

# Using Benchmarking for Enhancing Management of Public Services. Comparative Case Studies – UK, Sweden and Romania

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## **Abstract**

*Benchmarking is a managerial tool aimed at increasing internal and external organizational performance, initially used in the private sector and imported by the public sector in the mid 90s. Although the debate about the challenges and shortcuts of using benchmarking for assessing public agencies performance is still open and vivid in the academic community, the present paper argues for the undoubted net benefits of applying such a tool in the public services sector (with a particular emphasis on public utilities) in terms of stimulating an increased performance, accountability and transparency of local public authorities benchmarked for their performances in service delivery. The comparative analysis between the benchmarking models: the UK top - down approach, the Swedish voluntary benchmarking and the Romanian incomplete benchmarking started as an independent, external monitoring exercise - provides the grounds for a better understanding of the rationale and evolution of benchmarking processes when applied to various segments of the public sector. The lessons learned, common traits and well as differences between the three case studies are illustrative both for the usefulness of the managerial tool, but also for the challenging dynamics that benchmarking processes imply in particular administrative, social, economical and cultural contexts*

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## **1. Rationale for the use of benchmarking in the public utilities sector**

Benchmarking was originally an instrument incurred by the private sector to stimulate process improvement by determining best practice across organizations through performance measurement and understanding those factors which enabled higher performance of the leading organizations (Watson, 1994). Formally, the first benchmarking functional definition has been developed by Xerox Corporations in early 1990s, focusing on achieving performance by learning from best practices. “Benchmarking is the continuous process of measuring products, services, and practices against the toughest competitors or those companies recognized as industry leaders” (David T. Kearns, chief executive officer, Xerox Corporations). OECD comes with an alternative definition “Benchmarking as an efficiency tool is based on the principle of measuring the

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performance of one organisation against a standard, whether absolute or relative to other organisations” (Cowper and Samuels, 1997).

While there is a wide consensus over the utility of benchmarking in increasing performance of private organizations and ultimately reaching for higher profitability, the transfer of this instrument to the private sector is still an on-going process, with limited empiric, evidence – based results and raising numerous debates in the scientific community. „The introduction of benchmarking into the public sector is still in its early stages. Technical problems, scepticism about usefulness and the appropriateness of transferring putative private sector competencies into public administration and the resistance in accepting organizational change as a necessary consequence of benchmarking exercises in the public sector, prevent the widespread acceptance and use of benchmarking in public sectors, arguably “punch-drunk” with systemic change”. (Kouzman et al.1999).

Nevertheless, performance management is to be found in the prescriptive of the New Public Management, as its main goals are to make public agencies more transparent, provide better services to citizens and improve their overall efficiency. Benchmarking is one of the key instruments used in performance management, thus, by transition and assuming these goals as a valid outcome of the governance act, the present paper argues for the importance of continuing to develop both the theoretical and the practical corpus of scientific knowledge in the field of applied benchmarking in the public sector. „Benchmarking, as a tool that can help communities improve service performance, is in a nascent stage of both theoretical and practical application in the public sector. Service quality is a concept that has implications for the input features of a service that relate to the fiscal, human and material, as well as to differences in its frequency, convenience, timeliness and scope. Communities vary in their financial capacities, policy priorities, as well as local popular needs, preferences and supports. By devising quality classifications for municipal services that recognize these distinctions, communities will be able to make more explicit choices about a level of service quality that best meets local service needs and stakeholder preferences, as well as resource and political constraints.” (Folz, 2004).

Consequently, one of the segments with most stringent need for reforming in the light of NMP’s perspective centred on the citizen - *customer* and which requires a management approach based on performant and visionary benchmarking is that of the public services sector, with a particular emphasis on the *utilities* sector. Why? Because the utility delivery is the core area where the performance of the local governments, translated into the capacity of delivering to the customer (citizen) best services for reasonable costs is fundamental for assessing the quality of life in a community. From this perspective, any public service or utility should properly ensure the citizen with an optimum quality for an affordable, fair price. In the absence of such services, one cannot discuss about economic, social or even personal normal development. Take, for example, water supply: for the rational observer, it is unacceptable to discuss about smart cities yet still not have full

access to potable water – and these kinds of realities are still present in rural (or even urban) communities in some of the countries subject to research.

## **2. The UK Model: top - down benchmarking, piloting stage and mandatory requirements**

One of the most notorious and systematic benchmarking models was introduced by the UK Government in 1999<sup>2</sup>, through the Local Government Act (coming into force in 2000), known as *Best Value*; its aim was to improve local services in terms of both cost and quality. *A Best Value authority must make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness (LGA 1999, section 3[1])*. The model was initially announced in 1997 and until its enforcement in 2000, the Government sponsored 37 voluntary council pilots for “testing the elements of the best value framework and assess the extent to which actual improvements in service quality and efficiency have flowed from the new approach” (Department of the Environment, Transport and the Regions 1997). The *Best Value* replaced former Compulsory tendering procedure for contracting provision of public services, as it turned out that the process of competition had become a scope in itself, distracting attention from the services that are actually provided to local people.

As a consequence, a new benchmarking model *Best Value* was introduced in 1999 – 2000, containing four elements: “(1) to secure economic, efficient and effective services continuously (the rule of the three Es’), (2) the local governments have to demonstrate that they have compared their service provision with that of other private and public providers, consulted with local business and community, considered competition in provision and challenge the reasons for, and methods of provision (the 4Cs); (3) a regime of audit and measurement of performance, with the broad expectation that, year-on-year, costs would reduce and quality would increase; (4) consequence of performance: Government intervention in cases of Best Value failure and reward in case of success (Boyne, 1999, pp. 1-15).

The elements of a benchmarking process were described by UK Audit Commission (2000) as following: *select service, identify resources and partners, define indicators and collect information, compare performance, find best practices, set a plan of change and finally implement and monitor*.

The UK benchmarking model – applicable to a number of 12 public services (education, health, social care, housing and housing related services, homelessness, waste and cleanliness, transport, environment, planning, community

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<sup>2</sup> [http://www.legislation.gov.uk/ukxi/2005/598/pdfs/ukxi\\_20050598\\_en.pdf](http://www.legislation.gov.uk/ukxi/2005/598/pdfs/ukxi_20050598_en.pdf)

safety, culture and related services, fire services) – used a set of 90 indicators for each service, known as BVPIs (Best Value Performance Indicators), developed by the Government to measure the performance of local authorities. Data for monitoring and evaluation of BVPIs was collected and audited annually by the UK Audit Commission, which provided guidance and support for local authorities in reporting BVPIs.

The BVPIs were designed as to cover four dimensions of performance:

- *Strategic Objectives*: why the service exists and what it seeks to achieve;
- *Service Delivery Outcomes*: how well the service is being operated in order to achieve the strategic objectives
- *Quality*: the quality of services delivered, explicitly reflecting users' experience of services
- *Fair access*: ease and equality of access to services

Most BVPIs had an attached value, valid for a fiscal year (from April, 1<sup>st</sup> to March, 31<sup>st</sup>, next year), but these targets were reviewed periodically based on the performances reported by the local councils. The BVPI benchmarking model was used for 8 years, until April 2008, it provided a large perspective on local governments performance by monitoring their progress; it could be used to compare their performance with other local authorities and to provide to residents with information about how their local government has been performing<sup>3</sup>.

BVPIs were replaced by the National Indicator Set (NIS)<sup>4</sup>, which basically followed the same philosophy, but it included a smaller number of national indicators (198), against which Central Government could agree targets with a local authority or partnership. The NIS system was in place until 2010, when the Government replaced it with a single list of data requirements for the local government.

In UK, Best value regime marked an important shift in the framework of national regulation of local authorities and the services they provide (Steve Martin, 2000), that gave birth to a wide range of local implementation. In this context, benchmarking was viewed as a form of control of central government on the local public affairs, but at the same time as a tool of the modernization process in local government. The experience of *Best Value* model is useful for understanding both the process of construction of a benchmarking model from top-to-bottom (the development of the BVPIs, the piloting phase, but also the limits of such an instrument when it is imposed by the Central Governments) and the fact that it may

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<sup>3</sup> Sample of BVPIs for Transport Service -

<https://www.legislation.gov.uk/wsi/2000/1030/schedule/6/made>

<sup>4</sup> Department for Communities and Local Government -National Indicators for Local Authorities and Local Authority Partnerships: Handbook of Definitions, April 2008: London

lead in some cases to missing the scope of performance but mistaking it for mere formal reporting.

### 3. The Swedish Model of voluntary benchmarking

In the Swedish case, the public administration reform was a thorough process conducted at all administrative levels during 2000 - 2010. Main arguments behind this reform were related to the need to respond to the increasing financial pressures from the public sector, doubled by a constant pressure caused by globalization at large over the main aspects of the social and economic life. A natural response to all these challenges was to incur new methods for increasing performance, and the experience of the Swedish benchmarking has been part of this strategy.

The Swedish benchmarking process in the public sector included several components:

- *Governmental agencies financial benchmarking* - a process-oriented benchmarking with the main goal to improve internal financial managerial practices of over 253 governmental agencies;

- *International benchmarking of the Swedish budgeting process* - again, a process-oriented benchmarking aimed at generating reforms of the budgeting philosophy and process at governmental level;

- *International benchmarking for comparing support for families with children* - a comparative exercise conducted in 8 OECD Member States, with the explicit purpose of evaluating the objectives and results of the existing reforms in the area of reference;

- *Annual benchmarking of local public authorities* - a performance oriented benchmarking, aimed at increasing performance of the 284 Swedish local authorities.

The annual benchmarking of local Swedish authorities, implemented since 1993 by the Swedish Association of Local Authorities in cooperation with the Central Statistics Bureau has as main goal that of providing information on the local authorities financial exercise, through annual reports - *How costly your local government is?* These reports are elaborated based on *voluntary reporting* by local authorities for the past year and include a number of 140 different indicators, grouped per categories:

- *financial indicators* from the revenues and expenditures budget sheets such as *per capita revenues, level of debt, solvency* (these indicators are equally analyzed for the over 1.300 municipal companies held by the local authorities);

- *sectoral indicators* for education, healthcare and social care for children and elderly;

- *indicators on financial transfer, human resources and workforce* - e.g. *social benefits per capita, ratio of employers in the public sector/population, size of grants for culture and leisure activities.*

Main limitations of the indicators used in the Swedish benchmarking process over the performance of local authorities are related to the degree of comparability, which has been deemed as insufficient when taken into consideration the different local public authorities, as they use different organizational and operational models for reporting standards. Yet, the databases have constantly improved from one year to another, such as the process itself; starting with 1995, a new system of classification of activities, costs and revenues was introduced for collecting financial data from the local level - a committee appointed by the Government with the mandate to analyse proposals for improvement of the quality and comparability of data collected. The Association of Swedish local authorities - the one that actually carries out the benchmarking process in practice - had also the role of identifying the most relevant indicators which can be used at both central and local level, and to define the models which can explain the observable differences between local public authorities.

The assumptions which support the institutionalization of benchmarking in Sweden pertain to:

- a generalized perception with regards to a certain degree of dissatisfaction related to the efficiency and effectiveness of the local governance act;
- the belief that the use of benchmarking represents a major opportunity to identify and analyze inefficiency in sectors which have never been evaluated before;
- Sweden's ambition to develop a competitive public sector at international level

#### **4. The Romanian Benchmarking experiment: half-way through the process**

Benchmarking in Romania is still in an incipient stage and it has not been yet internalized as a practice neither by the Central Government, nor by the agencies providing public services, but rather it appears as an external, artificial procedure, sometimes imposed by EU – related targets (Tudose, 2015).

The first attempts to pilot a benchmarking exercise over the performance of Romanian local authorities (in the public utilities sector) have been assumed by an independent civil society organization<sup>5</sup> in 2004 - 2005: based on the BVPI/NIS model from UK, it has developed a set of KPIs for a range of several public services managed by the local authorities: *water and sanitation, waste collection, public lighting, local public transportation, heating, roads management, tax and revenues* - a total number of 80 KPIs (an average of 8 per service) were developed and data was collected from a sample of 42 capital municipalities in Romania<sup>6</sup>, generating the first *Public Utility Delivery Performance Reports* starting with 2005 until 2015.

The first official references to a potential benchmarking process have been announced by the Law no. 195/2006 on decentralization, introducing the concepts of *quality* and *cost standards* for public services, defined as following:

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<sup>5</sup> Institute for Public Policy (IPP), Romania

<sup>6</sup> Out of the total 3.300 local authorities

- *quality standards*: sum of quality norms for providing a public service/public utility service, established through legislation;
- *cost standards*: normative costs used for determining the amounts of local budgets spent for public utility delivery

The law on decentralization referred also to a mandatory obligation of the local public authorities to meet these quality standards, while the attribute to establish and update these standards belongs to the Government (ministries and governmental agencies).

The next stage was that of *sectoral regulation* for each public utility - mainly carried out in 2006; during this process, a(n) (inexplicable) shift from the concept of (*minimum*) *quality and cost standards* to *performance indicators* happened, while the task of elaborating the quality and cost standards has never been completed by the Government in an unitary manner.

As a consequence, the Romanian benchmarking experiment has paradoxically reached the situation where it has complex sets of indicators for each public utility (there are over 250 specific indicators for each of the public utilities regulated by sectoral laws - in total over 2,000 indicators to be found in secondary and tertiary legislation), whereas, in the absence of a clear reference system (namely the minimum quality and costs standards), the data collection or any comparison is superfluous.

As a consequence, 14 years after the first regulation referring to incipient benchmarking process for Romanian public services, no actual evaluation has been ever carried out officially by any central Governmental authority and the only remaining pilot is the independent monitoring exercise carried out by the civil society entity.

## 5. Conclusions

The premise of the present research paper is the quasi-general agreement over the importance of benchmarking for improving performance of local governance act in general and performance of public service delivery/ (including, but not limited to) public utilities management in particular. From the experiences of the countries that have piloted one form or another of benchmarking, this instrument has also boosted transparency and accountability of local governments - as the possibility to have a public scrutiny over their performance not only on the occasion of elections, but also in-between, has raised significantly citizens interest in such information.

The comparison between the three benchmarking models briefly analyzed here: *the UK top-down benchmarking process*, *the Swedish voluntary benchmarking* and *the Romanian independent piloting and incomplete experiment of benchmarking* points to a series of conclusions that can be further useful for improving the benchmarking in the public services field in countries that are already experiencing it or have the intention to do so .

- *Mandatory vs. Voluntary benchmarking*: based on the three case studies presented, the arguments are rather in favor of a voluntary benchmarking process - or at list a bottom-up, inclusive approach in designing the process, as benchmarking also needs to become part of the organizational culture of the public sector. Anything that is imposed through abrupt mandatory requirements by law increase the resistance and may pervert the very scope of the benchmarking process.

- *Number of indicators assessed*: both the UK model and the Romanian one point to the fact that less is more - the higher the number of indicators is, the likelier that the public authorities will fail to report or the reports themselves will become too complex and not interesting to the general public. An average of 8 - 10 KPIs per each type of service measured shall suffice for the core purpose of benchmarking in the first stage - that of giving a brief, yet relevant and objective perspective over the stage of development of the respective service;

- *Who does the benchmarking*: We have one case of benchmarking process carried out from the Government level (UK) and two cases in which the process has been piloted by independent entities - the Association of Local Authorities in Sweden and a civil society organization in Romania. Given the need of legitimacy of the whole process - particularly for the cases in which benchmarking in the public service sector is in incipient stages, the author's preference is for the model in which a central agency/specialized Government body, with full administrative capacity, carries out the benchmarking process. This allows also for using the data collected not only for assessment, but for wider policy processes at Government level.

- *The need to clear the distinction between performance indicators and minimum quality and costs standards*. There are several ways to calculate which is the threshold that a certain indicators should meet in order to be considered adequate or performant. At this stage, performance in water services in Sweden mean that the potable water treatment technologies are the most advanced and environment - friendly in Europe, whereas in Romania may mean that the local community has managed to overcome the 50% connectivity to potable water sources. This is where the distinction between *a minimum accepted level* and *performance* appears - a topic which is insufficiently addressed in the specialized literature on public utilities.

- *The need to set up a minimum framework reference system for certain vital parameters of public utilities*, in order to have a starting point in any measurement. Otherwise, we end up as in the case of Romania - with no actual official measurement ever carried out, because there was no reference system against which the indicators collected could be compared (except for comparison among peers - that is what the independent monitoring exercise did).

This minimum framework reference might also be a path to explore at EU level - although at present the differences between the EU 28 Member States are probably too high to make this a smooth comparison.



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