

JOURNAL OF MODERN SCIENCE

NUMER SPECJALNY

Tom 5/54/2023

www.jomswsge.com



DOI: doi.org/10.13166/jms/176486

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NPM AND PUBLIC FINANCIAL MANAGEMENT - DIRECTIONS OF RATIONALIZATION (SELECTED ECONOMIC ASPECTS)

NPM A ZARZĄDZANIE FINANSAMI PUBLICZNYMI - KIERUNKI RACJONALIZACJI (WYBRANE ASPEKTY EKONOMICZNE)

ABSTRACT

From the subjective point of view, public finances can be divided into central and local government. Local government finances are local and regional finances. However, a question arises whether, when considering the areas of public funds management and wanting to indicate their specificity, this branch is sufficient. It seems that it is not, because it is important to take into account institutional and content-related criteria. From the point of view of these criteria, it should be pointed out that the most important institution of public finances is the budget of both the state and local government units. On the other hand, in the substantive area, the most important phenomena from the point of view of their effects, such as the budget deficit and the State Treasury debt, should be mentioned.

KEYWORDS: *new public management, public administration, efficiency, rationality, process economisation*

INTRODUCTION

Public finance management it has the most global character. It is at this level that decisions are made that determine everything related to the collection and spending of public funds. However, it must be realized that at this level there are the greatest political entanglements that are undergoing transformation and are inextricably accompanied by changes in government teams and cooperating party coalitions. As a result, general recommendations are formulated regarding the way of managing public funds. This is expressed in various types of slogans, such as *cheap state*, which is supposed to mean a reduction in administrative expenses. In this context, discussions are held in the forum of the government or parliament, focused on seeking opportunities to reduce expenditure. Another direction of political disputes is turning towards public revenues. An expression of this is e.g. (Accocella 2002, Adamik 2013).

Therefore, attention is focused on two sides of the financial economy, i.e. on the processes of collecting and spending public funds. In this arrangement, what is essential, i.e. the dispositions to manage public funds, often disappears from sight. As previously stated, this cannot be general. There is no uniformity in the area of public finances, even though the general assumption is the same

for all areas (Armstrong 2003). Public funds should be managed in such a way that they are used effectively, that is, they contribute to the satisfaction of the social needs of various social groups and strata. Reaching the above-mentioned areas of public finance management from the institutional and substantive point of view, it is necessary to indicate the essence and characteristics of this process within such basic institutions as the state budget and budgets of local government units at all levels. From this perspective, it is necessary to indicate what the management of state budget funds should be based on.

TRADITIONAL BUDGET

Traditional budget whose basic element of the constitution is the budget classification, must evolve towards a *task-project* budget that is flexible and effective in management. At this point, it can only be added that currently there is a rigid framework of the budget economy on the one hand and the system of individual first-level administrators on the other hand, in fact, greatly limit the possibilities of rational management of public funds. Similar problems, only on a smaller scale, accompany the budgets of local government units. At this level, also in the management of public funds, there are barriers which essentially hinder effective management. This is due to reasons similar to those mentioned in relation to the state budget. Again, the only way that can change this situation leads to a change in the budget structure system and requires resignation from the traditional methods used so far. A separate and very important area of public funds management is the management of their surplus or shortage (Armstrong, Taylor 2016, Ansoff, McDonnell 2004).

Since the shortage in the form of a budget deficit turning into public debt is a common phenomenon, it should be given special attention. At this point, it is important to distinguish between the streaming nature of income and expenditure, which is related to a specific time, such as a calendar year, and a cumulative deficit that leads to a consideration of government debt issues (Błaś 2002). Since the shortage in the form of a budget deficit turning into public debt is a common phenomenon, it should be given special attention. At this point, it is important to distinguish between the streaming nature of

income and expenditure, which is related to a specific time, such as a calendar year, and a cumulative deficit, which leads to a consideration of government debt issues. Since the shortage in the form of a budget deficit turning into public debt is a common phenomenon, it should be given special attention. At this point, it is important to distinguish between the streaming nature of income and expenditure, which is related to a specific time, such as a calendar year, and a cumulative deficit, which leads to a consideration of government debt issues (Bukowska, Karpiński, Kleer, Kożuch, Lech, Owsiak, Siwińska, Paradysz, Zubelewicz 2004).

Both the phenomenon of the budget deficit and the public debt cannot be treated *as shares* (ie actions are taken to limit the deficit, for example). This is because it requires a long perspective and must be managed not incidentally, but on a long-term basis. For this reason, the management of the above-mentioned phenomena is particularly important. For example, it may turn out that it is necessary from a rational and effective point of view to use public funds to temporarily increase the deficit. Such a decision cannot be of a political nature, and should result from economic and social reasons. This area of public funds management is of fundamental importance and requires the use of appropriate methods, i.e. adapted to the nature of the regulated phenomena. The above remarks related to the state budget apply to the budgets of local government units. In this case, however, the management of public funds does not only refer to decision-making bodies, e.g. boards of the appropriate level, but also has institutional support in the Regional Accounts Chambers (Błaś, Boć, Jeżewski 2004).

The concept of New Public Management has had the greatest impact on the current shape of public services in the world. The roots of this concept come from Great Britain. During the 1980s, the organization and management of UK public services were put under pressure to change. New concepts of management in the public sector began, which inspired many OECD countries in reforming public administration. It was clearly visible that the fundamental change postulated in the New Public Sector Management was the method of financing and management style, as well as clear expression of the organization's goals and their implementation. The efforts to increase the maneuverability of the public service system were also vivid. In recent

years, the above assumptions have been modified and expanded (Cabała 2018, Czapotowicz 2008).

Four concepts were invented according to which reforms were to be made as part of New Management in the Public Sector:

- **NPM model 1.** Increasing efficiency;
- **NPM model 2.** Decentralization and *slimming the public sector*;
- **NPM model 3.** In search of perfection;
- **NPM model 4.** Public service orientation.

Recent decades are characterized not only by the significant development of the third sector, but also by the growing participation of civic movements and non-profit organizations in the planning of public policies at the national (as well as EU) level and the growing importance of social activity in local development. This trend has been clearly noticed in the European Union, where the principles of subsidiarity, partnership and social dialogue lead to the postulate of gradual expansion of the scope of cooperation between public institutions and civil society organizations. Therefore, the basic question is not *Should I cooperate? But How to cooperate?*. In the system of intersectoral cooperation, the state performs two, partially independent functions.

Firstly, the state is one of the actors of this cooperation, interacting with the others (state – business sector, which is also referred to as public-private partnership, and state – non-governmental sector, i.e. public-social partnership).

Secondly, the state – as the legislator – defines the rules of functioning of the public sphere and the rules of cooperation between actors. This undoubtedly gives the state a privileged position, which in a democratic system is partially balanced (or at least should be) by the principle of the limited nature of state power.

Two models of cooperation between public administration and non-governmental organizations in the field of public benefit (social benefit) dominate in Europe: the German and the English model (Czarnecki 2011, Hood 1995).

German model is characterized by (1) the full implementation of the state subsidiarity principle, operationalized in the legal system as the principle of priority of social entities in the provision of social services using public funds, and (2) the corporate nature of the public administration – non-governmental

organization relationship. The latter is reflected in the high level of federation of the third sector and the actual building of structures compatible with public administration structures and able to negotiate the terms of cooperation at every level of the administrative division of the state.

English model is characterized by (1) greater openness to competition between service providers, and thus a greater role of market (or quasi-market) mechanisms in the system of commissioning public tasks, and (2) the resulting lack of preferences for non-governmental organizations. It is no coincidence that in Great Britain there is talk of cooperation between the state and the *independent sector*, defined as all for-profit and non-profit entities interested in participating in tenders for commissioning public tasks. Moreover, the principles of intersectoral cooperation are shaped to a greater extent by public-private partnership than by public-social partnership. Both models have their own strengths and weaknesses that are identified and described in the literature. It's worth pointing out, that the standardization in the German model is aimed at (1) maintaining high-quality social services and (2) securing the continuity of their provision. The consequence of the latter goal is the statization of non-governmental organizations. In the English model, standardization serves primarily effectiveness, which in practice is reduced to the reduction of costs of maintaining the system of social services (Clarke, Stewart 1997, Ewalt 2001, English 2006).

In both models, the standardization of cooperation serves the professionalisation of the third sector. However, this is a different type of professionalization. NGOs in Germany become professional and become similar to public institutions, adopting their standards and organizational culture. On the other hand, the English version of professionalization means that non-governmental organizations become similar to commercial companies, both in terms of management (seeking profit or even balance surpluses) and work culture. The side effect of the German model is the aforementioned statatisation of social organizations, and of the English model – the commercialization of the non-profit sector. In the case of both countries, the currently implemented recovery program consists in attempts to popularize the elements of the competitive model in their own model. Great Britain introduces elements of negotiations, characteristic of the corporate approach (this is what the idea of the

aforementioned pact boils down to), and Germany – elements of competition, opening one of the segments of the social services market to commercial entities. When undertaking works on the standardization of social services, one should continue to strive to develop compromise solutions combining elements of both these models. Standardization of services is a process of gradual refinement to the question of what, in what quantity and at what level, as part of a given service, for specific individuals and groups adequately to their identified needs and in accordance with the requirements of rational satisfying them. opening one of the segments of the social services market to commercial entities. When undertaking works on the standardization of social services, one should continue to strive to develop compromise solutions combining elements of both these models. Standardization of services is a process of gradual refinement to the question of what, in what quantity and at what level, as part of a given service, for specific individuals and groups adequately to their identified needs and in accordance with the requirements of rational satisfying them. opening one of the segments of the social services market to commercial entities. When undertaking works on the standardization of social services, one should continue to strive to develop compromise solutions combining elements of both models mentioned above. Standardization of services is a process of gradual refinement to the question of what, in what quantity and at what level, as part of a given service, for specific individuals and groups adequately to their identified needs and in accordance with the requirements of rational satisfying them (Gaciarz 2008).

Standards are developed because they have a number of specific, useful functions, including:

- norm-creating function – standards formally and organizationally determine the model ordering of the relationship between the technical, organizational and qualitative criteria for providing the service and the needs in this respect;
- stimulating function – standards as a set of factors influencing the shape and principles of functioning of the social services market;
- economic function – through the criteria of costs, including unit cost, standards determine the rationality of the service provided;

- social function – standards organize the relationship between the way social service infrastructure functions and the level of meeting social needs (they determine the quality of life factor).

Standards can be described in terms of their basic and most characteristic features, which include such characteristics of standards as:

- minimum – recommended;
- static – dynamic;
- deductive – inductive;
- values – procedures;
- external – internal;
- based on indicators – based on mechanisms;
- they build an organizational culture – they provide specific services.

The basic methods for constructing standards are:

- inductive-negotiation (standard built on the basis of the buyer's agreement, suppliers, customers – model);
- internal regulations (accepted self-regulation of a given service provider or tasks);
- concession (administrative decision);
- quasi – market (standard defined or dependent on the client);
- administrative (external to the ordering party);
- statutory (example – regulation).

The most important principles accompanying the construction of standards are:

- adequacy – relative compliance between the needs of specific customer groups
- and the offered scope and quality of services;
- flexibility – the use of methods, techniques and ways of satisfying the needs depending on the existing situation, within the limits

guaranteeing the preservation of the original meaning and purpose of the task being performed;

- framework – the ability to navigate in the process of satisfying needs in an appropriate,
- the set span, the range of norms and norms, allowing, thanks to the possibility
- selection of criteria, act effectively for a specific client or group of clients;
- coherence – correlation of solutions adopted and applied at various levels of management of the social sphere.

The issue of creating standards for social services is an important aspect of the state's policy towards the third sector, as well as the functioning of non-governmental organizations themselves.

THE CONCEPT OF PUBLIC SERVICE, INCLUDING SOCIAL SERVICE

Public services are a system of communal, social and administrative services, aimed at meeting the needs of society in which an important role, for reasons systemic, political, social, property, economic, financial and environmental, government and self-government administration bodies play. The quality of the provision of one of these services, is of paramount importance for the quality of other services and for the entire system. Utility are public services aimed at meeting the collective living needs of communities. By social services we mean another specific type of public services, namely (Grindle 2004):

- Services aimed at the development of the social life of the local community, at meeting social needs (as opposed to their living needs). We mean primarily: education, care and upbringing, health protection, promotion of physical culture and culture, social welfare, public safety, others, e.g. the labor market, some tasks related to the promotion of the region.
- Social services seem to require much more than they are for services
- municipalities, co-financing or financing from public budgets because:

- The provision of these services serves the purpose of meeting the social needs of the community (e.g. social assistance services, and / or;
- Guaranteed and equal availability of certain services is enshrined in the Constitution (e.g. education or cultural programs).

The organizational, management, technical, social, environmental, economic and financial specificity of the provision of services is subject to a number of provisions: administrative law, local government, economic, *social*, civil, finance and public procurement law, environmental protection and sectoral law. It is worth noting that the organization of most public services, especially infrastructure services, is closely related to environmental protection management. Thus, when organizing the system of their provision, one should take into account the consequences of Poland's accession to the European Union, not only in terms of access to European funds, but also in the implementation of EU environmental law. For those involved in the organization of social services, it may be helpful to get acquainted with the Treaty establishing the European Union (and subsequent treaties), which regulates the social and social objectives of the actions of the Member States, as well as with other documents relating to fundamental EU rights. The functioning of the public service system is also regulated by directives concerning, inter alia, consumer and competition protection, energy market and etc (Hood 2005).

PUBLIC UTILITY ACTIVITY AND COMMERCIAL ACTIVITY

One of the arguments of opponents of commercialization of public services is the term-slogan: tasks of general interest. Indeed, the term *public utility* is a description of a legal and social reality rather than an economic one. To describe the economic realities of management and provision of public services, and to make specific decisions rationalizing and restructuring the organization of services, the following aspects are important:

- The position of the entity in the market: ie whether it is an inherently monopolistic (or competitive) position or not;

- The scope of statutory legal and economic regulations for a specific service sector;
- Material and financial needs as well as capital intensity of service provision;
- Ownership of the entity and property on the basis of which a specific type of service is provided, and the methods of managing these entities and property (public, public-private, private);
- Ecological sensitivity of the implementation of a specific service.

These features should, to a greater extent, determine the qualification of individual types of public services and define the objectives of restructuring decisions, than the mere statutory provisions on own tasks or commissioned public administration units. In that sense, now we will be talking about public utility entities, or rather entities operating in various types of limiting conditions: ownership, organizational, regulatory, technical and environmental, or market entities, or largely susceptible to marketization (Clarke, Stuart 1997).

Social service management system. A modern system of organization and service management should be based on a clear division of competences between public administration and service providers. It is necessary to consider how to consistently implement actions increasing the level of less bureaucracy and 'depoliticization' of this sector, e.g. by:

- gradual reduction of the functional dualism of public administration units (power in the double and contradictory role of a politician and representative of the *people* as well as the owner of property and the farmer, obliged to the economic and financial development of *their* economic units);
- empowerment of service providers – regardless of their ownership structure – in terms of impact on strategic planning as well as operational and financial planning and execution, based on a stable system of contracting and long-term financing.

The objectives of the public service management system, including social services, should be:

- increasing the availability of services;

- increasing the quality and quantity standards of services and environmental protection;
- optimization of unit costs and total costs of their provision.

Knowledge of the legal and economic environment allows for the implementation of the above-mentioned goals by:

- a. precise definition of strategies, programs and development plans of institutions and services;
- b. precise management and adequate financing of services;
- c. use of the entire development potential, while involving external entities and material and financial resources;
- d. organization of the provision of services by entities with an optimal organizational, legal and executive structure,
- e. development of infrastructure for the provision of social services;
- f. proper supervision of the service provision system.

The real art is to organize the system of providing social services in such a way that all entities active in this sphere cooperate with each other, complementing each other, and that the development goals defined above are mutually agreed (they are not opposed and implemented at the expense of others). It is about focusing energy and available resources on cooperation for a properly understood and defined common good of society. In order to balance the influence and particular interests of active entities and counteract the violation of the principles of rational and functional organization of community activities, it is necessary to precisely define the subjective (who?), Objective (what?) And procedural (how?) Scope of management and organization of the sphere of public services, including social. This is what the methodology of the so-called management cycle.

Service management depending on the division of competences between the public administration unit and other entities participating in the cycle, it may define the role of public administration throughout the process as (Ewalt 2001):

- a. actor: the administration deals directly with all elements of the organization process and management,

- b. pilot: administration dominates at the level of setting goals and rules (policies) and programs for the delivery and development of services, and plays a significant role at the level of planning, control and evaluation, while the current and direct provision of services is the domain of service providers,
- c. client: the primary role of administration is to co-define goals and control their implementation.

Planning of operational and investment activities as well as their financing and implementation belongs mainly to service providers, often external to organizational and budget structures with public administration (

CONCLUSIONS

New Public Management (NPM) is an approach to public sector management that emerged in the 1980s and 1990s. Its aim was to increase the efficiency, effectiveness and flexibility of the public sector by applying principles characteristic of the private sector. Here are some key features of New Public Management:

Results Orientation: NPM emphasises measuring the efficiency and effectiveness of public sector activities by setting clear objectives and monitoring and grading results.

Decentralisation: Shifting power and decision-making from central institutions to lower-level units to encourage greater flexibility and adaptation to local needs.

Competition and Market: Introduce elements of competition and market dynamics in the public sector through the use of market mechanisms such as tendering and outsourcing.

Contract Management: Using contracts to set expectations of public service providers. Efficiency and accountability are sought through clear contractual arrangements.

Financial Accountability: Increased emphasis on the financial accountability of public bodies through more precise budget and cost management.

Management Practices Familiar from the Private Sector: Adopting management practices familiar from the private sector, such as performance-based budgeting, risk management, marketing or benchmarking.

Customer as Partner: Focusing on meeting the needs of the customer (citizen) and treating them as a partner. Introducing elements of flexibility and customisation of services.

Use of Technology: Use of information and communication technologies to improve efficiency and access to public services.

Support for Entrepreneurship: Promoting entrepreneurship in the public sector, encouraging risk-taking, experimentation and innovation.

Evaluation and Monitoring: Systematic grades of the effectiveness of programmes and projects, allowing actions to be adapted to changing conditions.

NPM has been met with both enthusiasm and criticism. Supporters emphasise that it brings efficiency, flexibility and greater accountability, while critics point to the risk of commercialisation of public services, loss of social values and inequalities in access to these services. In practice, the implementation of NPM can vary across countries and public sectors.

Good governance refers to the principles and practices that contribute to the effective, accountable, and transparent management of public and private institutions. It is a concept often associated with the public sector, but it is also relevant to corporate governance and non-profit organizations. Good governance is essential for promoting economic development, social justice, and the rule of law. Here are some key principles and characteristics associated with good governance. Adherence to and respect for the rule of law are fundamental. This includes fair and impartial legal frameworks and their consistent application. Openness and transparency in decision-making processes, ensuring that information is accessible to all stakeholders. This includes financial transparency, disclosure of information, and clear communication. Individuals and organizations should be accountable for their decisions and actions. This involves answerability, responsibility, and the enforcement of consequences in case of misconduct. Inclusion of diverse perspectives and stakeholders in the decision-making process. Public participation fosters legitimacy and ensures that policies and services reflect the needs and aspirations of the

broader population. Institutions and processes should be responsive to the needs of the public. This involves timely and appropriate responses to changing circumstances and the evolving needs of the society. Ensuring that all individuals and groups, regardless of their background, have equal opportunities to participate in and benefit from governance processes. Governance structures and processes should be effective in achieving their intended outcomes and efficient in their use of resources. Long-term vision and planning that take into account the broader interests and sustainable development goals. Adherence to high ethical standards in both individual and organizational behavior. This includes integrity, honesty, and a commitment to ethical decision-making.

Good governance is a dynamic concept, and its application can vary across different contexts and cultures. It is an ongoing process that requires continuous improvement and adaptation to changing circumstances. Governments, organizations, and communities committed to good governance are more likely to achieve sustainable development and build trust among their stakeholders.

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