

# THEORY AND PRACTICE OF THE PUBLIC SECTOR SAVINGS: THE CASE OF CZECH REGIONS\*

Milan PŮČEK  
František OCHRANA

## Milan PŮČEK

Ing., MBA, PhD, Center for Social and Economic Strategies,  
Faculty of Social Sciences, Charles University, Prague, Czech  
Republic

Tel.: 0042-0736-116.166

E-mail: milan.pucek@seznam.cz

## František OCHRANA

PhD, DSc, Professor, Center for Social and Economic  
Strategies, Faculty of Social Sciences, Charles University,  
Prague, Czech Republic

Tel.: 0042-0224-491.487

E-mail: ochrana@fsv.cuni.cz

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## Abstract

In recent years, the necessity to allocate resources in economically rational ways has been amplified in the context of budget austerity measures and the overall tendency for balanced public budgets. Under these long-term circumstances, political leaders and public sector managers will be motivated to allocate available resources in economic, effective and purposeful ways, thus reducing waste of resources and seeking rational savings. The study shows some ways of achieving that goals by finding rational savings in the performance of delegated central government administration.

The study analyzes expenditures and revenues for those tasks of central government administration that are delegated to regions in the Czech Republic. Based on the proposed theoretical concept of public sector savings and on the analysis of secondary and primary data, it assesses possibilities for achieving regional savings in delegated central government administration. Calculations based on empirical data demonstrate that regional governments have space for internal savings; benchmarking comparison and simulations confirm the possibilities for reducing waste of resources and achieving rational savings. Total calculated savings for all regions (for the year 2009) range between EUR 16 million and 29 million according to simulations, and the highest savings would be achieved by Central Bohemia.

**Keywords:** regional government performance, expenditure per staff member, savings, resource allocation, Czech Republic.

## 1. Introduction

The issue of rational savings and reduction of waste of resources in the public sector is very timely, given the continued lack of resources and the necessity to plan balanced budgets. According to the Eurostat (2012), total general government expenditure in 2011 equaled to 49.1% of GDP for the entire EU-27 and 43% for the Czech Republic, while expenses for civil servants equaled to 8% of Czech GDP. These statistics make it clear that even small increases in the effectiveness of the system of managing expenditure on civil servants might bring about important additional savings.

Theory offers various frameworks and concepts for reaching that goal. Of crucial importance for the analysis of public sector savings are some works inspired by New Public Management (hereafter NPM), especially those by Hood (1991, pp. 3-19), Pollitt and Bouckaert (2004), and, with respect to CEE countries, Nemeč, Wright and Stillman (2002).

In spite of some risks of applying the NPM approach (Coombes and Verheinen, 1997; Nemeč, 2008, pp. 343-371; Tonnison, 2005; Tonnison and Wilson, 2007, pp. 87-106), it can be considered suitable for efforts to increase the effectiveness of public administration. This can be observed in many works which sought to make public administration more effective in the context of global reform trends; in this sense, the reforms are described in the Czech Republic and Slovakia (Nemeč, Meričková and Ochrana, 2008, pp. 673-684; in Romania by Andrei *et al.*, 2009, pp. 26-37; Murrell, 2003, pp. 695-714; Matei and Iancu, 2009, pp. 25-46; Dragoș and Neamțu, 2007, pp. 629-648), some studied new methods that could be implemented (Roudný, 2007, pp. 22-28; in CEE, Veselý, 2013, pp. 310-330; in Romania, Pascaru and Buțiu, 2010, pp. 493-509) and proposed new procedures for enhancing (in CEE, Nemeč, 2008, pp. 343-371) or evaluating its performance (Špaček, 2010, pp. 45-59; in Romania, Lee, 2009, pp. 274-288; Dragoș and Neamțu, 2013, pp. 71-85).

The NPM concept is also applied in many Czech and Slovak works on effective resource management and factors of effectiveness of public administration (Nemeč, Meričková and Vožarová, 2011, pp. 140-159). They mostly theorize about particular issues such as economic evaluation of health services (Strnad, 2002), effective service contracting (Nemeč, Meričková and Šumpíková, 2007), assessment of public projects in terms of their intended impacts (Rydvalová and Žižka, 2007, pp. 33-45), analysis of service quality (Charbuský and Stejskal, 2004, pp. 53-57) and analysis of customer satisfaction (Hrnčiar 2004, pp. 61-65). Another group of works studies individual factors affecting the effectiveness of public administration; for instance, Vacík (2007) analyzes the role of strategic management in public administration as a factor of effectiveness. Another group of authors identifies the (absence of) corrupt environments as an important factor of effectiveness in the public sector (Volejníková, 2006, pp. 58-68; in Romania, Ioniță, 2005, pp. 251-267). The relation between corruption and transparency in public administration is studied by Pavel and Sičáková-Beblavá (2008, pp. 168-181) regarding public procurement in the Czech and Slovak Republics and by Ochrana and Maaytová (2012, pp. 732-745) on the example of EU countries.

Besides the above-mentioned theoretical issues, effectiveness in public administration has been studied as a triangle of important practical issues: how to effectively reduce public expenditure, improve regulation and reduce the administrative burden. The problem of savings has been posed in this way in many OECD recommendations (OECD, 1995, 1997, 2003, 2007) which are theoretically based on the idea of good governance (Osborne and Gaebler, 1992; Cusack, 1999, pp. 1-34; Kaufmann, Kraay and Mastruzzi, 2010). Public sector effectiveness is seen as one of the instruments of good governance and, simultaneously, as one of its indicators. Effectiveness is measured by decomposing government activities into individual procedures and operations and analyzing quantitative data about the effectiveness of each process and procedure (Barrilleaux, Feiock and Crew, 1992, pp. 12-18; Putnam, 1995, pp. 65-78; Government Performance Project, 2001, 2002; Osborne and Gaebler, 1993). This concept of effectiveness also represents the research topic and research goals of the present study.

## **2. Research topic, research objectives, research questions and methods**

The topic of this study is to analyze the procedural effectiveness of central government administration delegated to the regional level. It builds on the above-mentioned general concept of NPM which is understood as a theoretical basis for elaborating the concept of 'public sector savings' and as a methodological basis for conducting an empirical analysis of staff expenditure (expenditure on those civil servants and auxiliary staff employed by the regions to perform tasks delegated from central government administration).

So far, only a few studies have dealt with this topic in the Czech Republic. The performance of regional governments has been studied by Kostelecký and Patočková (2006, pp. 913-936), Kostelecký, Patočková and Vobecká (2007, pp. 911-943) and Illner (2007, pp. 967-992). The issue of financing, and especially tax assignment, has been studied by Halouzka *et al.* (2009). So far, however, no analysis was made on the issue of effectiveness in the form of a formalized idea of public sector savings that also empirically studied the effectiveness of regional expenditure on public servants responsible for delegated central government administration<sup>1</sup>.

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1 Regions in the Czech Republic were established by Constitutional Act No. 347/1997 Coll. on the Creation of Higher Territorial Self-Governing Units, effective from January 1, 2000. Fourteen higher territorial self-governing units were created in the territory of the Czech Republic, including the Capital City of Prague. This study does not analyze data from the Capital City of Prague although it constitutes a region because it is different from other regions. Most of these regions are not large enough in terms of the EU's statistical classification, NUTS. Cohesion Regions were specially established for European Union purposes (three of these, including Prague, are identical with Higher Territorial Self-Governing Units while each of the rest comprise of two or three Units). The Czech Republic applies the so-called integrated model of public administration: municipalities and regions perform not only their autonomous competencies but also delegated competencies of central govern-

A total of 3,115 posts were transferred by central government to regions as of January 1, 2003, of which, 1,827 posts were transferred from abolished district offices and 1,288 from other bodies.

In financial terms, the regions spent a total of 0.54 billion EUR<sup>2</sup> on delegated competencies (13 regions, from 2003 to 2009) and their revenues for that purpose amounted to only 0.35 billion EUR. This means that only 65% of the expenditure was covered by revenues (comparable to the rate of 64% for the year 2007 reported by Halouzka *et al.*, 2009). Thus, for each year during the time period under consideration, the regions subsidized the delegated tasks with 27.1 million EUR from their revenues for autonomous activities. In this respect, we want to raise the following question: does this constitute waste of resources (and an opportunity for savings) on the part of the regions, or does central government rather provide insufficient compensation for these delegated responsibilities?

Our research objectives are as follows:

- 1) To investigate the relationship between the problem of waste of resources and the issue of savings in the Czech Republic's public administration, to propose a formalized procedure for pursuing so-called rational savings in the public sector, and to use empirical evidence and implement the procedure on the case of central government administration delegated to regions;
- 2) By analyzing expenditure on and revenues for delegated central government administration, to answer the following research questions:
  - a) To what extent are expenses covered by revenues in individual regions? Is the low level of coverage rather caused by the regions' behavior or by the low subsidies from central administration?
  - b) What is the lowest possible number of regional public servants that can perform delegated central government administration while guaranteeing the necessary level of quality and quantity of service?
  - c) What level of potential savings can be attained in each region?

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ment (i.e. the state). Thus, Czech laws prescribe regions to perform some delegated tasks of central administration. The state, however, does not define any clear standards of quality and quantity (including for example the number of civil servants necessary for each agenda). Although new agendas are legislated on the basis of Regulatory Impact Assessment (RIA), staff resources required for each responsibility are often not clear from these RIA exercises. The performance of regions' competencies is ensured by Regional Authorities. New competencies were given to regions as (1) delegated competencies transferred from central government bodies or their territorial parts, (2) delegated competencies transferred from district bodies (while the district level of government was abolished), (3) rarely, newly formed competencies (for example, in the realm of regional policy).

- 2 We used the conversion rate 25 CZK/EUR. To calculate the rate we used data from table 'Central Bank Exchange Rates Fixing – Monthly Averages' for the years 2010-2012, [Online] available at [http://www.cnb.cz/en/financial\\_markets/foreign\\_exchange\\_market/exchange\\_rate\\_fixing/currency\\_average.jsp?code=EUR](http://www.cnb.cz/en/financial_markets/foreign_exchange_market/exchange_rate_fixing/currency_average.jsp?code=EUR).

In order to fulfil the research objectives, we used a mix of normative and non-normative methodologies and corresponding research methods. Positive methodology was applied in analyzing and describing the problem, studying the resources, analyzing the data and reviewing international experience. In this type of analysis, the basic criterion question was: 'What happened? What is the state of the problem under investigation?'. Subsequently, we attempted to formulate the best (optimal) solution satisfying the predefined criteria and limitations. We posed the following normative questions: 'What kind of outcome would be suitable (desirable) for the Czech Republic?' and 'What can be considered the best possible solution given the principles of NPM?'.

Empirical data for the analysis were drawn from the time period between 2003 and 2009, especially considering availability limitations, and the empirical analysis relies on both secondary and primary data.

### **3. Defining public sector savings and waste of resources**

Resources are necessary for the performance of any function of public administration. Since resources are scarce, political leaders (mayors, governors, ministers etc.) and public sector managers are faced with the permanent issue of how to best economically use the given resources. An economically thinking leader wants to know how to best proceed in order to ensure optimum allocation of available resources under existing limitations (Severová *et al.*, 2012, pp. 542-548). Thus, it is desirable for public administration managers to seek ways of rationalizing public administration processes in order to fulfil defined goals in the best possible way (under existing limitations). If this is not the case, then waste of resources takes place.

In this article, we understand waste of resources in the public sector such as the allocation of public resources that is in breach of the principles of economic, effective and purposeful use of public resources. As a result, more public resources are spent than what the optimum level would be. Whenever waste of resources is uncovered and ways of eliminating it are proposed, we refer to such ways as public sector savings when they are effective. Public sector savings can be defined as additional resources that were (will be) gained by the public sector as a result of rationalization measures, compared to the originally budgeted resources. All public sector savings should be rational.

Higher economies are the first effect of rational savings analyzed here. We understand economies as such processes of cost reduction that are in line with the principle of economy. In other words, the reduction of cost to an economic level should not in any way preclude the fulfilment of the originally defined goal. At the same time, the saving should not negatively affect the cost of any other planned activities, thus saving should not increase the cost of pursuing other activities (goals), compared to their originally planned cost.

Higher effectiveness is the second effect of rational savings. We understand effectiveness as the ways of increasing the planned cost productivity or decreasing expenditure per unit which do not prevent the adequate fulfilment of the goal.

The third effect of rational savings is increased efficiency of procedures associated with the fulfilment of the goal; such efficiency lies in rational ways of attaining the goal (Ochrana and Půček, 2012).

Savings can be assessed *ex post* (whether any saving has been attained after realizing a measure) or *ex ante* (potential savings that arise from a planned measure). Planned savings  $S_p$  can be expressed by the following equation:

$$S_p = C_a - C_{po} > 0 \quad (1)$$

where

$S_p$  = planned savings,

$C_a$  = actual cost (or originally planned cost if the activity is not being realized yet),

$C_{po}$  = planned cost of the measure.

The above relationship expresses a necessary, but not sufficient condition of attaining planned savings  $S_p$  because savings must also be rational. Thus, we must assess an additional condition of attaining the savings, namely whether any (and what level of) cost is induced by them. Induced cost  $C_i$  is the expenditure that arises as a result of the rationalization effort. For some measures, we must also assess whether the planned savings will induce any additional benefit. Induced benefit  $B_i$  is any benefit that arises as a result of the rationalization effort.

The following applies to planned rational savings  $S_{pr}$ :

$$S_{pr} = C_a - C_{po} > 0 \text{ on the condition that} \quad (2)$$

$$S_{pr} - C_i + B_i > 0, \text{ which means that} \quad (3)$$

$$S_{pr} = (C_a - C_{po}) - C_i + B_i > 0 \quad (4)$$

where

$S_p$  = planned rational savings,

$C_i$  = induced cost,

$B_i$  = induced benefit.

In other words, the planned rational savings  $S_{pr}$  should not effectively induce additional cost  $C_i$  which would result (after subtracting any induced benefits) in higher total cost. If this condition is not satisfied, we are dealing with non-rational savings.

Given the topic of this article, it is important to determine the regions' planned cost ( $C_{po}$ ) of realizing delegated central government administration and to identify its actual cost from regional statistics. According to an existing methodology (MV, 2007), planned cost of public administration is determined as a sum of staff expenses (which comprise salaries and statutory deductions), overhead cost (expenditure related to management and operation of the administrative body such as office supplies, electricity, telephone, postage, rent, insurance, staff education) and, if necessary, extraordinary expenses (investment costs of obtaining tangible or non-tangible assets, including workplace equipment). This cost (excluding extraordinary expenses) can be

expressed as follows:

$$C_{po} = C_{po1} \times N \quad (5)$$

where

$C_{po1}$  = planned annual cost per staff member,  
 $N$  = number of staff responsible for the given agenda.

The cost of delegated central government administration per staff member ( $C_{po1}$ ) can be defined as follows:

$$C_{po1} = C_{staff} + C_{overhead} \quad (6)$$

where

$C_{staff}$  = cost of salaries and statutory deductions,  
 $C_{overhead}$  = overhead cost.

The cost of salaries and statutory deductions can be defined as follows:

$$C_{staff} = C_{salary} \times K1 \times 12 \quad (7)$$

where

$C_{salary}$  = average monthly salary of a regional official,  
 $K1$  = statutory deductions (1.35).

The monthly salary of a regional official can be defined as follows:

$$C_{salary} = C_{tariff} \times K2 \quad (8)$$

where

$C_{tariff}$  = gross salary in line with Tariff Class (here, an average of all ten tariff classes can be calculated) and the average Tariff Degree (according to MV 2007, it is Degree 9),  
 $K2$  = coefficient of personal benefits and bonuses (according to MV 2007, it equals to 1.2).

Furthermore, it is necessary to determine the overhead cost ( $C_{overhead}$ ):

$$C_{overhead} = C_{salary} \times K3 \quad (9)$$

where

$K3$  = overhead cost coefficient (0.43 according to an extensive survey of actual cost, MV 2007).

This means that the planned cost of delegated central government administration per staff member ( $C_{po1}$ ) can be defined as follows:

$$C_{po1} = 1.43 (C_{salary} \times 1.35 \times 12) \quad (10)$$

In order to go ahead with the calculation, we must determine (a) the necessary number of staff responsible for the given agendas, and (b) the average salary of the staff responsible for these agendas. Based on the above formulas for planned rational

savings (4), planned cost (5), and cost per staff member (10), we need to determine the annual cost per staff member and the necessary number of staff responsible for delegated central government administration.

Let us begin with the annual cost per staff member. Actual cost per staff member ( $C_{al}$ ) for the years 2003-2009 was obtained from regional and Ministry of Interior statistics. Planned cost ( $C_{pol}$ ) must be calculated in line with Formula 10.

#### **4. Analysis of central government activities delegated to regions: results and discussion**

##### ***4.1. Coverage of expenditure for central government administration delegated to regions***

Let us first compare the expenditure and revenues of regions (Table 1). Regions' revenues related to delegated central government administration consist of central government subsidies for delegated tasks, penalty payments, and administrative fees. The related expenditure primarily consists of the staff and overhead cost for those officials responsible for delegated central government administration.

The regions are eligible for central government subsidies but these do not cover 100% of their expenditure for delegated central government administration. In this study, we will answer the following question: To what extent is the expenditure covered by related revenues for each individual region?

Table 1 shows the revenue and expenditure totals for the time period from 2003 to 2009 by region. When looking at all regions together, 65.2% of the expenditure is covered by revenues. Regional governments argue that this is primarily caused by low subsidies from the central government.

The percentage of expenditure covered differs substantially between regions. As Table 1 demonstrates, the best result was attained by the regions of Moravia-Silesia (77.9%), Hradec Králové (77%), and South Moravia (73.8%). The lowest levels of coverage were observed in the Central Bohemian Region (53.2%) and this region also contributed the most from its own resources (4.8 million EUR annually).

As for expenditure per citizen, the Moravian-Silesian Region did best (with 5.7 EUR per citizen annually), and the smallest region, Karlovy Vary, did worst (13.6 EUR per citizen). Table 1 also states the correlation coefficients for the relationship between total population and total expenditure (0.875), total population and revenues (0.997, the highest correlation) and total population and uncovered expenditure (0.529).

**Table 1:** Coverage of expenditure for government administration for 2003–2009 by revenues, by region

EUR	Total population (2009)	Total amounts for 2003–2009 (in EUR million)			Percentage of expenditure covered by revenue (in EUR million)	Mean annual (EUR)			
		Expend.	Reven.	Difference (expenditure minus revenue)		Expend. per citizen	Uncovered per citizen		
Central Bohemia	1,247,533	72.4	38.5	33.9	53.2%	4.8	8.3	3.9	
South Bohemia	637,643	42.4	26.2	16.2	61.8%	2.3	9.5	3.6	
Pizeň	571,863	35.4	23.9	11.5	67.5%	1.6	8.8	2.9	
Karlovy Vary	307,636	29.2	17.4	11.7	59.8%	1.7	13.6	5.4	
Ústí nad Labem	836,198	51.4	30.5	20.9	59.3%	3.0	8.8	3.6	
Liberec	439,027	31.3	21.0	10.3	67.0%	1.5	10.2	3.4	
Hradec Králové	554,402	32.4	24.9	7.5	77.0%	1.1	8.4	1.9	
Pardubice	516,329	34.9	23.3	11.6	66.9%	1.7	9.7	3.2	
Vysočina	514,992	33.9	22.9	11.0	67.6%	1.6	9.4	3.0	
South Moravia	1,151,708	49.5	36.6	12.9	73.8%	1.8	6.2	1.6	
Olomouc	642,041	43.6	25.7	17.9	59.0%	2.6	9.7	4.0	
Zlín	591,042	37.8	24.7	13.1	65.3%	1.9	9.2	3.2	
Moravia-Silesia	1,247,373	49.6	38.7	10.9	77.9%	1.6	5.7	1.2	
Total/Mean	9,257,787	543.8	354.3	189.5	65.2%	2.1	8.4	2.9	
Minimum	307,636	29.2	17.4	7.5	53.2%	1.1	5.7	1.2	
Maximum	1,247,533	72.4	38.7	33.9	77.9%	4.8	13.6	5.4	
Correlation between total population and	expenditure							0.875	
	revenue							0.997	
	difference							0.529	

**Source:** Authors' calculations based on regional, Ministry of Interior and Czech Statistical Office data

#### *4.2. Expenditure per staff member and calculation of potential savings per staff member*

We are going to compare actual regional expenditure per staff member with what we consider as rational expenditure per staff member. We will answer the following question: What level of regional expenditure per staff member can be considered rational in terms of Formula (3)? Table 2 below shows the 13 regions' expenditure per staff member between 2003 and 2009.

In the framework of transferring posts from abolished district offices to regions, Government Decree no. 695 of 26 June 2002 calculated total expenditure per official to be EUR 14.9K (added to the first column of Table 2). When the amount of EUR 14.9K (which was spent for comparable activities by central government in 2002) is compared with mean regional expenditure per staff member in 2003 (EUR 20.0K), we obtain a steep annual growth of 134.2%. The lowest expenditure per staff member in 2003 was incurred by the region of Moravia-Silesia (EUR 17.2K) and the highest by the regions of Ústí nad Labem (EUR 23.8K) and Central Bohemia (EUR 23.2K).

This abrupt growth of expenditure per staff member after transfer from central government to regions (i.e. between 2002 and 2003) is one of the reasons why the expenditure is not fully covered by revenue; it highly exceeds the growth of average salary between 2002 and 2003 (the last row of Table 2) which equaled to 9.2% in the non-business sector (while mean expenditure per staff member grew by 34.2%).

Table 2 also makes it clear that between 2003 and 2009, the lowest value was attained four times by the region of Moravia-Silesia. The highest difference in expenditure per staff member was attained in 2008 (with the minimum of EUR 22.4K in Moravia-Silesia and the maximum of EUR 30.4K in Vysočina). The last columns of Table 2 show growth between the years 2003 and 2009, and growth between 2002 (the value of EUR 14.9K calculated by central government in the framework of the transfer) and 2009.

In order to determine the mean salary, we want to know the mean salary with which the central government originally ensured these tasks through district offices. We will apply Formula (10). The known total cost per staff member, divided by 1.43 (operational cost coefficient according to MV 2007) multiplied by 1.35 (statutory deductions) times 12 results in a mean salary of EUR 643. This figure is almost identical to the average wage in the non-business sector in 2002 (EUR 648).

In 2002, the central government guaranteed the tasks of government administration at an annual cost of EUR 14.9K per staff member (with a mean monthly salary of EUR 643 which equaled to 99.4% of that year's average wage). We assume that the regions should be able to guarantee these tasks based on the average wage in the non-business sector. This calculation is shown in Table 3 on detailed values for the Moravian-Silesian Region and means for the thirteen regions for comparison. The first line shows our calculation of cost per staff member according to Formula (10) where salary equals to that year's average wage in the non-business sector.

**Table 2:** Expenditure per staff member responsible for delegated central government administration in 2003-2009, by region

Region	Central government expenditure as per Transfer Decree (2002)	Annual expenditure per staff member (EUR thousands)								Growth 2003-2009		Growth until 2009 compared to central government expenditure	
		2003	2004	2005	2006	2007	2008	2009	EUR thousands	%	EUR thousands	%	
Central Bohemia	14.9	23.2	25.7	25.0	30.2	29.5	35.6	30.0	6.8	130	15.1	201	
South Bohemia	14.9	21.8	21.0	20.3	24.1	21.6	25.1	24.7	2.9	113	9.8	166	
Plzeň	14.9	20.5	22.1	21.6	22.9	23.5	25.2	24.1	3.6	117	9.2	161	
Karlovy Vary	14.9	20.0	22.3	23.3	24.4	24.6	25.8	25.7	5.7	129	10.8	172	
Ústí nad Labem	14.9	23.8	22.7	24.4	27.3	28.7	26.7	25.6	1.8	108	10.7	172	
Liberec	14.9	19.5	17.7	19.4	24.2	27.2	28.0	27.3	7.8	140	12.4	183	
Hradec Králové	14.9	17.9	19.3	19.1	21.5	21.4	28.5	29.3	11.4	164	14.4	196	
Pardubice	14.9	22.2	24.5	24.1	24.0	25.9	26.8	24.9	2.6	112	10.0	167	
Vysočina	14.9	20.2	21.1	21.1	23.8	27.0	27.4	30.4	10.1	150	15.4	203	
South Moravia	14.9	17.9	18.8	20.0	21.0	22.0	24.8	23.2	5.3	130	8.3	156	
Olomouc	14.9	18.2	20.1	23.8	27.4	29.5	29.6	28.2	10.0	155	13.3	189	
Zlín	14.9	17.7	20.5	22.1	23.9	27.2	27.3	28.0	10.3	158	13.1	188	
Moravia-Silesia	14.9	17.2	18.5	18.4	20.3	22.0	22.4	23.9	6.7	139	9.0	160	
Mean	14.9	20.0	21.1	21.8	24.2	25.4	27.2	26.6	6.6	<b>133</b>	11.6	<b>178</b>	
Annual growth (%)		134	105	103	111	105	107	98					
Minimum	14.9	17.2	17.7	18.4	20.3	21.4	22.4	23.2	1.8	108	8.3	156	
Annual growth (%)		115	103	104	110	106	105	104					
Maximum	14.9	23.8	25.7	25.0	30.2	29.5	35.6	30.4	11.4	164	15.4	203	
Annual growth (%)		160	108	97	121	98	120	85					
Mean gross monthly salary (EUR)	648	708	748	796	840	896	932	976	268	<b>138</b>	328	<b>151</b>	
Annual growth (%)		109.2	105.8	106.2	105.5	106.7	104.2	104.6					

**Source:** Authors' calculations based on regional, Ministry of Interior, Ministry of Labor and Social Affairs (Average Earnings Information System) and Czech Statistical Office data.

**Table 3:** Calculation of expenditure per staff member and potential savings per staff member

	Annual expenditure per staff member (in EUR thousands)						
	2003	2004	2005	2006	2007	2008	2009
<b>Calculated expenditure per staff member (from average wage)</b>	16.4	17.4	18.4	19.4	20.8	21.6	22.6
<b>Moravian-Silesian Region</b>	17.2	18.5	18.4	20.3	22.0	22.4	23.9
<b>Difference (potential savings)</b>	0.8	1.2	-0.02	0.8	1.3	0.8	1.3
<b>Percentage</b>	104.7%	106.8%	99.9%	104.3%	106.1%	103.6%	105.6%
<b>Mean for the 13 regions</b>	20.0	21.1	21.8	24.2	25.4	27.2	26.6
<b>Difference (potential savings)</b>	3.6	3.7	3.3	4.8	4.7	5.5	3.9
<b>Percentage</b>	122.0%	121.6%	118.1%	124.7%	122.4%	125.6%	117.4%

Source: Authors' calculations

As far as cost per staff member is concerned, Table 3 makes it clear that its calculation based on average wage and overhead cost calculated in line with Formulas (6) to (10) can be considered realistic. In the time period under consideration, the expenditure per staff member recorded by the Moravian-Silesian Region ranged between 99.9% and 106.8% of the calculated amount. The mean values for the thirteen regions were higher, ranging between 117% and 126%.

Although remuneration of staff is undoubtedly at the discretion of every administrative body, central government certainly would not have been able to co-finance staff expenditure from other sources and presumably would have ensured the performance of government administration at lower cost than the regions. Then, potential savings per staff member can be calculated as the difference between calculated cost and actual cost. It follows that the regions have ample room for savings in expenditure per staff member, averaging at 22% between the years 2003 and 2009.

In order to verify the adequacy of using average wages as a basis for calculation, we performed an alternative calculation based on tariff salaries (in line with Formula 8). The mean tariff of regional officials responsible for government administration was set at Class 10. In 2009, tariff salary at Class 10, Grade 9 was EUR 830 (when this amount is multiplied by the coefficient in Formula 9, we obtain a total mean salary of EUR 996). This results in an annual expenditure per staff member of EUR 23,073. As shown in Table 3, annual expenditure per staff member in 2009 (based on average wages in the non-business sector) was calculated at EUR 22.64K, i.e. EUR 0.43K lower, the difference being of 2%).

#### *4.3. Determining the necessary number of staff for delegated central government administration*

In order to determine the actual annual expenditure, we must also determine the necessary number of staff responsible for delegated central government administration. This analysis starts with the number of posts transferred to regions by central government in 2002.

Simply speaking, central government ensured a similar extent of responsibilities with this number of staff (working at ministries, their bodies, and district offices). In our opinion, the actual number was about 20% higher than what an effective performance of agendas would have required. In this study, we will answer the following question: 'What is the minimum possible number of regional staff responsible for these tasks that guarantees the necessary quality and quantity?'

Table 4 shows the numbers of transferred posts and staff responsible for delegated central government administration between 2003 and 2009.

Table 4 reveals that the regions largely experimented with the number of staff responsible for delegated central government administration. While some regions needed less officials than the total transferred number in 2009 (for example, Vysočina had 35 less posts and Pardubice 1.5 less posts), others hired more or substantially more officials (e.g., the Ústí nad Labem Region 59 more). The numbers of posts went up and down without following any observable trend. This becomes clear when we correlate the number of regional staff between the years 2003 and 2009 with the total numbers (the last column in Table 4). Regional governments have also argued that the central government transferred new agendas during that time period without allocating more financial resources.

As for determining the number of regional staff responsible for delegated central government administration, the key question is 'What is the minimum number of staff that can be assigned to these tasks without jeopardizing their fulfilment?'. Central government (more specifically, the authors of the transfer) expected the regions to be able to ensure these tasks with at least 150 officials. This is clear from the fact that the lowest number of transferred posts was set at 150.5 for the Karlovy Vary Region. In 2009 (and subsequently also in 2010), the Vysočina Region ensured all of these agendas with 170 staff members. After reviewing the region's annual report, an assessment of regional government performance by Kostelecký and Patočková (2006) and by deficiencies found in inspections carried out by ministries, we have determined that the Vysočina Region was able to perform the agendas with a much lower number of staff and deliver average or below-average performance. For example, ministerial inspections in 2008 and 2009 found eleven irregularities in the Vysočina Region, which meant that the region ranked 7<sup>th</sup> to 8<sup>th</sup> (together with Pardubice). Moravia-Silesia ranked first with the least (five) irregularities and the South Bohemian and Karlovy Vary Regions ranked the last with eighteen irregularities each.

Table 5 below compares the transferred numbers of staff with the situation of 2009. It shows that the number of staff grew by an average rate of 7%, compared to the transferred number. The Vysočina Region achieved a 17% reduction and the Pardubice Region a 0.75% reduction, while the other regions increased their staff. The highest increases were recorded in Karlovy Vary (27%) and Ústí nad Labem (22%). The increases were justified by new agendas transferred by the central government to the regions during the 2003-2009 period.

Table 4: Number of staff responsible for delegated central government administration

Region	Transferred by central government in 2002			Actual number of staff responsible for delegated central government administration (at the end of the year)							Correlation with total number
	In line with Government Decree No. 1085/2002	From district offices for delegated central government administration	Total	2003	2004	2005	2006	2007	2008	2009	
Central Bohemia	142	197	339	231	392	386	350	357	384.9	352.1	0.4338
South Bohemia	103.5	131	234.5	351	261	265	257	265	272	260.5	-0.0566
Píseň	87	126	213	323	224	227	222	219	217.6	223.8	-0.2858
Karlovy Vary	60.5	90	150.5	219	164	171	168	187	185	191	0.3433
Ústí nad Labem	110.5	155	265.5	349	259	272	288	305	312.9	324.3	0.4302
Liberec	74.5	112	186.5	192	178	198	201	192	187	194	0.3314
Hradec Králové	91.5	126	217.5	237	171	202	186	222	221.6	222	0.3637
Pardubice	73.5	126	199.5	208	198	202	201	208	213	198	0.5250
Vysočina	82	123	205	157	199	208	200	210	199.4	170	0.0813
South Moravia	143.5	187	330.5	290	305	334	338	345	345.2	347	0.8067
Olomouc	86	131	217	196	238	242	236	255	255.1	257.9	0.7734
Zlín	88.5	128	216.5	210	220	209	229	237	242.3	243.8	0.7666
Moravia-Silesia	145	195	340	206	350	345	348	350	345.5	349	0.3199
<b>Total</b>	<b>1288</b>	<b>1827</b>	<b>3115</b>	<b>3169</b>	<b>3129</b>	<b>3261</b>	<b>3224</b>	<b>3349</b>	<b>3381</b>	<b>3333</b>	

Source: Authors' calculations based on regional and Ministry of Interior data and the Transfer Decree

The last two columns of Table 5 simulate the minimum numbers of staff with which regions are able to ensure delegated central government administration. Version 1 assumes that the central government transferred 20% more staff to the regions than what was required for effective performance, and that additional agendas required a 7% increase (mean increase from the transferred numbers). Version 2 is based on the number of staff of the Vysočina Region, adding 15 posts for each additional 100 thousand inhabitants living in larger regions (or subtracting the same number for smaller regions).

The approach taken by the Vysočina Region demonstrates that the agenda can be ensured with substantially lower numbers of staff than those transferred to the region by central government. One of the important arguments for reforming the public administration was the assumption that the regions would be able to ensure delegated

**Table 5:** Minimum possible number of regional staff responsible for delegated central government administration

Region	Number of posts		Change compared to the number of transferred posts		Simulated number of posts	
	Total transferred	2009	Number	Per cent	Version 1: Transferred posts minus 20% plus 7% on average	Version 2: Vysočina 170 ± 15 posts per 100K
Central Bohemia	339	352.1	13.1	3.86%	294.9	279.9
South Bohemia	234.5	260.5	26	11.09%	204.0	188.4
Plzeň	213	223.8	10.8	5.07%	185.3	178.5
Karlovy Vary	150.5	191	40.5	26.91%	130.9	138.9
Ústí nad Labem	265.5	324.3	58.8	22.15%	231.0	218.2
Liberec	186.5	194	7.5	4.02%	162.3	158.6
Hradec Králové	217.5	222	4.5	2.07%	189.2	175.9
Pardubice	199.5	198	-1.5	-0.75%	173.6	170.2
<b>Vysočina</b>	<b>205</b>	<b>170</b>	<b>-35</b>	<b>-17.07%</b>	<b>178.4</b>	<b>170.0</b>
South Moravia	330.5	347	16.5	4.99%	287.5	265.5
Olomouc	217	257.9	40.9	18.85%	188.8	189.1
Zlín	216.5	243.8	27.3	12.61%	188.4	181.4
Moravia-Silesia	340	349	9	2.65%	295.8	279.9
<b>Total</b>	<b>3115</b>	<b>3333</b>	<b>218</b>	<b>7.00%</b>	<b>2710.1</b>	<b>2594.4</b>
Reduction from the transferred number (posts)					<b>622.90</b>	<b>738.60</b>
Reduction from the transferred number (%)					<b>81.31%</b>	<b>77.84%</b>

Source: Authors' calculations

agendas better than central government, namely more effectively and in higher quality. If we were to assess other aspects of regional governance (for example, healthcare or education) we would probably find evidence of higher effectiveness or quality in these public services. However, the present study assesses regional performance in delegated central government administration.

The analysis clearly shows that most regions did not achieve higher effectiveness in these agendas than central government, measured by number of staff. The Vysočina Region represents an important exception. Of course, regional governments have full discretion to deliver these agendas in higher standard (i.e. with higher numbers of staff).

#### 4.4. Calculating the potential savings

In this study, we have attempted to calculate (using Formula 1) the planned (potential) savings arising from realization of measures (staff reduction in line with Table 5, reduction of expenditure per staff member in line with Table 3) in the year 2009. We have selected the Moravian-Silesian Region for more detailed calculations, mostly because its expenditure was, on average, best covered by revenues (see Table 1).

Table 6 below assesses the situation of the Moravian-Silesian Region in 2009 when it reported 76.5% coverage of expenses (the first line of Table 6). On the following lines, the coverage is simulated on the condition of staff reduction in line with Table 5 (number of staff reduced from 349 to 295.8 for simulations 1a and 1b; and to 279.9 for simulations 2a and 2b).

Simulations 1a and 2a are based on actual expenditure per staff member recorded in the year 2009. Simulations 1b and 2b are based on expenditure per staff member calculated in line with Table 3 (EUR 22.6K) – simultaneous reduction of expenditure

**Table 6:** Simulation of expenditure by the Moravian-Silesian Region with reduced staff and reduced expenditure, 2009

	Moravian-Silesian Region (actual figures)	Simulation 1a: staff reduction per Table 5, version 1	Simulation 2a: staff reduction per Table 5, version 1	Simulation 1b: expenditure calculated per Table 3 (EUR 22.6K)	Simulation 2b: expenditure calculated per Table 3 (EUR 22.6K)
Number of staff	349	295.8	279.9	295.8	279.9
Expenditure per staff member (EUR thousands)	23.9	23.9	23.9	22.6	22.6
Total expenditure following the measure	8,337.3	7,066.4	6,686.6	6,696.9	6,336.9
Total revenue (actual)	6,379.2	6,379.2	6,379.2	6,379.2	6,379.2
Difference (expenditure minus revenue)	1,958.2	687.3	307.4	317.8	-42.2
Percentage of expenditure covered by revenue	76.51%	90.27%	95.40%	95.26%	100.67%
Savings from the measure (EUR thousands)	–	1,270.9	1,650.8	163.7	199.7

Source: Authors' calculations

per member of staff in line with average wage and reduction of staff in line with Table 5. Only the last simulation (2b) resulted in 100% coverage of expenditure with revenue. The first simulation (1a) resulted in a coverage of 90.3%, simulation 2a 95.4%, simulation 1b 95.3% and simulation 2b 100.7%.

Table 7 shows the results of the same calculation applied to all thirteen regions for the year 2009. Simulations 1a and 2a assume staff reduction in line with calculation in Table 5. Simulations 1b and 2b apply two measures at the same time: they assume the above staff reduction and simultaneously reduction of expenditure per staff member calculated in line with Table 3 (EUR 22.6K in the year 2009).

Total savings for all regions in 2009 range from EUR 16.3 million to 29.3 million according to simulations. The highest savings would be realized in the Central Bohemian Region in version 2b (EUR 4.22M). A combination of both measures (staff reduction in line with calculation in Table 5 and reduction of expenditure per member of staff in line with Table 3, i.e. versions 1b and 2b) would result in coverage of expenditure with revenue between 93% and 106%. The combination of measures is probably difficult to realize in practice. However, the calculation shows the ample room regions have for finding savings in delegated central government administration.

**Table 7:** Calculation of savings for the individual regions, 2009

Region	Savings from the measure (EUR thousands) Simulation:				Percentage of expenditure covered by revenue Simulation:			
	1a	2a	1b	2b	1a	2a	1b	2b
Central Bohemia	1,715.1	2,164.9	3,881.0	4,220.6	74.0%	78.0%	98.1%	103.3%
South Bohemia	1,397.4	1,783.3	1,824.6	2,177.8	86.8%	94.0%	94.8%	102.7%
Plzeň	926.4	1,090.3	1,196.2	1,350.1	88.0%	91.3%	93.6%	97.2%
Karlovy Vary	1,544.7	1,339.1	1,945.6	1,764.5	86.4%	81.4%	98.1%	92.5%
Ústí nad Labem	2,392.1	2,720.3	3,086.0	3,375.8	84.1%	89.0%	95.3%	100.9%
Liberec	865.0	966.0	1,619.4	1,703.2	80.4%	82.3%	97.0%	99.2%
Hradec Králové	960.8	1,350.1	2,215.4	2,516.5	74.9%	80.6%	96.9%	104.2%
Pardubice	606.9	691.4	994.6	1,071.6	88.3%	90.1%	97.1%	99.0%
Vysočina	-255.0	0.0	1,121.2	1,311.4	69.9%	73.4%	93.8%	98.4%
South Moravia	1,382.1	1,893.0	1,549.2	2,047.3	90.8%	98.3%	93.1%	100.9%
Olomouc	1,951.0	1,942.5	3,009.5	3,002.7	84.9%	84.8%	105.9%	105.8%
Zlín	1,553.4	1,749.7	2,570.8	2,729.2	78.5%	81.5%	97.2%	100.9%
Moravia-Silesia	1,271.0	1,650.8	1,640.5	2,000.4	90.3%	95.4%	95.3%	100.7%
Total	16,311.0	19,341.4	26,654.0	29,271.1				
Minimum			994.6	1,071.6	69.9%	73.4%	93.1%	92.5%
Maximum	2,392.1	2,720.3	3,881.0	4,220.6	90.8%	98.3%	105.9%	105.8%

**Source:** Authors' calculations

Their arguments that delegated central government administration cannot be ensured with such low central government subsidies (Halouzka *et al.*, 2009) are some-

what justified. In our opinion, the subsidies should be raised by approximately 5 to 10% in order to cover the expenditure. On the other hand, the average rate of coverage of 65% for 2003-2009 means that the regions have many opportunities for internal savings (of approximately 25%).

## 5. Conclusions

The exercise of public administration requires resources. Since resources are limited (scarce), they must be used economically, effectively and efficiently. Strategically behaving governments and representatives at all levels look for answers to the following questions: How much do the exercise of public administration and the provision of public goods and public services cost us? Is the exercise of public administration sufficiently effective in view of disbursed expenditure? The concept of public sector savings is crucial for the analysis of the problems related to effective use of resources. Public sector savings are defined as additional resources that were (will be) gained by the public sector as a result of rationalization measures, compared to the originally realistically budgeted resources. The public sector should always strive for rational savings. Public sector savings can be calculated in a formalized fashion, as demonstrated by this study. Rational savings arise especially when savings reduce any waste of resources. Waste of resources is defined as the allocation of resources that is in breach of the principles of economy, effectiveness and purposefulness, resulting in higher than optimal levels of public spending.

Public sector theory and practice should distinguish between so-called rational and non-rational savings. Rational savings are in line with the principles of economic, effective and purposeful allocation of resources. Non-rational savings are such uses of resources that appear as savings (as a positive difference between originally planned expenditure and actual expenditure) on the outside, but eventually result in additional expenses in excess of the difference between originally planned and actual expenditure. In the public sector, non-rational savings often occur in public procurement when the lowest price is set as the only decision criterion, although a lowest-priced offer may not satisfy the principle of economic allocation of resources because it may result in additional expenditure during the life cycle of the product/service. From the economic perspective, such savings are meaningless (economically irrational).

After realizing the above-defined research objectives and answering the research questions, we can draw the following conclusions:

On the basis of available data, we have analyzed regional expenditure on and revenue for public administration and sought answers to the research questions. The empirical analysis reveals that different regions differ in the degree of coverage of expenditure with revenues (Table 1). The regions themselves argue that the main reason of low coverage lies in low subsidies from central government, but we consider this argument to be only somewhat justified. According to our results, central government subsidies should be raised by approximately 5-10% in order to cover the expenditure.

On the other hand, with a mean rate of coverage of 65% (between 2003 and 2009), the regions have ample room to seek internal savings (of approximately 25%, see Table 7).

We have attempted to determine the lowest possible number of regional staff that can be assigned to these tasks while guaranteeing the necessary quality and quantity of service. When establishing the regions, central government assumed that delegated central government administration can be ensured with at least 150 staff per region. The Vysočina Region, as a benchmark, delivered all these agendas with 170 staff members in 2009 (as well as in 2010). Between 2003 and 2009, the average region increased the number of posts by 7% from the number originally transferred by central government, while the Vysočina Region reduced its staff by 17% and the Pardubice Region by 0.75%; the highest increases were observed in the regions of Karlovy Vary (27%) and Ústí nad Labem (22%). Simulations of the lowest possible number of staff (Table 5) show that the total posts might be reduced by approximately 20%. However, an analysis of factors influencing the growth of regional staff responsible for delegated central government administration was outside the scope of this study. Theoretically speaking, there were probably multiple factors involved, including efforts to create additional jobs at Regional Authorities in regions with relatively high levels of unemployment.

Potential savings in each region were determined by means of four simulations. Savings could be achieved through two measures: staff reduction (see Table 5) and reduction of expenditure per staff member (see Table 3). Calculations for the year 2009 are summarized in Table 7. The total savings for all regions for 2009 ranged between EUR 16.3 million and 29.3 million, while the highest savings, namely EUR 4.22M, would be realized by the Central Bohemian Region in version 2b.

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