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LOCAL ECONOMIC NORMATIVE AND HUMAN RESOURCE ACTIVITIES ANALYSIS IN PRACTICE

Alenka Pandiloska Jurak¹

Abstract

The aim of this paper is to present a development of a model for evaluating the work of Slovenian municipalities. The purpose of the development of this model is that after entering the data into the model, not only municipalities that are similar to each other can be compared but also those that are in terms of population, territory size, etc. quite different.

Key words: Slovenia, evaluation, local administration, municipalities, performance, new public management

Introduction

The aim of this paper is to present a development of a model for evaluating the work of Slovenian municipalities. The purpose of the development of this model is that after entering the data into the model, not only municipalities that are similar to each other can be compared but also those that are in terms of population, territory size, etc. quite different.

In designing the model we focused on two areas. The first is establishing indicators which do not cover only the municipality's financial performance, but also other indicators that indirectly affect municipality's development. We determined relevant indicators of the functioning of the municipality and how these indicators related to

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each other. The second area is the determination of these indicators importance (Pandiloska Jurak 2009b: 315). Given that the pilot test (Pandiloska Jurak 2009b: 331 - 334) showed the stability of the model, the next faze of research covered all Slovenian municipalities using data from a year 2009.

New public management

The public sector in contemporary world needs to respond flexibly to the complex and rapid changes and circumstances, which can be difficult for the decision makers. The public sector, that focuses on the steering (not just implementation), actively develops community, state and nation, has a higher degree of integration, and implement more social and economic policies (Osborne and Gaebler 1993: 32-34). For over last twenty years public sector reforms pursues open and more or less decentralized management model to replace the classical, generally rigid hierarchy. The most appropriate model for the integrity of the various measure sets of business is a concept under the common name of New Public Management (Kovač 2000: 280-281).

Slovenian public sector and the local government still did not completely transform from the classic bureaucratic system to more flexible on. Various attempts to reorganize the work of Slovenian public administration at all levels have been primarily targeted at changing the law. The public sector has gained more responsibility, especially in public spending on salaries of public servants. Public service contracts ensured greater transparency. A special program was introduced for reducing administrative barriers and allowing citizens access to all information collected about them by various government institutions, with limited exceptions of information concerning national security. This reform represents a understanding of the public sector in Slovenia as more user-friendly sector. Changes in the laws on wages of civil servants introduced a more efficient system of remuneration, which is more defined, although it is still not focused on results. On the other hand, there was no systematic effort to change the administrative culture, which is a fundamental element of any successful change and should be linked with the development of an appropriate system of motivation for public servants (Pinterič 2008: 57-58).

Management on a local self-government level

The growing number of municipalities has led to a serious reorganization of local self-government, especially with the growing interdependence of the needs for financial and human resources. In this sense, inflation can be associated with municipalities (which in general are not financially and staff self-sufficient) with two different strategies of development of new municipalities (Pinterič 2008: 60-61). In doing so, we understand financially self-sufficient communities as those, which are capable of their own revenues to finance its basic functions. Self-sufficient in staff or personnel are those municipalities that have employed sufficient qualified personnel to perform their fundamental duties.

The first is the interest of those who seek policy options to become a part of (at least locally) the political elite. Another reason for inflation is the flow of money in some municipalities, where most of the money is invested in the development of municipal centers and was omitted from the periphery systematic investment plans. In those cases the creation of new municipalities with independent financial resources in the form of taxes and the allocation of state support is apparently effective. These municipalities devote a large share of budget funds, compared to the cost of materials and labor, into investments. They are more successful in attracting additional national and European funds for investments. In addition, they have a positive statistical data in all forms of development (infrastructure, services, social environment, etc.) On the other hand, municipalities, generated by the private interests, in general spent the highest percentage of money for labor and material costs, while the funds for investments are low. We can not yet confirm this pattern for the municipalities, established in 2002 and 17 municipalities established in 2006. However there is a new phenomenon in the Slovenian local selfgovernment (which may be associated with the above-described problems), that could be seen in the first local elections in 2006. Local elections in 2006 led to major changes in the local political scene, which are likely to strongly influence the further development of Slovenian municipalities (Pinterič 2008: 60-61).

Burdened with the changes in the national political arena and the opportunity that has developed the first general elections, a significant number of entrepreneurs together with other independent candidates entered the local politics (Pandiloska and Pinterič 2009: n.k.). Even more surprising is the fact that voters, despite the political uncertainty at the national level, elected a higher number of independent candidates at the local level (or candidates who did not have explicit support from the party). Overall, in 2006 Slovenia got non-party 70 mayors (although some of them have strong informal links with the various political parties). They represent a third of Slovenian mayors. In other words, this means that we can observe a strong trend towards depolitization of Slovenian local politics, especially if we know that in 2002 there were "only" 25% such non-party mayors (Internet 1).

Depolitizations of local politics brought a new approach to the management of municipalities with a stronger emphasis on principles of executive leadership in comparison with prior coordination of political interests. But when we talk about de-politicization and the introduction of managerial principles in local self-government we need to put a more precise definition. Depolitization actually means the absence of strong links between local decision-makers and traditional party policy, but does not mean that all (if any) problems are perceived as strictly technical, apolitical issues. The issues still remain a source of debate, which may have personal and economic interests however it substitutes party interests. On the other hand, managerial approaches in local self-government are not understood as systematic adoption of a rule against all the rules of public administration but as transformation towards a more flexible understanding of the law in terms of moving from "by the law" to "within the boundaries of the law" (Pandiloska and Pinterič 2009: n.k.). This allows a greater level of performance (not necessarily efficiency) within the legal framework which already may be leading from the traditional bureaucratic administration towards a model closer to a new public management (Lane, 1995).

Public - private interest

Managerial principles introduced an amendment to the relations between the (public) political actors at the national level and those representing various private interests. In Slovenia, as in most other Western democracies, it is perfectly legal to be effective and providing quality work until it is done in the legal framework. The Constitution allows Slovenian municipalities to govern the local affairs of public interest in the way they prefer (within a legal framework). Furthermore, the Law on Public Private Partnerships (LPPPs from here on) allows cooperation between private and public sectors in the most unusual way possible as long as both sites have an interest and spend funds in a rational way for the provision of public goods and public services. However, at least one disadvantage of the Law on Public Private Partnerships is that it does not specify all the possible ways of how public institutions can be engaged with the private sector. This leads to the restriction of opportunities for cooperation. which is related to the interpretation of public-private partnerships with the private sector as a form of public support for private projects and public sector. The opposite interpretation is, that the publicprivate partnership investments are made for public goods provision, while private interest is irrelevant. Nonetheless, there are also some cases where the presence of strong mutual interest in terms of public financing of private projects that will be in the public interest, or the systematic support of private investment in public projects to be comanaged by public and private partners for the implementation of the public and private interest (Pandiloska and Pinterič 2009: n.k.).

The financial autonomy of municipalities

At this point it is necessary to define what the term financial autonomy of a municipality presents. It should not be equated with self-sufficiency by municipalities as such. On the one hand there is the likelihood or applying pressure or power over decisions of the state due to financial dependence and additional funding. On the other hand, there is a possibility of implementing the legislative power of the right to have control over the use of state funds, regardless of financial (in) dependence (self-sufficiency).

Municipalities are unable to expend financial resources regardless of national priorities and state intervention. Ministry of Finance and ECA have strong powers to intervene in the municipal budget and financial decisions in the municipality. Furthermore, the Ministry of Finance supervises the annual income, particularly in the case of those municipalities that have greater financial needs than their own resources. Government and National Assembly provided for the tax as well as some non-tax revenues of municipalities (Pandiloska and Pinterič 2009: n.k.).

Municipalities are not entitled to set their own local taxes and thus ensure their own financial resources, while no assurances that the state will ensure adequate resources for local development. On the contrary, the last of the Financing of Municipalities Act has strengthened the role of the Ministry of Finance. It stipulates that the share of personal income tax, which belongs to the municipality, no longer provides the law, which made municipalities even more vulnerable. We can say that the Slovenian municipalities are fully financially dependent from the interest the Prime Minister. Planned establishment of regions will only weaken their autonomy (Pandiloska and Pinterič 2009: n. k.).

Making arrangements and certification of municipal budget can be seen as an additional problem. The mayor proposes the budget, but can not freely decide on its adoption. A positive vote is necessary in the municipal council. On the one hand, this presents a control of its

arbitrariness but on the other hand it could block the implementation of a good budget plan, if there is no consensus on the inter-party level.

The municipal budget should be directed to goals. The advantages of this are as follows: giving employees an incentive to save, put the resources to test new ideas, give managers the autonomy they need to respond to changing circumstances, it creates a predictable environment, streamlining the budget process, saving money for auditors and budget officials and last but not least, the mayor and the municipal administration can deal with other problems (Osborne and Gaebler 1993: 122-124). However, all of the above can exist only as theory in Slovenian local self-government of party and individual interests.

Human resources in Local Self – Government

People are emerging as a key factor in the organization changes while they are also subject of transformation and change. Human Resource Management is a specific area of work which functions not only through different approaches and models, but also through the invisible, or at least difficult to interpret, leverage and legitimacy. If the administration's mission in the broadest sense is to serve the citizens. the aim of daily work and the efforts of organizations in the public service is customer satisfaction (Pretnar n.k.). Customers are not interested in the system; they do not care what happens in the background. They only want things they need to be available (Osborne and Gaebler 1993: 192). To achieve this goal, we need to develop human capacity in the direction of knowledge and skills to work. In doing so, we must not forget the satisfaction of employees as motivation and attitudes within the organization also reflected in relations with customers. Correct mutual relations and employee satisfaction is a prerequisite for good relations with costumers (Pretnar n.k.).

Osborne and Gaebler say (1993: 81-84) that in cases of monopoly the private sector is equally ineffectual as the public sector. Competitiveness is one that requires the incumbents to meet customer needs. Most of us assume that competition for employees in the public sector in something negative. However if civil servants are provided with a degree of security, competition becomes very encouraging for them. This competition is not necessary to be searched beyond the public sector or on a market. It can be set up within the organization itself (Osborne and Gaebler, 1993: 81-89). The principle of user – friendly forces the to the responsibility of forcing the to customers, non-political decision making, stimulate innovation, give customers the choice between different types of service, which in turn leads to lower spending, creating more opportunities and the equality of access to information on prices and quality of different providers (Osborne and Gaebler 1993: 181-185).

Slovenian public sector reform moved from the structural and organizational changes to the management of human resources, the potential of public officials and focused on their professional development (Pinterič 2008: 59). Changes in the Law on wages of civil servants established effective reward system; salary system is more defined, although it is still not focused on results. It also caused many problems in practice, particularly in meeting the required qualifications for an already busy jobs and salaries in the conversion rates of pay grades. We can not overlook the fact that the Civil Servants Act provides a possibility that the officer or authority, on a proposal official responsible for proposing the appointment, within one year after his appointment dismisses a Director-General at the Ministry of Government Services, Secretary-General Ministry, the agency within the Ministry. Chief of Administrative Unit and the Director of Municipal Administration and Registrar of the municipality. Dismissal is without prejudice to the time the officer performed the function as possible within one year of the appointment of an official position. Before the Law Amending the Law on Civil Servants (Civil Servants Act-B) from the 2005 resolution was possible only in the first three months of his appointment as an official.

Because of the fragmentation and small size of certain municipalities (see Pinterič 2008: 60-61), they have too few employees to meet all the statutory requirements for quality and efficient work of the municipal administration. The whole area of Slovenia is characterized by relatively small local authority that deals with a fairly large area of tasks, leading to congestion of employees and small potential for further development of the municipality.

Evaluation tools

To determine the effectiveness and efficiency of the organization (outcomes) and its increase in the administration it is necessary to monitor performance. In addition, it is also useful to monitor the performance and / or improvement of flexibility of the organization. Performance monitoring is a prerequisite of each evaluation and critical element of the introduction of changes in the performance in public and state administration (Žurga 2002: 101). On the other hand, it is also true that what is measured, it is done. If you do not measure results (Osborne and Gaebler as 1993: 146-147), we can not separate success from failure. It happens that the budget is reduced to certain programs, because decision makers do not know the objective information, on the other hand, some of them are not interested, because they work only on the basis of party interests (Osborne and Gaebler 1993: 146-147). Success that is not seen can not be rewarded or otherwise. If not success is not rewarded, we are rewarding failure. Rewarding success may seem obvious, but in practice often not implemented. If we do not see success, he can not learn (Osborne and Gaebler 1993: 148-145; Žurga 2002: 101). Organization can not learn from its mistakes, if those mistakes are not previously identified (Osborne and Gaebler 1993: 148-145).

In light of the importance of evaluation as an essential element, particular emphasis is set on results, productivity and efficiency. It concerns the knowledge of the effects and process efficiency, which is in contrast to traditional approaches in public administration and underlines the importance of the operation of each office as a whole

and also each individual. By setting an evaluation the problem of measuring values occurs (and thus the public interest) since values in public activity is not always possible to identify and measure (Bučar in 1981: 405, Kustec Lipicer 2007: 201-202). In addition, there are several types of participants in public administration, which do not accept uniform criteria, even if such a single criterion can be made. Assessment of administrative action is largely in the area of rhetoric and interest of those who estimated benefits and have access to social power to force their interpretation as acceptable (Bučar 1981: 405).

In the business world as well as in the public sector various models and standards based on specific criteria and methodological tools measure and value the quality, effectiveness, efficiency and excellence. European administrative space operates within the acquis communautaire. So called informal EU acquis was also created in the form of minimum standards that are required for effective implementation of Acqui (Kovač 2003). On this basis, a Government strategy was enforced (see Slovenia Strategy, the development vision and priorities for 2005 and Strategy for further development of the Slovenian public sector from 2003 to 2005) in which, as a methodological tool for evaluating the quality, efficiency and excellence following standards occur: ISO - The International Standards Organization, EFQM - European Foundation for Quality Management and the CAF - Common Assessment Framework.

However, it is necessary to pay special attention to the selection of a model, which assesses the functioning of the organization its implementation and that the results themselves are not the end. After evaluation it is necessary to examine the results and find possible solutions to correct deficiencies. It should also be noted that there are certain shortcomings in the criteria due to specific characteristics like administrative units and municipalities, particularly in the field of benchmarking and their own feasibility which can be avoided in other parts of public government. The reason mainly lies in differences in size and population of the territory covered by the number of employees and scope of work, which also affects various aspects of

management and organization of work. At the implementation of measurements the problem of providing anonymity can be a problem (employees are familiar with each other, so their opinions are known in advance, and thus the results). At this point, of course, we need to the relevance of a standardized model. Organizational forms should be addressed as more comprehensive and complex.

Model for evaluating the work of Slovenian municipalities

Based on the analysis of local, economic, regulatory and human activity and Easton model we developed a tailored model for the evaluation of the functioning of local self-government that preserves the basic features of the original model while taking into consideration the specifics of Slovenian Local Self-Government. In our model, input represents environmental of municipalities - relevant foundations. endowments and opportunities that represent support and demands at the same time. Given the fact that a plethora of applications can be a risk for the system (in our case also an overload for municipal administration) and the fact that some claims may be, by its very nature dangerous for the survival of the system, political system is equipped with gatekeepers - polity and municipal administration. So called black box model partially covers goalkeepers because they are taking care of public policy and financial indicators. The output of the model are operating conditions provided by the municipality for the life of citizens and the functioning of already existing companies and the emergence of new ones. The outcome represents the development of the municipality (Pandiloska Jurak 2009b: 328).

Functioning of municipalities provide four sets, which we named personnel quality (PQ), management (M), infrastructure development (ID) and development orientation (DO). Descriptions represent the fundamental intrinsic properties of individual lots. Given the importance of the lots they are ranked. Employees are a key factor in the organization. Not only highly educated but also appropriate staff can have extraordinary results, despite the lack of funding and deteriorating working conditions. They determine the effectiveness of the management in the municipality. Based on the management

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results, infrastructure development is achieved, which leads to the development orientation. In accordance with above, quality of personnel was assigned to the value of 0.35, 0.30 to management, infrastructure development 0.20 and developmental orientation value of 0.15. Total value of these sets of indicators is summarized and multiplied by the value set. The sum of these multiplications is followed (Pandiloska Jurak 2009b: 328).

Illustration: Model for evaluating the work of Slovenian municipalities BLACK BOX **GATEKEEPERS** INPUT OUTPUT OUTCOME DEVELOP MENT / INVESTMEN POLITY SELF-SUFFICIENC Y TRANSFERS - Mayor - (un) professional performance - Deputy mayor OPERATING ENVIRONMENT DEVELOPMENT - The relationship between the - 400 - 42 mayor and - 4020 municipal - Length of municipal - Unemployment rate - Number of persons with - 4021 Council -Number of new permanent residing in the - 4023 412 - Deputy Mayor - the number - 4102 companies municipality - 4024 - (Un) - Regulatory -Reduce the financial - County area professional operation of balancing - Length of local roads Ш municipality - income of economic - The number of primary MUNICIPAL ADMINISTRATION companies schools in the municipality XII - The share of XIII and IX - The number of full-time degree of education in the employees in - transfer - 741 municipality payments Municipal Administration - 78 -Unemployment rate in the municipality - Employment trends - Inter-municipal cooperation Е - The number of - The effectiveness of ecompanies in N D services, Municipality replying to e-mail **FEEDBACK**

Source: personal view on a basis of Easton model (Easton 1965 in Della Porta 2003: 17)

Legend:

- III a budget surplus (deficit) (total revenue total expenses)
- XIII balances on 31st of December (past year) in the municipality
- 400 salaries and other personnel expenditures
- 411 transfers to individuals and households
- 412 transfers to non-profit organizations and foundations
- 4020 office and general supplies and services
- 4021 special materials and services
- 4023 transport costs and services
- 4024 mission expenditure
- 4102 subsidies to private companies and private individuals
- 42 capital expenditure
- 70 tax revenue
- 741 received funds from the state budget on the basis of the European Union Budget
- 78 received funding from the European Union

Functioning of municipalities according to the formula: $(\Sigma PQ * 0.35) + (\Sigma M * 0.30) + (\Sigma ID * 0.20) + (\Sigma RN * 0.15)$

The larger the sum, the better functioning of the municipality is. For this reason, some indicator values were given negative sign for example, increased financial compensation to the number of inhabitants in the municipality means a municipality does not achieve sufficient revenue to implement the basic tasks, so the value of this indicator is subtracted. Within each set the most important indicators are set.

Indicators that determine a set of personnel quality are:

- The percentage of the number of employees in the municipal government in terms of population with permanent address in the municipality will show the relative information that can also be compared among municipalities;
- Replying to e-mail to individuals measures the municipality's responsiveness to resident initiatives and their knowledge of ICT;
- Inter-municipal cooperation, which will measure if municipalities cooperate with each other;
- Financial compensation in a current year depending on the number of people with permanent address in the municipality will

- show what amount of funds on citizen municipality needs in the extent necessary for the implementation of its main tasks;
- Total surplus (deficit) (total revenue total expenses) and balances on 31st of December of a past year in the municipality in terms of population with permanent address in the municipality. The result will show how the changing situation on account of the number of residents. Information will be particularly important for temporal analysis of the municipalities operation;
- The percentage of funds received from the state budget on the European Union Budget basis and received funding from the European Union in terms of total revenues will tell us how successful the applications were in tendering state departments and agencies, financed by the European Union and how successful municipalities were at applications to European Union calls (Pandiloska Jurak 2009b: 315).

Indicators that determine a set of management are:

- The relationship between municipality area per capita area of each municipality and the whole country per capita, we will show the relative size of the municipality according to the size of the state, which will also allow comparability between municipalities;
- The percentage of employee wages and other expenses in relation to all expenditure in the municipality;
- The percentage of financial compensation in the current year in relation of any income in the municipality together (I) - (FI / I) * 100;
- The percentage of tax revenue from all revenue in the municipality together;
- The percentage of transfers to individuals and households in relation to the total expenditures in the municipality;
- The percentage of transfers to non-profit organizations and institutions in relation to all expenditure in the municipality together;
- The percentage of expenditures for office and general supplies and services in relation to all expenditure in the municipality together;
- The percentage of expenditures for special materials and services in relation to all expenditure in the municipality together;

- The percentage of expenditures for transportation costs and service in relation to all expenditure in the municipality together;
- The percentage of expenditures for missions in relation to all expenditures in the municipality together (Pandiloska Jurak 2009b: 316).

Indicators that determine a set of infrastructure development are:

- The relationship between the length of municipal roads (local roads and public roads) per capita in each municipality and the length of municipal roads (local roads and public roads) per capita in the entire country; the relative results will allow comparability between municipalities, and determine infrastructure development of the municipality;
- Percentage of primary schools in the municipality in relation to the total number in the state;
- The percentage of subsidies to private companies and private individuals in relation to all expenditure in the municipality together (Pandiloska Jurak 2009b: 316).

Indicators that determine a set of developmental orientation are:

- Percentage of financial compensation reduction in the current financial year as compared to the previous year will show whether the municipality received more funding on its own (has been collected more taxes than the previous year), which directly reflects the development of the municipality. Municipalities that do not receive financial compensation, were allocated 100 percent;
- The percentage of investment expenditure in relation to the total expenditure in the municipality;
- The percentage of capital expenditures in the municipality in relation to current expenditures in the municipality together;
- The percentage of investment in light in the current investment expenditure of the previous year. A negative sign means a decrease in comparison with previous year;
- Reduction of the rate of registered unemployment (unemployment in January in a current year - unemployment in December in a current year);
- Subsidies to private companies and private individuals in relation to all expenditure in the municipality together;

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- Received funding from the European Union, will give us information only on whether the municipality received funding or not;
- Corporate income per capita in the municipality (Pandiloska Jurak 2009b: 317).

Relevance of the model

Previous research on the functioning of municipalities (see Pinterič 2004, Pinterič, Benda and Belak 2008, Milunovič 2005, Devjak 2006) concentrated mainly on thematically separated research work in the field of administrative capacity of municipalities, municipal authorities and the modernization of municipal finance. Despite the important findings of the administrative incompetence and financial failure they did not address the causal links as municipal environment and living communities, its effectiveness and development. Therefore, we strived to develop a model for evaluating the work of Slovenian municipalities, which will show systematized data.

Such an evaluation can contribute to the understanding of the current crisis on several dimensions. The first is that the results can show how municipalities manage their day to day tasks and funds. Second it is important to show how the municipalities are capable to gain funds form other resources (like EU structure funds) since there are less and less funds in the budget. The third dimension can show us, what kind of an impact the crisis has on other performances of the municipality – local roads, number of new business, unemployment rate etc. And last, the evaluation can presents a comparison between municipalities on a longer time period. That research can, at the beginning, show us, what kind of impact the crisis currently has on a comparison to previous years and later on, how successful the municipalities will be, when the crisis ends on a comparison to years before the crisis and in the crisis.

Applicative research results and further development steps

For the purpose of the model testing (a pilot test) eight municipalities were selected (Pandiloska Jurak 2009b: 331 – 334). Selection criteria

were based on the diversity of municipalities in terms of population. Data required for the pilot test for evaluating the functioning of municipalities were obtained from several sources such as Ministry of Finances, Statistical office of the Republic of Slovenia and telephone interviews with Directors of Municipal Administration.

Based on the results of pilot test we can say that the model for evaluation introduces a new perspective on the operation of Slovenian municipalities (see Pandiloska Jurak 2009a: 43 - 48). The results in the first place confirm that it is possible to set a stable model for evaluating the work of Slovenian municipalities, which include not only financial performance but also other elements that affect the functioning of municipalities. The model provides a substantive analysis of the functioning of the municipality, while the content analysis and the calculations allow comparability of municipalities (Pandiloska Jurak 2009a: 43 - 48 and Pandiloska Jurak 2009b: 331 - 334).

Given that the pilot test (Pandiloska Jurak 2009: 331 - 334) showed the stability of the model, the next faze of research was made. It covered all Slovenian municipalities using data from a year 2009.

The research showed several interesting outcomes:

- 1. All municipalities were ranked according to their results in four sets (personnel quality management, infrastructure development, developmental orientation). The rankings showed uneven results. For example Municipality Bistrica ob Sotli gained 16th place in personnel quality, 163rd in management, 5th in infrastructure development, and 87th in developmental orientation.
- 2. City municipalities do not rank among the highest, regarding the sets.
- 3. City municipalities do not rank among the highest, regarding the results all together (City municipality Ptuj gained the highest 27^{th} place).
- 4. The highest results are gained by smaller municipalities.

The results are quite interesting; however some further steps are required before we can start with detailed analysis. The model itself is based on indicators that were set by the content relevance (the model is relevant regarding the content). Due to the results our aim for the next step is to determine mathematical relevance of the indicators (the

mathematical relevance of the model). For that purpose, factor analysis will be used.

Exploratory factor analysis is concerned with whether the covariance or correlations between a set of observed variables can be explained in terms of a smaller number of unobservable constructs known either as latent variables or common factors. Explanation here means that the correlation between each pair of measured (manifest) variables arises because of their mutual association with the common factors. Application of factor analysis (Landau and Brian 2004: 288 – 291) involves the following two stages (i) determining the number of common factors needed to adequately describe the correlations between the observed variables, and estimating how each factor is related to each observed variable (i.e., estimating the factor loadings), (ii) trying to simplify the initial solution by the process known as factor rotation. It is often easier to follow how groups and individual skulls join together in a dendrogram, which is simply a tree-likediagram that displays the series of fusions as the clustering proceeds for individual sample members to a single group. The dendrogram may (Landau and Brian 2004: 327), on occasions, also be useful in deciding the number of clusters in a data set with a sudden increase in the size of the difference in adjacent steps taken as an informal indication of the appropriate number of clusters to consider.

The results of this analysis will set further steps in our research. It is expected, that some corrections regarding indicators and sets will be necessary.

At the end we need to stress that the pilot test and the full research did not consider certain indicators, which are part of the model for the evaluation and should be considered in the further development of the model: the percentage of people with XII, XIII and IX level of education, employment trends, (un) professional performance and the performance of the Mayor and Member of National Assembly, the number of deputy mayors and the (un) professional performance. The following would also need to consider how to incorporate more complex indicators, such as options, information and interests.

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