

## **EFFICIENCY NETWORKS IN SERVICE DELIVERY AS BENCHMARKING PRACTICE: EXPERIENCES FROM ODESSA AND MYKOLAIV OBLASTS**

### **Introduction**

Since 2009 a pilot benchmarking project introducing the establishment of efficiency networks in municipal service delivery in the housing and health sectors has been carried out in the oblasts of Mykolaiv and Odessa in South-Ukraine. The project is built on an efficiency network methodology that has been developed in Norway (Askim, 2004; Askim et al, 2008) and refined and adapted to several other political-economic and organizational settings<sup>1</sup>. A similar project was conducted in Poland in the 2007—11 period (Association of Polish Cities, 2011).

This paper first places the efficiency networks within the broader performance management doctrine, which itself is part of New Public Management (NPM). It discusses the potential usefulness of the efficiency network instrument in overcoming challenges in municipality service delivery. Furthermore it reflects on some of the achievements of the Norwegian and Polish efficiency network programmes that are deemed relevant for an understanding of the Ukrainian pilot project. The paper then gives a brief account of the Ukrainian pilot project before positive and negative experiences with the instrument used in a Ukrainian setting are discussed. In the conclusion we discuss whether the project should be continued after its completion in the spring of 2012 and what important learning needs to be taken into account if a system of efficiency networks in municipal service delivery is to be established in Ukraine in other regions and/or for other services<sup>2</sup>.

### **Benchmarking**

Benchmarking is an instrument for assessing organizational performance and for facilitating management transfer and learning from

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<sup>1</sup> Currently efficiency network projects are being run in Georgia, Serbia, Latvia, and a project is planned in Arkhangelsk oblast<sup>3</sup> in Russia.

<sup>2</sup> It should be noted that both authors have been involved in the efficiency network project in Ukraine. Although the involvement has mainly been from the outside as attached, independent researchers monitoring the process, researchers have also played an active role in the project in providing research input to the networks in operation (for more on this see below). The readers should be aware that although we have tried to describe the project as objectively as possible, one cannot exclude that some of our findings are influenced by our close proximity to the project implementation.

other benchmarked organizations (Kouzman et al, 1999). The instrument is used widely, both in the private and public sectors. Though an authoritative definition of benchmarking has not been agreed on and the concept has been used differently by actors of different organizations and societal sectors, most analysts seem to recognize that measuring and comparing performance are the core techniques. The main objective of benchmarking exercises, then, is to improve organizational performance (Askim, 2004).

Being derived from the performance management doctrine, benchmarking is seen as an integral part of NPM (Iurcovic et al, 2006). The performance management doctrine has attracted a great deal of controversy during the past two decades — which has been an era of unprecedented public sector reform (van Douren & Thijs, 2010). Public and private organizations use performance measurement to gain insight and to make judgments about the effectiveness and efficiency of programs, processes, and staff. The organizations decide which indicators will be used to measure progress in meeting strategic goals and objectives and in gathering and analyzing performance data. The data are used to drive improvement and to translate strategy into action.

During the past two decades benchmarking has become an important instrument of local government reform (Rondo-Brovetto & Saliterer, 2007). In local government organizations, identification, systematic illustration and integration of performance indicators into the local government system are key issues for benchmarking projects. The aim is to facilitate learning from the «best» and thus to enhance the performance of all participants in the process. Local governments, though differing in size, resources and demography, usually operate in comparable conditions, within the same political-economic framework, which makes it meaningful to comparison of the performance of local government units can be quite meaningful.

In some cases there may for example be marked differences in the performance and quality of the service offered by individual local authorities. These trickle down to the general public e.g. in the form of varying accessibility, costs and levels of satisfaction with services offered. «Performance gaps» are commonly found in the public sector. These can be made visible through benchmarking procedures, and through learning from the best they can also be reduced (Schuster 2008/9).

It is common to distinguish between comparative projects solely involving input factors, such as budget figures or staff numbers, and performance and quality comparison aimed at fostering mutual learn-

ing (Schuster, *ibid*). The latter is the main aim of the efficiency networks in municipal service delivery which will be described in the following section.

### **Efficiency networks**

Given the multiplicity of possible stakeholders several forms of benchmarking can emerge in local and regional development strategies. Efficiency networks in service delivery make up one such benchmarking tool for local municipalities. These networks may go under different names in different countries and settings ('learning networks', 'experience sharing groups', etc.), and have specific traits and particularities in different contexts. What they all have in common, however, is that they are set up to provide local government managers a forum for sharing best practices and ultimately serve as catalysts for service management improvements. They can be compulsory or voluntary, top-down or bottom-up or a combination of these<sup>1</sup>.

The networks are based on participating municipalities sharing performance measurement data. They should include both efficiency (i.e. the input-output ratio) and effectiveness (i.e. relating the input and output to the final objectives to be achieved) measures, both entailing a number of challenges (Mandl et al, 2008). The needed data may already be available from statistics maintained at municipal or central government level (e.g. central bureau of statistics), or they need to be gathered as part of the network implementation process. In the latter case it is important that the data collected are validated through an extensive data cleaning process. In order to gather information about user satisfaction, surveys among service users are commonly undertaken. Data validation and presentation to network participants; preparation, implementation and analysis of user surveys; and monitoring of the network process itself make the case for targeted research and analysis to be attached to the network process. Finally, service improvement plans are typically elaborated by each participating municipality as an end product of the networks.

Setting up efficiency networks is a rather costly endeavor, and given the common constraints of resources of local governments, the benefits yielded need to be demonstrated for such an endeavor to be justified. How, then, can one make sure that organizational learning takes place through this form of benchmarking practice? And what in-

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<sup>1</sup> The British and German models are typically government-led and top-down, while the Norwegian and Polish models are formed according to a bottom-up principle (see below).

stitutional environment needs to be in place in order for the networks to operate in an optimal fashion? Research has been conducted on the use of performance data and has shown that factors such as public service motivation, leadership role, information availability, organizational culture, and administrative flexibility are all crucial and affect performance information use (Moynihan & Pandey, 2010).

Other factors are also conducive to a successful efficiency network process. In all performance measurement there is an aspect of competition; local governments are measured against each other, and it is a common human trait that one is eager to perform well when one is compared to others. However, a too fierce competition in the networks is likely to be counter-productive. Non-competitors are more likely to be willing to disclose sensitive information to their partners. An open environment, where people are ready to present their challenges as well as their achievements, is therefore crucial in order for the networks to represent a true learning environment. It is, however, worth noting that authorities may have cause to conceal poor results in benchmarking projects such as efficiency networks to avoid the introduction of changes in their organization (Shuster, 2008/9).

### **Efficiency networks — experiences from Norway and Poland**

In Norway a project on establishing efficiency networks was initiated early in the new millennium — a pilot project had first involved nine municipalities but from 2002 the project included 313 of Norway's 435 municipalities on a voluntary basis. The project was designed by the Ministry of Labor and Public Administration in cooperation with the Norwegian Association of Local and Regional Authorities (KS) and the Ministry of Local Authorities and Regional development.

The project design had three main components: performance measurement, performance comparisons, and networks. As regards performance measurement, the project was in the fortunate situation that one could build on a vast public data pool containing information about local government expenditure, activities and productivity, called KOSTRA<sup>1</sup>. Reporting to KOSTRA was mandatory for all Norwegian municipalities. Thus, a vast range of comparable, and (though to a varying degree) reliable data were already at hand and could be used for the purpose of the efficiency networks. The first stage of the proj-

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<sup>1</sup> The Norwegian KOSTRA data can be found on the Central Bureau of Statistics of Norway's homepage: <http://www.ssb.no/kostra/> (in Norwegian only).

ect, then, consisted in comparing and discussing the applicability of the KOSTRA data.

Local municipalities then formed networks of normally 4-8 municipalities. Networks comprised a vast number of issues, and municipalities could influence which networks to join, though KS, coordinating the process, had the final say on the network composition. Originally one sought high homogeneity between the municipalities in one network, at the same time as one wished to reduce operating costs, such as travelling. Networks were established on issues such as primary education, elderly care, kindergartens, social welfare and child welfare. Network guides, or moderators, were assigned from the project leadership at KS. Their task was to compare and present the data (indicators) of each municipality — using KOSTRA data — chair the meetings, and contribute to the discussions among the network participants.

Participants in the networks (up to five participants from each municipality) were Chief Executive Officers as well as street-level bureaucrats, depending on the theme of the network meeting (Askim, 2007). At the network meetings the participants compared the scores of the various municipalities on the different indicators with those of other network municipalities, averages for the region or country, and analyzed similarities and differences in performance. KOSTRA data are insufficient to measure service quality. As a result, standardized user and employee surveys, as well as other less subjective quality measurement techniques were developed.

The statistical results which are generated from KOSTRA, then, were compared with the survey data on user satisfaction of public services in the municipalities, and mismatches and peculiar findings were discussed at length in the networks to see if for example organizational differences could explain the discrepancies between inputs (e.g. costs) and outputs (e.g. user satisfaction). These findings are a starting point for developing local improvement plans, where target values of specific indicators to be achieved in a number of years will typically be defined.

Efficiency networks have been evaluated and analyzed in a number of publications. After the completion of the first efficiency network project that lasted from 2002-4, the efficiency networks have been institutionalized and are still in operation. Some municipalities have left, others have joined, while new networks have been established. At present more than half the Norwegian municipalities are involved in such networks. Surveys among network participants on their experience with the networks have shown that a certain level of heterogeneity in the composition of the

networks is an advantage; supposedly it can create greater dynamics and learning among participants. Other findings indicate that administrative capacity, administrative and political regime stability, and managerial and political involvement in follow-up activities all have a positive impact on learning outcomes. Finally, learning in Norway varied between different service sectors (Askim, 2007).

The Norwegian system of monitoring costs and results of activities at local government level (i.e. KOSTRA) inspired the Association of Polish cities in its process of developing a System of Self-Local Government Analyses (SAS). Moreover, the Norwegian process, led by KS, of organizing and managing efficiency networks was a direct inspiration for the Polish equivalent «Experience Sharing Groups (ESG)». The Polish project, which lasted four years (2007-11) and was completed this spring, obtained funding through the European Economic Area Financial Mechanism, and was carried out with supervision from KS in Norway.

While in Norway the system of KOSTRA was already in place when the efficiency network project started, in Poland the development of the benchmarking indicators (SAS) took place as part of the project itself. The system encompassed all participating municipalities but not the whole country. The goal of the Polish project was to strengthen the institutional capacity of local government units. A total of 151 cities supplied information to SAS, and several hundred local government units of different types made active use of the data. In addition to the efficiency networks (ESGs), working in the same manner as in the Norwegian case with 5-7 local government units in each network, the project also comprised training in public service management, a common communication platform (through internet) and study visits to Norway and experience sharing with the Norwegian partners. In Poland there were 45 independent ESGs, comprising 203 local governments.

There are a number of organizational, legal, administrative and financial circumstances that need to be taken into account when adapting a Norwegian efficiency network tool into a Polish context. The first task would be to agree on the set of indicators to be used (no KOSTRA-like system in place) that would fit with Polish conditions. In addition, one of the main challenges in Poland was how to conduct high-quality user surveys that would give representative and objective feedback on user satisfaction with services rendered by the local governments (Association of Polish Cities, 2011). To our knowledge, no thorough evaluation of Polish experiences, like the ones carried out in Norway, has yet been undertaken.

## **Efficiency networks project in Odessa and Mykolaiv oblasts, Ukraine**

The experience of benchmarking and learning projects from Norway and Poland has been transferred to Ukraine upon the joint initiative of The Norwegian Association of Local and Regional Authorities (KS) and the Norwegian Institute for Urban and Regional Research (NIBR) starting from 2008. Their fact-finding mission resulted in identification of three areas of cooperation aimed at developing local governance and increasing quality of municipal service delivery in Ukraine:

1. network learning in service delivery for local government employees,
2. training programme for local deputies,
3. applied research to systematize learning and give feed-back to national and local policy-makers.

The programme is implemented in Ukraine in collaboration with Ukrainian partners: The Association of Ukrainian Cities (AUC), the largest nation-wide union of local governments with a membership base of 574 municipalities in all regions of the country, and the International Centre for Policy Studies (ICPS), one of the most prominent non-government think tanks with a reputation in applied and policy-oriented research. The Programme is supported by the Norwegian Government.

It is implemented mainly in Odessa and Mykolaiv oblasts in cities selected on a voluntary basis out of AUC member municipalities. Altogether 11 cities decided to participate in the programme:

6 in Odessa oblast — Artsyz, Berezivka, Bilgorod-Dnistrovsky, Izmail, Teplodar, Yuzhne;

5 in Mykolaiv oblast — Bashtanka, Nova Odessa, Pervomaysk, Voznesensk, Yuzhnoukrainsk.

The Programme provided for creation and functioning of 2 Efficiency Improvement Networks in the said regions. The first issue was to decide what services the networks will work on and the composition of the networks. The mayors of the cities decided in a joint meeting to take services in the area of healthcare and housing utilities (maintenance of multi-apartment residential buildings). Each city had to choose which network to join. As a result, all 11 cities were interested to work on housing utilities, and 6 of them decided also to work on the healthcare services.

The participating cities are quite different in their socio-demographic profiles and even status: 2 cities in Odessa oblast and 2 in Mykolaiv are of rayon subordination (significance), the others of

oblast subordination, which means significant difference in their fiscal capacity and independence. Their population ranges from 9.6 thousand people in Berezivka to 79.2 thousand in Izmail.

Structure of service delivery also varies quite significantly:

— In the housing utilities the main difference is from 100% service delivery through traditional communal enterprises (ZHEKs) in Teplodar to 100% transfer to condominiums (Associations of Co-owners of Multi-apartment Houses, ACMH) in Nova Odessa, with different share of other forms of service delivery, such as private service companies and cooperatives;

— In the healthcare sector the difference is both at the primary level (from traditional system of district polyclinics to complete transfer to the system of family doctors, for example, in Voznesensk) and secondary level (size and capacity of hospitals — from a small adjusted building in Teplodar to a combination of hospitals of municipal and rayon subordination in Izmail).

Each city appointed members to each network (2-3 persons), usually administrators (deputy mayors, heads of relevant sub-units of municipal administrations) and representatives of service providers (directors of communal enterprises, condominiums and hospitals). The AUC appointed a network moderator for each group with a strong professional record in the respective sector.

The initial plan for the networks was to hold 6 working sessions over the period of 1 year where they would discuss the results of measurement and comparison of the qualitative and quantitative data, and share their experience in various aspects of service delivery.

As there is neither a centralized database of municipal data nor even commonly used lists of indicators to describe service delivery at local level or performance of municipalities in Ukraine, each network had to design such lists of indicators for measurement and comparison. Each network identified about 50 indicators describing the context of service delivery, its structure, existing material basis, structure, financial and human resources, results achieved and formal reaction of service users.

The next step was to collect the data from all cities, verify, analyze and compare it. This work was done by a group of researchers whose role was to provide methodological and analytical support to both networks, as well as systematize and analyze its findings, prepare recommendations and disseminate results to decision makers and other stakeholders throughout Ukraine. The availability of data from different cities and its quality turned out to be a problem, so it was necessary to make two rounds of data collection, verification, analysis and discussion.



The next step was the opinion poll of service users in all participating cities. The programme provided funding to use services of a professional survey company. The researchers group prepared questionnaires and other tools for the survey and discussed them with network members. The opinion polls were done at a very high level of representativeness: the sample size in poll on healthcare was 1200 units, in housing — 1310 units. Quotation was designed to include all major categories of service users according to each city's profile. Service users were asked about their satisfaction with different aspects of service delivery, their position regarding possible influence on quality of services (complaints, public control), availability of information about the services, as well as their attitude to different reform options in the sectors. Such a survey was done for the first time in the country, the result represents a data set that is unique for Ukraine.

Combination and comparison of statistical data (indicators) with survey data gave each city a very detailed and substantiated picture of their performance in terms of service delivery, directions for improvement and possibilities for reforms that are potentially supported by the local communities.

Based on those results, discussions and exchange of experience each municipality prepared proposals of development and improvement of the respective service sectors.

### **Positive and negative experience / learning points**

The main experience of the Programme implementation in Ukraine is that the benchmarking and learning methodology can work and produce tangible results.

Initial expectations of the programme participants on the Ukrainian side were very unspecific and partly skeptical. The reasons for skepticism were many:

- No tradition of using applied research in municipal management;
- Absent or scarce data on performance of local authorities;
- Undeveloped concept of municipal services, lack of service identification, description and standards in all sectors, orientation and financing based on institutions rather than service users.

It was assumed that in the situation of the same regulatory framework, only the financial resources available would make a difference in the quality of services. Eventually the network participants discovered that other factors also come to play, such as organizational structures, management, financial control, transparency, interaction with service users. Innovations and reforms can significantly improve

the quality of services even under the financial constraints that are so common for the Ukrainian local authorities.

Another important feature of the methodology is that it produces results from the very beginning. Both the designing and results of statistical indicators and opinion polls create an analytical structure for discussion between service delivery professionals that helps each of them get a different perspective of their own performance, share their experience with others and understand and evaluate the experience of their peers. As a result, network members may learn not only from leaders, but from every other network member. Even leaders that have the best resources and, consequently, the best results, find valuable practical points in the experience of their network colleagues. This learning environment and opportunities it creates makes all network members motivated for further active participation in the network's activities. A possibility to visit other cities and see different practices of service delivery organization «on the spot» was also an important motivation factor.

Constant active exchange of information between network members and their municipality leaders (mayor, chairman and members of a local council) is an important factor of success for efficiency networks. The decision makers need to be involved and motivated to react to proposals of network members, as well as share information with them.

A distinctive feature of this foreign technical assistance programme was that it did not bring either new methods and approaches for municipal management from outside or any additional financing possibilities for the participating cities. In fact it required certain expenditures of financial and human resources. A study tour to Norway for mayors did help with motivation. However, discoveries about problems with service delivery and possible solutions made in the process of research and discussions were recognized as more and more valuable. Some issues that were initially treated as problems that should be removed were later considered as options for reform and improvement. For example, opinion polls in some cities showed that unofficial payments for medical services were rather common, and network members considered it as their bad performance. At the same time, service users would accept introduction of official payments and were ready to pay even more if the quality of services was guaranteed. That finding lead to a common opinion to make policy proposals for development of mechanism of medical service charges that is being developed by the central government.

Another important lesson is that municipalities should use their participation in the efficiency networks for improving interaction with their local communities. Measurement of service quality and identification of

ways for improvement can establish a good platform for public involvement in local government. As a result, local community members will better understand what local authorities do and support it, which may lead to a strong partnership and new level of cooperation.

### **Conclusion**

The efficiency network project in South Ukraine has been largely financed by the Norwegian Ministry of Foreign Affairs and implemented in collaboration between Ukrainian and Norwegian partners. One key question after the project will be completed in 2012 is whether the municipalities will continue on their own with benchmarking activities when the project is over. It is clear that municipalities don't have the capacity to implement this methodology themselves, they need external organizational and analytical support.

Another important question is how to disseminate the experience of efficiency networks project to other regions of Ukraine. The AUC now have a proper organizational capacity, and ICPS and researchers group have analytical capacity and tools to implement the methodology in other regions and cover other kinds of services. It is also possible to apply the methodology for large cities, establishing a network at the level of districts. Other kinds of municipal services where the methodology should be applied include transportation, primary and secondary education, water and heating supply, sewage, as well as administrative services: registrations, licensing and so on.

The value added of detailed measurement and analysis of services through statistical indicators has already led the AUC to initiate development of a national database of municipal performance data. Properly created and functioning, such a database will be a valuable resource for various researches of different policy and other issues at the local level in Ukraine.

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## АКСІОЛОГІЧНИЙ ВИМІР СУЧАСНОЇ ЕКОНОМІЧНОЇ НАУКИ

**АНОТАЦІЯ.** Дана характеристика аксіологічному аспекту економічної методології.

**КЛЮЧОВІ СЛОВА:** аксіологія, методологія, економічна методологія, політична економія, економічна теорія, економічна наука.

**АННОТАЦИЯ.** Охарактеризован аксиологический аспект экономической методологии.