspective.

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