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## **KEY PERFORMANCE INDICATORS IN LOCAL GOVERNMENT IN POLAND**

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## **KEY PERFORMANCE INDICATORS W JEDNOSTKACH SAMORZĄDU TERYTORIALNEGO**

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**Summary:** One of the basic accusations against public finance units, including local governments (lg), is the lack of economic efficiency and relations of the expenditures and outcomes. Just like in the case of commercial entities, local governments put more emphasis on the possibility to present the effectiveness of their operations not only by means of financial indicators. The herein study constitutes an attempt to demonstrate the possibilities and benefits of introducing the Key Performance Indicators (KPI) reporting in lg. According to the conducted research it results that the use of KPI in order to report on the achieved outcomes in different fields of activities is fully reasonable in terms of local governments. The elaboration of a set of common KPI for all the units shall facilitate the comparison of the achieved results both in time and space. The article presents a new issue that are the opportunities of using KPI in the Polish local governments in order to prepare reports.

**Keywords:** Key Performance Indicators, local government units, performance measurement.

**Streszczenie:** Jednym z podstawowych zarzutów stawianych jednostkom sektora finansów publicznych, w tym jednostkom samorządu terytorialnego, jest brak gospodarności i powiązania ponoszonych przez nie wydatków z efektami. Podobnie jak w podmiotach komercyjnych coraz większy nacisk kładzie się na możliwości przedstawienia efektów ich działalności nie tylko za pomocą wskaźników finansowych. Celem opracowania jest próba przedstawienia możliwości i korzyści płynących z wprowadzenia raportowania Key Performance Indicators w jednostkach samorządu terytorialnego. Przeprowadzone badania wskazują, że wykorzystanie KPI do raportowania osiągniętych wyników w różnych obszarach działalności jest w tych jednostkach w pełni uzasadnione. Opracowanie zbioru KPI wspólnych dla wszystkich jednostek samorządu ułatwi porównywalność osiągniętych wyników zarówno w czasie, jak i w przestrzeni. Nowością w artykule jest przedstawienie możliwości wykorzystania KPI do raportowania w polskich jednostkach samorządu terytorialnego.

**Słowa kluczowe:** Key Performance Indicators, jednostki samorządu terytorialnego, mierniki efektywności.

## 1. Introduction

In 1993 Ghobadian and Ashworth wrote: “There is a growing awareness that financial measures are no longer sufficient for planning and control purposes. Decision makers in both the private and public sector need to look beyond financial measures and reporting to the wider perspectives of total performance” [Ghobadin, Ashworth 1993, p. 35].

Smith wrote that to discuss the use of the published performance data of the public sector, it is instructive to look first at practice in the private sector, where external reporting has much longer history. In the private sector, there is a superficially much less complex model of accountability, in which investors are the principals, managers of the agents. For many years, crude ratios have been used to assess the performance of private sector enterprises. One of the reasons for reaching such an advanced degree of refinement by the financial statement analysis, mainly in the form of ratio analysis, is that investors have a very powerful incentive to ensure that their capital is being used to the maximum effect [Smith 1990, p. 54].

**Table 1.** Reasons of problems with introducing changes to the local government

No	Reason	Author
1	Weaknesses in change programmes or ambiguity arising from the leaders and the degree of priority accorded to the change.	[Davis, Martin 2002]
2	Staff frequently not understanding the complexity of their change programmes leading to overconfidence.	[McAdam, Walker, Hazlett 2011]
3	A tendency to believe that change is rational and linear when this is rarely the case.	[McAdam, Walker, Hazlett 2011]
4	Staff not wanting the change due to an inability of leaders to articulate what is needed and why it is needed.	[Maddock 2002]
5	The status quo, created by previous initiatives, preventing new programmes from becoming established.	[McAdam, Walker, Hazlett 2011]
6	Staff not trusting the abilities of their leaders (which negatively influences the improvements and blocks the change as attention is unduly focused upon managerial systems.	[Hodgett, Johnson 2001] [Demirkaya 2006]
7	Different approaches leading to a skewed approach to the change.	[Maddock 2002]
8	The change programmes merely scratching the surface – it takes courage to undertake major initiatives and, when issues are not solved quickly, there is a tendency to “push harder” or “change faster” without appreciating the importance of addressing the most fundamental issues to avoid repeating earlier mistakes.	[Bovaird, Loeffler 2002] [Haynes 2003]
9	The change programmes being only selectively implemented, such as introducing new performance management frameworks, leading to patchy successes.	[McAdam, Walker, Hazlett 2011]

Source: [McAdam, Walker, Hazlett 2011, p. 306].

However, it is necessary to remember that the introduction of changes to the management of local governments relates to overcoming many difficulties. Reporting of local governments in Poland concentrates on presenting the results of the budget execution. Most local governments do not use modern methods of management while evaluating the effectiveness of their operations. There is a multitude of reasons that complicate local authorities' improvement agendas, the most relevant of which are shown in Table 1.

In the public sector, lines of accountability are not so well defined. The principals are in the first instance residents, who pay taxes and elect local and central governments to implement their wishes [Smith 1990, p. 55].

The link between management and public service performance is a hugely important area of academic inquiry. This issue is at the very heart of the disciplines of public administration, public management and public policy. For researchers, what is the theoretical and empirical relationship between the phenomena that they study and the success or failure of public organizations? For policy makers and practitioners, what is the likelihood that a public management reform will have desired effects on service provision? [Boyne 2004, p. 27]

## **2. Performance measurement in the local government**

According to P.F. Drucker, there are few but important differences between the business and non-profit institutions. The most important one seems to consider the performance area. Business entities usually define performance too narrowly – as the financial bottom line. If that is all you have as a performance measurement and performance goal in the business, you are not likely to do well or survive very long. It is too narrow. But it is very specific and concrete. You do not have to argue about whether we are doing better because of the results as either the profitability, market standing, innovation or cash flow are easily quantifiable and very hard to ignore. In a non-profit organization, there is no such bottom line. But there is also a temptation to downplay the results. There is the temptation to say: “We are serving in a good cause. We are doing the Lord’s work. Or we are doing something to make life a little better for the people and that is a result in itself” [Drucker 1990, p. 107].

Kaplan argues that the topic of accountability and performance measurement has become urgent for non-profit organizations, as they encounter increasing competition from a proliferating number of agencies, all competing for scarce donor, foundation, and government funding. Generally, all of these entities focus only on the financial measures, such as donations, expenditures, and operating expenses ratio. Success for this organizations should be measured by the effectiveness and efficiency of the extent to which they meet the needs of their constituencies [Kaplan 2001, p. 353].

Non-profit institutions tend not to give priority to performance and results. Yet performance and results are far more important – and far more difficult to measure and control – in the non-profit institution than in a business entity.

As non-profit executives begin to define the performance that makes the mission of their institution operational, the two common temptations have to be resisted. First, recklessness. It is so easy to say that the cause is everything, and if people do not want to support it, too bad for them. Performance means concentrating available resources on the results. It does not mean making promises you cannot live up to. But equally dangerous is the opposite – to go for the easy results rather than for results that further the mission [Drucker 1990, p. 81-82].

The first step is clearly the ability to define what is meant by the performance. However, the performance of a local government, or even a single service within it, is complex and inherently multi-dimensional. The problem of definition has been the main obstacle of the measurement performance appraisal in the local government [Ghobadian, Ashworth 1993, p. 37].

Performance management can be described as the policies, strategies and techniques intended for the direct managers' and employees' attention towards the improvement of an organization's performance. Within the public sector, the performance management may also be useful for politicians and a focus on "managing for results" has become an important complement to the traditional emphasis on managing inputs (budget and staff) and managing processes (rules and structures) [Andrews 2014, p. 3].

Research conducted by Ghobadin and Ashworth in three councils in Great Britain contributed to the formation of the following conclusions on the importance of performance measurement:

- it helps to improve the quality of resource allocation and other managerial decisions,
- it facilitates move towards fact-based management by providing a substantial base for planning, monitoring and control [Ghobadin, Ashworth 1994, p. 47].

Performance measurement determines how well the local government performs when providing goods and services. In other words, it is the process of asking the above identified questions and answering them. Performance measurement produces information that can be used to facilitate the decision-making process. It is essential to equip the citizens and civil service societies with the information necessary to ensure the accountability – to make sure that governments do what they are supposed to do and achieve the results that will improve people's life [Spearman 2013, p. 173].

An effective performance measurement system should:

- consist of a series of measures designed to meet the requirements of different organizational levels,
- capture the essence of both the efficiency and effectiveness dimension of performance,
- provide the means of identifying trade-offs between various dimensions of performance,
- include the qualitative measures and the quantitative measures,

- have a philosophy which regards the measurement as an ongoing and evolving process,
- recognize the need to define measures which cannot be manipulated by managers while being measured,
- recognize the need to avoid the performance measures becoming ends in themselves,
- enable management to plan and aid decision making as well as control and be linked to the corporate objectives and current year plans [Ghobadin, Ashworth 1994, p. 50].

### **3. Balanced scorecard as the Key Performance Indicator in the local government**

The Balanced Scorecard (BSC) has grown out itself from being just a strategic initiative to its present form of a management system that can be used by organizations of any size to align the vision and mission with all the functional requirements and day-to-day work. It can also enable them to manage and evaluate business strategy, monitor operational efficiency improvements, build organization capacity, and communicate progress to all the employees [Punniyamoorthy, Murali 2008, p. 424].

Niven claims that the balanced scorecard can be described as a carefully selected set of quantifiable measures derived from the organization's strategy. The measures selected for the scorecard represent a tool for leaders to use while communicating to external stakeholders on the outcomes and performance drivers by which the organization will achieve its mission and strategic objectives [Niven 2003, p. 15].

Table 2 below presents the balanced scorecard, which was implicated with success in the city of Charlotte in the USA.

The example presented in Table 2 above demonstrates the possibility of using non-financial indicators in local government.

Skoczylas, among others, investigates in Poland the issue of balanced scorecard in local governments. According to the author, this strategy is very difficult, complicated and usually time consuming. In each case it is a unique solution for the specific units as in terms of strategy execution it considers only the internal indicators and chances and threats appearing in its surrounding [Skoczylas 2011, p. 236].

Authors argue that the establishment of a system of performance measurement has to begin with the review of the strategy and not the actual outcome of business processes. Therefore, measures have to be directly related to strategies of the organization and should be selected on the basis of the strategic goals of the organization. Knowledge about the relations and causality between the KPIs in the selection and composition of BSC is essential for efficient and effective strategies for future success and represent continuous challenges for managers, professionals and researchers [Janes, Faganel 2013, p. 924].

**Table 2.** Strategy of Map Objectives used by the City of Charlotte's

<b>City of Charlotte FY 2004-2005 Corporate Strategy</b>				
<b>Vision</b>	Community of choice for living working, and leisure			
<b>City Council focus Areas</b>				
<b>Strategic themes</b>	Community – safety	Communities – within a city	Restructuring – government	Transportation
<b>Strategic principles</b>	Smart growth principles			
<b>Corporate scorecard</b>				
<b>Corporate Scorecard</b>	Serve the customer	<ul style="list-style-type: none"> <li>• reduce crime level</li> <li>• increase perception of safety</li> <li>• strengthen neighbourhoods</li> <li>• provide transportation choice</li> <li>• safeguard the environment</li> </ul>		
	Run the business	<ul style="list-style-type: none"> <li>• develop collaborative solutions</li> <li>• enhance customer service</li> <li>• improve technology efficiencies</li> </ul>		
	Manage resources	<ul style="list-style-type: none"> <li>• maintain AAA rating</li> <li>• deliver competitive services</li> <li>• expand tax bases and revenues</li> <li>• invest in infrastructure</li> </ul>		
	Develop employees	<ul style="list-style-type: none"> <li>• achieve positive employee climate</li> <li>• recruit and retain skilled, diverse workforce</li> <li>• promote learning and growth</li> </ul>		

Source: [Niven 2003, p. 274].

Performance measure – throughout this manual, the term performance measure refers to an indicator used by management to measure, report, and improve the performance. These are classified as either a key result indicator, a performance indicator, or a key performance indicator.

Key Performance Indicators represent a set of measures focusing on those aspects of organizational performance that are the most critical for the current and future success of organization [Parmenter 2007, p. 3].

The groundbreaking work of Kaplan and Norton brought management's attention to the fact that the performance needed to be measured in a more holistic way. Parmenter showed in his book that the four perspectives indicated by Kaplan and Norton should be increased to six (table 3) [Parmenter 2007, p. 10].

The effectiveness of Performance Management Systems (PMSs) in local governments is expected to be enhanced by the use of multi-dimensional performance measurement system of reasons. Firstly, in the local government sector, objectives are often stated in non-financial terms. Financial reporting will therefore not fully capture the performance, and hence the use of non-financial performance measures can provide a more accurate assessment of performance. Secondly, multi-dimensional performance measures can also support a local government strategy [Baird, Schoch, Chen 2012, p. 164].

**Table 3.** Six perspective in the Balanced Scorecard shown by Parmenter

Name	Description
Financial	Utilization of assets, optimization of working capital
Customer	Increase customer satisfaction, targeting customers who generate the most profit
Environment/ Community	Supporting local businesses linking with future employees community leadership
Internal	Delivery in full on time, optimizing technology, effective relationships with key stakeholders
Employee satisfaction	Positive company culture, retention of key staff, increased recognition
Learning and growth	Empowerment, increasing expertise and adaptability

Source: [Parmenter 2007, p. 11].

The strategy of Key Performance Indicators (KPI) gains and registers performance indicators on the basis of information gathered during discussions with high level management, queries from the unit's archives, revision of reports and external studies. Identified indicators shall be registered, correlated and modified within the database that shall be available for all the employees [Parmenter 2016, p. 329].

To sum up, introduction of the balanced scorecard relates to the formation of the individual indicators for each local government. Contrary to the Key Performance Indicators, it does not allow for the preparation of a set of indicators that enable a comparison of outcomes between the local government units.

#### **4. Using Key Performance Indicators while evaluating the effectiveness of local administration on the example of Ireland**

The example of local government in Ireland has been used in order to illustrate the possibilities of using the Key Performance Indicators while evaluating the effectiveness of local government operations in Poland.

In Ireland, Local Government Act 2014 sets out the functions of the Nation Oversight and Audit Commission and includes the scrutiny of the performance of local government bodies against relevant indicators (including relating to customer service) that the Commission considers as appropriate to refer to [National Oversight... 2015, p. 2].

As a result of research carried out by a team appointed to prepare a report on KPI (Key Performance Indicators), this indicators should report activity covering a wide range of functions carried out by the local authorities in the areas of: housing, roads, planning, water, waste/environment, fire/service, library/recreation, youth/community, corporate, finance, economic development (Table 4) [National Oversight... 2015, p. 2].

**Table 4.** Key Performance Indicators in local administration – example of Ireland

Areas	Key Performance Indicators
Housing	<ul style="list-style-type: none"> <li>• Total social housing dwellings</li> <li>• Average re-letting time and cost</li> <li>• Maintenance cost by unit</li> <li>• Private rented sector inspections</li> <li>• Long-term homeless adults</li> </ul>
Roads	<ul style="list-style-type: none"> <li>• Percentage (based on length) of both regional and local roads whose PSCI (Pavement Surface Condition Index) condition was recorded at 31/12/2014</li> <li>• Ratings in Pavement Surface Condition Index – regional as at 31/12/2014</li> <li>• Percentage of motor tax transactions performed online as at 31/12/2014</li> </ul>
Water	<ul style="list-style-type: none"> <li>• Unaccounted for Water (UFW) as percentage of total volume of water supplied under the SLA</li> <li>• Percentage of drinking water supplied under the SLA in compliance with the statutory requirements</li> </ul>
Waste/ Environment	<ul style="list-style-type: none"> <li>• Number of waste facility permits/certificates in effect Number &amp; percentage of households with access to 3 bin service</li> <li>• Waste complaints referred to EPA Office of Environmental Enforcement because of the problems persisted after investigation by the LA</li> <li>• Percentage of other environmental pollution complaints closed in 2014</li> <li>• Percentage area within the five levels of litter pollution</li> </ul>
Planning	<ul style="list-style-type: none"> <li>• New buildings inspections</li> <li>• Referrals to An Bord Pleanála,</li> <li>• Cost per capita of the planning service</li> <li>• Performance of enforcement within local authorities</li> </ul>
Fire service	<ul style="list-style-type: none"> <li>• Cost per capita of the fire service and service mobilisation</li> <li>• Mobilisation times (%)</li> <li>• First attendance at scenes of fire and non-fire cases</li> </ul>
Library	<ul style="list-style-type: none"> <li>• Library visits and items issued</li> <li>• Cost of operating a library service</li> </ul>
Youth and Community	<ul style="list-style-type: none"> <li>• Youth and community participation</li> <li>• Percentage of local schools and youth clubs involved in the Local Youth Council</li> <li>• Percentage of organisations on the county register that opted to be part of the Social Inclusion College with the PPN</li> </ul>
Corporate	<ul style="list-style-type: none"> <li>• Total number of whole time equivalent</li> <li>• Percentage of paid working days lost due to medically certified sickness absence</li> <li>• Percentage of paid working days lost due to self-certified sickness absence</li> <li>• Total number of page visits to the LA website</li> </ul>
Finance	<ul style="list-style-type: none"> <li>• Revenue account balance</li> <li>• Percentage of collection levels for commercial rates, for rent &amp; annuities, housing loans</li> </ul>
Economic development	<ul style="list-style-type: none"> <li>• Number of jobs created in 2014 with assistance of the Local Enterprise Office</li> </ul>

Source: [National Oversight... 2016, pp. 20-80].



The aim of the indicators is to provide information on the performance for each individual authority that can be used to compare outputs/outcomes across various local authorities. If the indicators are new or the calculation mechanisms have changed, a comparison with the performance from previous years is not possible. If such comparative information is available, it is provided in the Summary Statistics and this facilitates a comparison over time for each authority [National Oversight... 2016, p. 12].

This report documents the performance of local authorities in the implementation of the wide range of functions which provide and give valuable insights into the ways and means by which these services are delivered. The data reflects performance at a set point in time and provides a baseline from which future performance can be measured, emerging trends and issues can be assessed and comparisons between local authority performances can be made [National Oversight... 2016, p. 106].

## 5. Conclusions

The above presented examples of solutions used by the local governments in the USA, Balanced Scorecard, and in Ireland, Key Performance Indicators, indicate that the use of non-financial indicators may be beneficial for both the residents and the authorities.

Contrary to the balanced scorecard that is prepared individually for each unit, preparation of a set of Key Performance Indicators shall facilitate evaluation of each unit of the local government according to the same standards.

Using Key Performance Indicators by the local administration may contribute to higher effectiveness of tasks performed by local governments. Due to such a report it is possible to compare the results achieved by all local governments in Poland because it constitutes a valuable benchmarking material.

Another advantage of a set of indicators is also the fact that they are easy to understand for the local community and that they illustrate the results of local government operations in terms of all the performed tasks.

Obviously, elaboration of the set of Key Performance Indicators for local governments still needs to be researched in more details. It is necessary to take into account the type of local government units. The indicators shall suit both urban communes, rural communes and urban-rural communes.

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