

# Can corporate management tools be successfully applied in public administration – A German-based case study

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**Abstract:** A permanent challenge for public sector organizations is to become more economical, effective and efficient to cope with the increasing complexity of tasks and disproportional resources. But the environment is permanently changing; instruments and tools, which were once successful, are increasingly ineffective. The public sector has distinctive origins and objectives, for example to provide public goods or to fulfil mandatory tasks. The current financial situation forces scholars and public managers to develop or adapt instruments to cope with increasing responsibilities coupled with scarce resources. Inspired by the incentives of New Public Management, public managers have been trying for the past three decades to convert private sector tools for application in the public sector. But the necessary adaption and application proceed slowly. In pursuit of reasons and arguments for the delay, this conceptual paper considers the necessary conversion of private sector management tools for appropriate fitting in public administration. The focus is directed to the possible boundaries and limits for application of private sector management tools. By comparing both public and private sectors using current analyses of public sector specialists and results of a field research, a separating line between the two will be drawn, but we will also detect convergences in using management tools. As a result, the combination of differentiation by Wilson, the separation by Taylor, and the bureaucratic style by Weber have to be modernized for the use of new tools. This distinction is based on representative cases and specific borrowings in Germany, describing fundamental tasks, but the results can be transferred to most local public administrations in the industrial nations.

**Keywords:** public administration, new public management, public value, responsibility, outcome, management tools, Germany.

Please cite this article as following: Bodemann, M. (2014), "Can corporate management tools be successfully Applied in public administration – A German-based case study", *Management & Marketing. Challenges for the Knowledge Society*, Vol. 9, No. 2, pp. 227-238.

## **The public sector needs a managerial improvement**

In the European Union today's politicians, economists and management scholars are engaged in a high stake debate over corporate governance, efficiency and effectiveness in the public sector. During the last 30 years new management tools have been provided for replacing old public administration paradigms which could be traced back to the 19th century. This article provides

a selection of organizational and behavioural aspects of the public sector that require adjustments for the successful application of corporate management techniques. The question behind is: What are the main reasons for the limited effects of the borrowed private sector management tools in the public sector? The first part describes the current situation and the inevitable change of management in public administration to cope with the burdens of the history and the challenges of the future. The second part uses examinations of public sector organizations of a field research conducted in 2009-2012. In contrast to others, the comparison is focused on the different general foundations affecting the execution of organization duties. With this in mind, we discuss some important premises that differentiate the public from the private sector in what concerns the borrowed management toolbox from the private sector. The necessary changes in hierarchical and bureaucratic logic could be applied for further use by academics and practitioners.

The main purpose of public administration is building and maintaining a framework for the nation and society. General organizational goals are based on legal objectives and purposes. The steady increase of welfare is the main goal pursued by political programs and executed by local administrations. Individuals and groups participate in and get back their shares by an appropriate provision of public goods and services, for example public safety or infrastructure. Basically public administration provides the following activities: production of goods and services; regulation and subsidization of private production; purchase of goods and services; redistribution of income, in the meaning of payments, such as unemployment benefits (Stiglitz, 1999).

However, increase of national debts endangers the steady the sustainable provision of public goods and services. This challenges both smaller countries as well as bigger economies in the European Union. The Euro-crisis makes it evident, rather than transparent, that the institution of the "government" in the European countries needs reforms for more effectiveness and efficiency. Although other economic indicators lend themselves to more positive interpretations, increasing debt levels should not be out of focus. Further the public sector as the representative of the government and the public has to cope with increasing financial shortcuts, economic crises and scarce goods.

The national debts of the members of the European Union at 3<sup>rd</sup> Q. 2013:

**Table 1.** Selection of national debts in European Union members, September 2013 (Bundesamt für Statistik, 2014)

Country	National debt (in B€)	In relation to GDP (in %)
Germany	2126.63	78.4
Italy	2068.72	132.9
France	1900.85	92.7
Great Britain	1712.1	89.1
Spain	954.86	93.4
Netherlands	442.16	73.6
Belgium	393.6	103.7
Greece	317.31	171.6
Poland	222.33	58.0
Finland	105.5	54.8

Country	National debt (in B€)	In relation to GDP (in %)
Romania	53.54	38.9
Croatia	26.7	61.7
Luxembourg	12.45	27.7
Malta	5.41	76.6
EU		86.8

The necessity to reduce the gap between revenues and expenses is illustrated by the current status of the national debt level. Table 1 shows that the members bear debts at different levels. The growth of debt is accelerating in some countries. For example, in Germany the national debt level in 2013 is more than twice as high as in 1995. These urgent adjustments are amplified by the projections for the next two years:

**Table 2.** Budget balance expectations 2014-2015 in selected countries (Bundesamt für Statistik, 2014)

Country	Expected budget balance 2014 in relation to GDP	Expected budget balance 2015 in relation to GDP
Spain	-5.8 %	-6.5 %
France	-4.9 %	-3.9 %
Italy	-2.6 %	-2.2 %
Greece	-2.2 %	-1.0 %
Germany	0%	0%

The development of the national debt levels and the expectations for the next years are indicators that a change in public administration is inevitable. Øvretveit (2005), among others, states that the public sector lacks efficiency and effectiveness in comparison to the private sector, and it is established in a peculiar environment. Currently modernizing and increasing of efficiency and effectiveness are needed to provide further sustainable public goods and services and to escape from the current predicament: How can the public sector avoid increasing debt levels and gain more freedom, responsiveness, and flexibility to increase society's welfare?

#### **A possible solution: New Public Management**

New Public Management (NPM) emerged in the 1980s as a reaction to the supposed inflexibility and lack of responsiveness inherent in the public sector. Further, public administration was accused of causing inefficiencies by focusing too much on process and formal requirements rather than output and outcomes (Alford and Hughes, 2008). In search of a remedy, proponents of NPM thought that transferring the administrative practices of the private sector into the public sector with an increased emphasis on cost control, a special kind of market mechanism, and the former ignored necessity for performance indicators would lead to an increase in the welfare of the citizens (Oakley et al., 2006). To construct this new paradigm, they joined two streams of ideas: The first was based on institutional economics, concerning public choice, transaction cost theory and the principal-agent theory, and the other was focused on the latest set of successive waves of business-type management, for

example the scientific management movement (Hood, 1991). In Germany NPM was introduced by using a special kind, named "New Steering Model". It recognizes the peculiarities in Germany, but seeks to apply NPM paradigms. The evaluation of the New Steering Model has been discussed by Burth (2012), Kuhlmann et al. (2008) and Wollmann (2000).

The traditional role of public managers, based on the administrative paradigm, was converted by NPM in the pursuit of results and efficiency goals. One tool is to apply contract based agreed performance targets to fulfil the public expectations by managing inputs and outputs to ensure economical use and responsiveness to customers, citizenry, and society (O'Flynn, 2007). According to Pečarič (2013), NPM follows the principal agent and public choice theory, where public servants should be representatives of public interests.

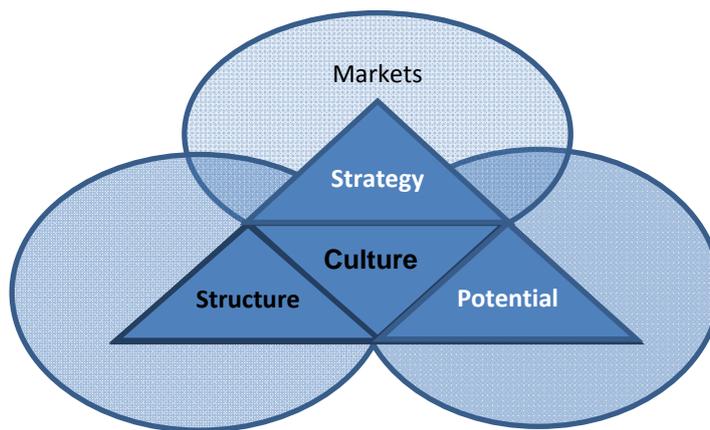
The values for fulfilling the mandatory and voluntary tasks in public administration play an important role in the execution of their duties for public managers in comparison to managers in private sector (Van der Wal et al., 2008). Citizens, sponsors of public services and products, as well as customers and consumers, challenge the evaluation and localization of responsiveness for provided goods and the outcome (Schedler and Proeller, 2006). For a private good the price of the product should equate the expected utility for the consumer. Differences exist for luxury goods or in the case of monopolistic conditions. For public goods, which have to be provided as sovereign function, evasive action is excluded. The price does not necessary reflect the expected utility. The model of willingness to pay, calculating the individual estimation of benefit and expressing it in an equivalent currency, is just gaining popularity. Market mechanisms, internally applied by contracts and externally applied by privatization and the measurement of output, are still in limited use.

Different researches have examined and compared the private and public sectors to find answers to the question: What distinguishes the two sectors (among others: Allison, 1980; Rainey and Bozeman, 2000; Van der Wal et al., 2008; Novell, 2009)?

The National Audit Office in the United Kingdom (UK) pointed out in 2000: "The main focus of private sector risk management is on maintaining and enhancing profitability - in contrast in departments the focus is on implementation of objectives and services to the citizenry" (p. 3). Thus, the public sector has no interest in gaining something or in making some profits. The main effort is to cope with the mandatory tasks by sustainable functioning; maintaining and enhancing profitability are generally not in focus. The privatization of departments, like public transport during the era of Prime Minister Thatcher in Great Britain, transferred public services to private organizations. The way in which the organization works, is dominated by the targets of a private firm to enhance profitability. Collective or individual interests are of less concern in the pursuit of profit. The common objectives of the government, for example to provide public transport, almost to everyone and everywhere, are threatened caused by entrepreneurial behaviour. According to Forrer et al. (2010) that kind of massive privatization is led by the

presumption that private vendors can provide some public services more cheaply than governmental agencies. The following figure shows the overlapping areas public administration has to cope with. The areas represent divergent interests, but are inevitably connected and have to be considered while reengineering public administration (Hilgers et al., 2012).

**Figure 1.** *Fields of action in Public Management (based on Schedler and Proeller, 2006, p. 23)*



### **Exemplary key features of the public sector concerning management and motivation in Germany**

#### **Virtual guaranteed existence**

The existence of local public administrations as executive organizations is constitutionally guaranteed. The dissolution of one department or unit is often publicly discussed due to personal involvement and expected local economic consequences. Especially the public services stated in the Constitution as services which are not to be privatized, like wastewater disposal, are untouchable, although the boundary between the legal and the political is blurring. Both the democratic structure based on self-government on this level of public administration and the function of the executive power to apply and maintain political programs, contribute to the notion of sanctity. Some public organizations are downsized or their functions are terminated in causal relationship to privatization and a lean government, but the majority remains. In the 90s, publicly owned electricity networks were sold to private investors, but currently the tendency is to regain control over these assets. Also other forms of privatization or co-operations like public-private-partnerships (ppp) are concluded for different purposes.

#### **The Parliament's privilege**

As interpreted by Ostrom and Ostrom (1971), according to Woodrow Wilson, in the traditional theory of public administration, politics and administration are

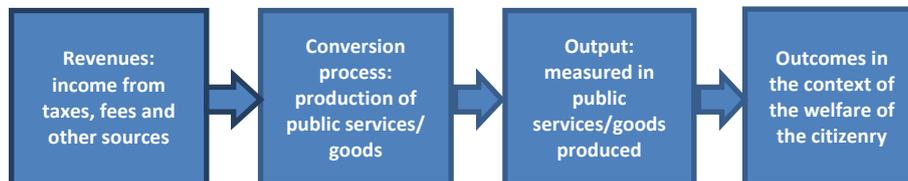
radically distinct. Inside a democratic system, decisions made by public managers have to coordinate and synchronize the governmental with the local political programs. In important cases the parliamentary reservation prevents fast decisions. Respite and deadlines have to be correct to get a valid and reliable approval, based on the parliamentary decision. Fast responses to opportunities could be executed only by a preventive authorization of public managers, especially in cases of spending a great amount of money; such projects are thoroughly discussed and sometimes politically interrupted by parliamentary objections. The roots for these processes lie in the democratic structures: the administration is the executive force of the parliament. Politicians are elected by the citizens and held responsible for their decisions. Thus, public administration is limited to the execution of the programs and by a framed space to act. Public administration acts at the intersection of both politics and economics: while the first one focuses on the study of allocation of scarce resources, the second one focuses on allocation of scarce resources among alternative uses (Bozeman, 2007).

Introducing and maintaining political programs comes with a chance: Within certain limits the administration could be enforced to plan and execute specific measures in pursuit of the programs. In these cases without the need of political approval; not in the meaning of a general approval, but rather to fulfil abstract political targets and objectives by the view of the public administration within the limits of given resources.

#### **Funding - input orientation**

In the context of the application of tools from NPM double-entry-bookkeeping was introduced in Germany. In the state of North Rhine-Westphalia it was legally enforced in 2009, and in other German states the conversion from the former Cameralistics (cash accounting) continues. Introducing the accrual accounting was in line with the rejection of the input-orientation in public administration. Former forecasts of potential tax and fee incomes lead to the tendency to spend all the money in the yearly budget of the public administration. Building up reserves for future compensation is either not allowed or strictly limited.

**Figure 2.** *Public sector input orientation (author's own design)*



The former focus was to distribute the expected revenues, based on forecasts and projection of potential revenues by the different types of taxes, by fees, and by charges. The different budgets were distributed to the

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departments, which executed mandatory and voluntary duties. Those budgets plans were politically discussed and later passed by the parliament. The main goal was not to exceed the budget in the use of the provided resources. This model of alimentation for execution of mandatory tasks is contrary to the model of business, where revenues are uncertain and have to be earned in the coming financial year. Insofar it was comfortable to manage the tasks of public administration based on almost certain incomes. One step further was the kind of punishment in the case that a department had some resources left at the end of the budgetary year. In most cases the next budget was cut. The solution to this dilemma is to plan concrete expenditures, according to concrete demand and activities, and to hold the public manager responsible by contracts within the system; furthermore to compare the later outcome with the expectations, at least by monetary values. Public value measurement is, in this context, the next scientific challenge.

### **The dilemmas of performance measurement**

Public, political, social, and philosophical scholars have been paying attention to public value, public choice, and public utility theories since ancient times. Each citizen, as funder and consumer of services and goods provided by public administration, has different shares of utility: the individual estimation of public value depends upon how large each individual's share is and intensity of the costs and benefits. However the political public organization's goals are particularly vague and intangible. Combined with the focus on revenues and expenditures, the absence of performance measurement is dominating the public sector.

Moore and others brought up an intensive and wide-spread discussion in the 90s of the last century about public value and how to measure this (Bozeman, 2007; Moore, 1995 and 2013). In this context, public value could be understood as a translation of the general task of public administration from governmental to local level: to improve the welfare of the people by appropriate measures within an acceptable budget in a reasonable timeframe. Valid indicators of welfare could be average income, unemployment rate, illiteracy rate or other numeric values; often they are in favor of proving the results of governmental actions. Moore further describes in the context of public value that the focus of the public administration has to be to act as a value creator. As instruments public administration uses the collectively owned assets to improve the quality of individual and collective life (Swilling, 2011) and it is becoming more clear that local public administration has to gain more autonomy in taking financial decisions if public value is to be obtained and the local economy is to be sustained (Tudose, 2012).

Kahneman and Knetsch (1992) pointed out that the individual evaluation of a good made by the customer influences the value of that good. The economic value is not a priority for the provision of goods and services by public administration, but rather the contribution to moral satisfaction. In the case of measurement of performance, a cost-benefit-analysis is the main focus. In the

case of the expressed values of collectives or individuals, the representative democracy model offers a way through parliamentary elections.

As Forrer et al. (2010) state defining and measuring performance increases accountability to the public. This leads to encouraged employees and a codified shared commitment and responsibility. But the question remains of how to capture the implementation and the intended outcomes.

### **Prevention of insolvency**

Private organizations live in a steady pursuit to make profit, or at least generate higher revenues than expenses. Instead of product and service improvements for more income forecasts of revenues are used for claiming an almost certain budget for fulfilling mandatory and voluntary tasks in public organizations. The Insolvency Order (InsO) in Germany was created to prevent share- and stakeholders from losses caused by bankruptcy of private organization or enterprises. Business partners are legally forced to notify any indication of insolvency to the insolvency court. Indications can be constant delayed payments or a request for debt forgiveness.

By the §12 German Insolvency Order public sector organizations are legally excluded from getting bankrupt. This is based on the notion that the state will forever be able to cope with financial needs. It could be alleged that this law annuls the dominating principle of economics according to which economic actors are forced to work effectively and efficiently with scarce goods in order to survive. This legal negation of insolvency implies the notion that there are unlimited resources, which could be used in the case of unexpected financial burdens. For the contractors hired by the public administration this prevention is comforting, but it eases the pressure to stay on budget for politicians and public managers.

### **Accountability and responsibility**

Banner (1991) attacked the public sector at the beginning of the nineties by describing it as "organized non-accountability", in need of major rethinking and reorganizing. Weber's model of bureaucracy based on structured hierarchy, clear rule-based specifications of duties and procedures limit the way of personal responsibility. Bovens (2005) confirmed his statement, but complained that those in power and with the authority to act cannot be held publicly accountable for their acts and omissions, for their decisions and, as the most public result, their expenditures. He further pointed out that the concept of accountability serves as a synonym for many loosely defined political desiderates, for example transparency, equity, democracy or integrity.

Van der Wal et al. (2008) proved in an empirical research that the values a public manager applies while executing his tasks differ from those of managers in the private sector. Accountability is ranked first by the public managers, and it is understood as acting willingly to justify and explain actions to the relevant stakeholders. Pečarič (2013) presents similar results in his research considering applied values in the private and public sectors. He argues that

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NPM follows public choice and principal agent theory; this implies accountability to the public interest. Rainey (2009) argues that public organizations and their managers are expected to remain open and responsive to public wishes and to the interests of the government. Especially the clarification and definition of expectations and the measurement of the degree of successful execution are important challenges of the future. The definition by using indicators and contracts between the department and the public manager allows an evaluation of the obtained results. Further it will bring the current emphasis of being held accountable closer to personal responsibility. Contracts combined with monetary incentives are in use for particular public functions, and they also remain the basis for concrete and personal performance measurement; for the whole organization staying on the planned budget is paramount for the execution.

Flyvberg (2007) as well as Loevenich (2011) demands a collection and standard of data processing and publishing. Basel II forces similar publication as well as the Standards of the German Minimum Requirements for Risk Management (MaRisk).

Accountability in the meaning of following the predetermined process steps is another dominating aspect of being inflexible. But the determination of process implies likewise controlling functions. Civil servants act following clear and precise orders. Deviations in desired or undesired ways could be identified less by outcomes, but by formal requirements. Performance is therefore strong depending on fulfilling process requirements in the meaning of Scientific Management like Taylor introduced 100 years ago (Taylor, 2006).

Responsibility, i.e. being held personally responsible in the case of deviation as a negative result of decisions, is not new in the private sector. Salaries of high level managers generally include a premium for intentionally taking risks, but they are also combined with participation in the profit of the company or enterprise. Besides the tools of using contracts to measure and evaluate the results of administrative work, incentives in the meaning of shares in advantages and disadvantages could be effective. Currently, accountability is limited in the meaning of explanation of acting, personal consequences are less to be expected, based on the contract between public organizations and public servant. However, with the growing interest in applying performance and talent management in the public sector, in the future, we can expect public servants to be more engaged with their daily activities and more interested in achieving the organizational goals (Vlădescu, 2012).

Clear and precise results, measured in hard facts, in main cases in monetary values, but also in soft facts, for example the change in public value, could be the indicators of successful work. That means to require the intended results to be more concrete than the vague political and legal targets. On the other hand delegation of more authority in use of resources could also contribute to accelerating processes and efficiency.

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**Conclusions and outlook**

Improvements by private management tools are conceivable, but the central part, based on the legal, societal, and organizational framework, has to be adapted to cope with current and future challenges. This will eventually lead to further convergence between private and public organizations.

First we argued that there is an urgent necessity to rethink the execution of political programs and local duties by the public administration. The current debt levels urge politicians, practitioners and scientists to develop rules and tools for a more economical use of scarce public funds. Second we saw that new paradigms are introduced, but they lack effectiveness and efficiency. Their simple adoption into public administration neglects the peculiar origin and objectives. If we are able to bridge the gap between both the private and the public sector, more effectiveness and efficiency will be reached: we need a deviation from the organizational and personal distinction purported by Wilson; abridging Taylor's division of responsibility between the managerial group and the non-managerial group and at least less bureaucratic administration as presented by Weber by opening the neutrality of public servants to the quest for public values. The study of comparisons of public and private sector organizations enlightened the way: If the main notion of unlimited resources, guarantee of existence, or non-personal responsibility remains, effective incentives are missing to apply management paradigms and entrepreneurial behaviour. The introduction of new paradigms is not a remedy if we do not concern ourselves with the peculiar institutional and procedural framework of public administration. Almost without any accountability and threats by competitors, they are only forced to stay on budget and to fulfil at least the mandatory duties within the given yearly budget. As kind of the alimentation principle the institution as well as the employees are members in a very stable and safe system which is build up to manage the expenditure in pursuit of political programs from national to local level. The volume of budget is determined and therefore certain in the meaning of revenues collected from the taxpayer, who is likewise a shareholder and stakeholder of the public organization.

Advocates for applying private sector management instruments have to include these factors when trying to reform the public sector. NPM forces new ways, by contracts between the organizations and public managers or use of clear performance measurement indicators, but the application is at the beginning. Hard monetary facts have to be replaced by political discussions over publicly demanded values, recognizing the redistribution of income to particular groups or individuals.

But recognizing the peculiarities and keeping in mind the trade-offs adjustment in organizational, legal and behavioural meaning will contribute to a better use. By exact specification of the objectives and appropriate finances welfare could be increased and more flexibility and freedom to act restored to the public sector. The remaining limiting factor is the origin of the public sector in a democracy as an organization for executing political programs.

The emphasis on public value as summary of collectively expressed individual interests and choices is a step towards more competition and

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responsibility. Especially new challenges caused by globalization, demographic change, and climate change need a flexible, efficient, but also democratically legitimated and societally embedded public administration.

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