

American University of Armenia

School of Political Science and International Affairs

**PERFORMANCE BASED ORGANIZATIONS:
ARE THEY RELEVANT TO ARMENIA?**

By

Karapet Hovsepyan

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SIGNATURE PAGE

Faculty Advisor

Date

Department Chair

Date

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CHAPTER I

PERFORMANCE BASED ORGANIZATIONS

INTRODUCTION

Public sector organizations around the world are facing growing scrutiny from the public and are searching for ways through which they would be able to do more with less, offer greater value, and be accountable for what they have achieved. Much progress has been made in Western countries in this domain, but efforts to do more continue to persist. In contrast, not too many transitioning governments understand clearly the meaning and applicability of performance management in their own countries. Measuring and managing performance by means of metrics, plans and associated budgets, and achieving results has been a challenge because the management tools used by those governments, paper-based processes, and lack of sufficient use of IT systems provide limited transparency and visibility into operations and activities.

In this essay, performance management will be used to mean the actual use of performance information in policy making, resource allocation, and service delivery. Performance management itself should include the use of performance information not only by managers in making decisions, but also by elected officials, and by employees of governments and non-profit organizations in their everyday activities.

The question emerges whether models currently used by Western nations could be used in developing countries, such as Armenia? One must, therefore, examine the past experiences of developing countries, which have adopted performance management models and practices, in some form or at some level of government. While many developing countries have taken up elements of the New Public Management agenda of the U.S., they

have not adopted anything remotely near the entire package. Moreover, developing countries have had more urgent reform initiatives and have not necessarily viewed government performance management as a top priority. New public management ideas were influential, but more so at the level of rhetoric than practice. In practice, this has been only one of a number of public demands for reform in most developing countries. In that sense, many practitioners have argued that new public management is inappropriate to developing countries on account of problems such as corruption and low administrative capacity.

This essay explores the significant pieces of performance management in government and analyzes what it takes to radically improve performance and make government produce improved results. It focuses on major issues that government organizations must address — budget and performance integration, strategic human capital management, competitive sourcing, improved financial performance, and expanded E-government.

IMPORTANCE OF THE STUDY

This study is important because current realities in the Republic of Armenia have increased the requirement for improving government performance and ensuring timely and effective management oversight. Government organizations must be able to see the big picture, including the relationships, connections, and overlaps, as well as the detailed actions and resources to make informed decisions and improve outcomes. This is the promise of government performance management which is the main driver for creating performance-based organizations (PBOs). Informed decision making is crucial to creating an accountable, efficient, equitable, and productive organization that delivers on government performance requirements.

RESEARCH QUESTIONS AND HYPOTHESES

RESEARCH QUESTIONS

1. What are the key characteristics of PBOs and why were they created?
2. What are the specific advantages that PBOs have demonstrated in comparison to traditional government agencies?
3. Considering the Armenian political environment and the development stage in which the country is, what are the specific components of PBO's that could be implemented in Armenia?
4. Would some hybrid form of PBOs be good for adoption in Armenia?
5. What would it take to adopt hybrid PBOs in Armenia and realize commensurate benefits?
6. What is the level of public enthusiasm and implementation support for integrating such a concept into the Armenian government?
7. To what extent would public servants support such changes?
8. Whether an agency like ADA could be considered a hybrid of PBO that serve as a successful model for adoption in other agencies of the Armenian government?

HYPOTHESES

H1: Citizens of Armenia are dissatisfied with the extent of customer service provided by the RA government.

H0: Citizens of Armenia are satisfied with the extent of customer services provided by the RA government.

H2: Adopting and institutionalizing performance-based organizations in fee-for-service agencies of the Armenian government (where customer service and results-driven performance matter) will be greatly supported by the population.

H0: Adopting and institutionalizing performance-based organizations with fee-for-service agencies in the Armenian government (where customer service and results-driven performance matter) will not be greatly supported by the population.

H3: The experience of the Armenian Development Agency (ADA), a hybrid PBO in Armenia, could be used as a model for establishing other PBOs, especially in agencies that are fee-for-service.

H0: The experience of ADA, a hybrid PBO in Armenia, could not be used as a model for establishing other PBOs, especially in agencies that are fee-for-service.

SCOPE OF THE STUDY

The study was conducted in the three largest cities of Armenia (Yerevan, Gyumri, and Vanadzor) using a survey to measure the level of satisfaction of Armenian citizens with the existing public service, as well as to reveal the extent to which the RA citizens will support the creation of customer-centered, business like agencies within the government. Interviews were conducted with experts in the civil service to shed light on the current state of affairs in the RA civil service in order to identify the possibility of and demand for creating such agencies in Armenia. Other interviews were conducted in the Armenian Development Agency (ADA) to determine compliance with this agency with the key indicators of PBO and whether or not the ADA can be classified as a hybrid PBO.

CHAPTER 2

LITERATURE REVIEW

UNIVERSAL TRENDS OF IMPROVING THE GOVERNMENT

It has long been recognized that governments around the world, including the United States of America, have historically operated under a hierarchical, top-down administrative structure. Central governments have held decision making authority and full control of resources in delivering public services to citizens. This centralized, top-down, paper-intensive, procedure-burdened way of doing business has often limited the creativity of civil servants, and it has allowed no flexibility in looking for best practices and adopting innovative approaches to solving public issues. This and similar issues have often led to criticisms of government performance, poor services, and lack of efficiency (Kaboolian, 2009; Denhardt 2004; Kettl 2000; Romzek 1994; Holzer & Callahan 1997; Rosenbloom 1994; Gore 1993; Perry & Rainey 1988).

Starting from the 1990s, public administration practitioners and academicians faced demands from both politicians and citizens that government should be operated more like a business. This meant that the government should become efficient, as small as possible in proportion to mission-related tasks, competitive, entrepreneurial, and dedicated to customer satisfaction. Those arguments were drawn from President Clinton's National Performance Review (NPR) as one of the more recent efforts to improve the U.S. Executive Branch. Gore (1993) argued that reinventing government includes the creation of a new type of organization — the performance-based organization or PBO — that would be performance-driven, exempt from many government-wide administrative rules, and be accountable for improved efficiency and effectiveness.

"We're going to dramatically change the way many agencies provide their services. Today, I'm proposing to create within existing departments something we call "Performance-based Organizations." . . . These *PBOs* would be run by chief executives who sign contracts and will be personally accountable for delivering results . . . Their pay and job security will be tied directly to performance" (Gore, 1993).

This raised questions for public administrators regarding the management of government agencies and the changing responsibilities of public administrators. The perception that government is exercising unnecessary power and the suggestion that using tested business approaches can solve this problem was at the heart of the desire to apply the market model in public service. Responses for solving such critical issues can be found in the concept of New Public Management (NPM). NPM is designed to "fix the problems of government" by increasing the level of public confidence in government, diminishing waste, improving program design, and curtailing or eliminating performance deficiencies (Pollitt 2003; Hood 1991).

The concept of NPM was first presented in 1968, when young scholars met at Minnowbrook under the leadership of Dwight Waldo of Syracuse University and brought in new aims such as relevance, values, equality and change, which led to the movement of new public management. With the appearance of NPM all previous statements and approaches to running the government were considered as outdated concepts. During this meeting one of the statements made by scholars was that NPM would empower political direction of administration, while leading to an increased union among government employees. This would also create new institutional arrangements among agencies for cooperation, consultations, and negotiations. Scholars have claimed that administrators and politicians are interconnected and in everyday administration many functions overlap. Such an arrangement would make cooperation possible and make an indirect impact on everyday administration through consultations and negotiations (Kaboolian, 1998; Kelly, 1998).

NPM supporters argued for a move away from a focus on bureaucratic administration to a more customer-oriented and flexible management style grounded in private sector approaches to service delivery and administration (Hood, 1991). Afterwards, the concept was developed by Osborne and Gaebler (1992) and all the scholars supporting NPM agreed that becoming more efficient and responsive by using market approaches is the cornerstone of the movement (Hood, 2002; Kettl, 1997; Osborne and Gaebler, 1992).

Kettl (1997) has discussed two varieties of NPM: First is the concept of outsourcing and other incentives that “make managers manage” model (utilized in the United Kingdom and New Zealand). Second is the empowerment of managers or “letting the managers manage” model (utilized in Australia and Sweden). The United States has looked at both varieties, yet avoided adopting any single choice or direction (Kettl, 1997). A mix of these forms by the National Performance Review included the themes of internal deregulation of government agencies, the need to make government more bottom-up driven, empowerment of lower level or front-line employees, and adoption of principles associated with competition and customer service (Kettl, 1997; Osborne, 1991).

New Public Management is labeled by some as offering an entrepreneurial culture with a clear purpose and strategy, a focus on customers, accountability, and empowerment of employees (Osborne, 1991). The rise of NPM is linked with four major administrative trends. According to Hood (1991) these are categorized as (a) curtailing government spending and staffing; (b) privatizing or getting public services delivered by commercial outfits — outsourcing; (c) automating the production and distribution of public services; and (d) instilling cooperation among government agencies. Embedded in these concepts is the principle of competition (as in the private sector). “The concepts of user choice, incentive structures, and transparency define institutional economics and are in contrast to the more

traditional understanding of bureaucracy based on hierarchy and the elimination of duplication” (Hood, 1991; Ostrom, 1974).

Other scholars, such as Thompson and Jones (1994) agreed with the idea that NPM is grounded in economics and cited the earlier works of Williamson (1985) and Niskanen (1971) as the foundations of reference. They argued that the new institutional economics provides public managers with the tools necessary to handle complex problems. Increasingly, scholars involved in the NPM movement were turning to institutional economics, specifically using ideas on public choice and principal-agent to provide a sounder theoretical base to their work (Kaboolian, 1998). Further, according to Hood, *managerialism* is at the heart of NPM. This position views professional management as an important practice rather than expertise (Hood, 1991; Pollitt, 1990; and Merkle, 1980). The central doctrines of *managerialism* include private sector management techniques, hands-on professional management, and performance measurement (Lynn, 1996).

In the U.S., performance measurement was discussed at length and in various forms (as practiced in several countries such as the U.K., Australia, and New Zealand). Scholars offered different approaches that would suit the U.S. system of government, which eventually culminated in the Government Performance and Results Act (GPRA) of 1993. Initially piloted in five agencies of the US Executive branch, today GPRA is a requirement across the government. For the first time, Congress established statutory requirements for agencies to set goals, measure performance, and submit related plans and reports to Congress.

After a four-year phase-in period for GPRA 1993 and 13 years of the law’s full implementation, the GPRA Modernization Act of 2010 (GPRAMA) became law making substantial changes. Among other things, GPRAMA requires three agency-level plans and reports from GPRA 1993, but with some changes; it establishes new planning and reporting

requirements and processes that focus on goal-setting and performance measurement in policy areas that cut across agencies; brings attention to using goals and measures during policy implementation; increases reporting on the Internet; and requires individuals to be responsible for specific goals and management tasks. In making these changes, GPRAMA aligned the timing of submission of plans and reports congruent to presidential terms and budget proposals.

Owen (2003) has discussed the position of developing countries claiming that many have learned lessons from the new approaches to public management as well as other governments have in the West. In his claim, Owen cites the example of Malaysia and the related public sector reform as an example of success. Malaysia adopted Total Quality Management (TQM), a Client's Charter and sophisticated forms of information technology. Owen argues that:

“A shift must occur from the old paradigm of paying too much attention to inputs to a stronger emphasis on resource utilization to meet organizational objectives. A results-oriented approach requires agencies to be more focused in terms of the level of efficiency and effectiveness to be achieved by the programs and activities implemented. Objective setting and the formulation of organizational strategies must become part of the organizational culture whereby the establishment of a performance measurement system backed by performance indicators forms an essential feature of the results-oriented approach” (Owen, 2003).

The new public management has come to dominate global thinking about public sector reform by practitioners and academics alike. Some have hailed it as a new paradigm (Osborne and Gaebler 1992; Borins 1994; Hughes 1998). New public management reforms, it is said, are a common response to public pressures — public hostility to government, shrinking budgets, and the necessities dictated by globalization. There are differing interpretations of what that common response constitutes. But there is general agreement that key components include deregulation of line management; conversion of civil service departments into free-standing agencies or enterprises; performance-based management and

accountability, particularly through contracts; and competitive mechanisms such as contracting-out and internal markets (Aucoin 1990; Hood 1991). Various authors also have included privatization and downsizing as part of the package (Ingraham 1996; Minogue 1998). Aside from Malaysia, the results-oriented management initiative in Uganda (Langseth 1995) and the wholesale restructuring of Chilean education along internal market lines are examples of such change, some even more radical than anything tried in the U.K. (Parry 1997). But do these cases represent a general trend? (Gore 1993; Root, 1996).

Another example of public sector reform, albeit in a developed country, is provided by Lee (1996), who has discussed the reforms realized by the government of Hong Kong in adopting *managerialism* in 1989. As part of this reform, Japan placed emphasis on objectives, performance and results while civil servants were no longer referred to as policy makers or administrators, but as *managers*; policy secretaries were referred to as ‘policy managers’; heads of departments were known as ‘managers’; and the departments were described as ‘executive agencies’ (Lee, 1996, p. 40).

In conclusion both Lee (1996) and Owen (2003) posit that reforms are so far successful and that they are difficult to implement; also there is some sense that the new managerial approach has potential to replace traditional administration even in developing countries. Having all these in mind there are other types of problems related to conducting such reforms in developing countries.

First, the basis of new public management lies on applying market principles to public policy and management and developing markets instead (Price, 1994). However, as Owen states, there is a difference in adopting market and managerial approach, and to have markets work. The experience of the developing countries in market operation are often too little, so there is a variety of factors required to have an effective market such as the rule of law, and

effective anti-monopolistic activities. But, until capital markets develop or domestic entrepreneurs arise, a market economy may mean greater domination by foreigners and foreign corporations.

Secondly, as Price (1994) argues there are specific problems concerning the privatization of public enterprise, even if public enterprises have generally failed in the developing world. He argues that

“... policy changes reflect a complete change in development philosophy, from a state-centered to a market-centered approach, and have consequently redefined the relation and boundary between the public and private sectors. As in the U.K., where privatization began, this is largely a reaction to perceived government failure in organizing the public sector to the benefit of the economy at large (rather than any particular interest group). There is a danger that the public sector baby will everywhere be thrown out with the bath water, and that in discovering government failure states and agencies forget that market failure is also rampant” (Price 1994, p. 253).

As has been demonstrated by the West, many public enterprises are well managed and serve governmental and societal purposes as well as commercial ones (Owen, 1994).

Thirdly, changing from bureaucracy to markets might lead to the risk of making corruption prevalent, although the World Bank argues that corruption might be reduced as a result.

“A major thrust of any effective strategy to reinvigorate the public sector will be to reduce the opportunities for corruption by cutting back on discretionary authority. Policies that lower controls on foreign trade, remove entry barriers for private industry, and privatize state firms in a way that ensures competition – all of these will fight corruption. Such reforms should not be half-hearted: reforms that open opportunities for private entry into closed sectors of the economy, but leave that entry to the discretion of public officials rather than establish open and competitive processes, also create enormous scope for corruption. Formal checks and balances can also help reduce official corruption, but they are seldom enough. Reforming the civil service, restraining political patronage, and improving civil service pay have also been shown to reduce corruption by giving public officials more incentive to play by the rules” (World bank 1997, p. 9).

Fourthly, there is a sense that there is yet another single model of development that all must follow. That there was a mistake in the old model of development administration is hard to deny, but it does suggest that making developing countries follow another single Western model is likely to be problematic for them. As Turner and Hulme argue

“Whatever the reasons — naivety, historical and environmental blindness, or ideology — a powerful international lobby is promoting a ‘one size fits all’ approach to public sector reform in spite of the evidence accumulated from organizational and management theory and from empirical study that the outcomes of planned changes in organizations are conditioned by many contingent factors, especially those in the organization’s environment. In some contexts, the NPM may yield its promised benefits, but in others the possibility of it contributing to reduced performance, and even political instability must be recognized” (Turner and Hulme 1997, p.240).

Any kind of management can be expected to do too much and this expectation can lead to failure by itself (Kaboolian, 2009; Denhardt 2004; Holzer & Callahan 1997; Romzek 1994; Rosenbloom 1994; Kettl 1997; Gore 1993; Perry & Rainey 1988). Certainly if developing countries are forced to adopt a single standardized model of public management, the result is unlikely to be successful (Owen, 1994). There are problems of institutions, rule of law, inadequate capital and retail markets, insufficient educated and trained staff, and so on.

Moreover, developing countries have different histories, capabilities and are not homogeneous. Public management reforms may offer an opportunity to develop some kind of management that suits particular societies; management that may be the responsibility of the citizens, especially if combined with greater participation in choosing governments than has been all too often the case. In general, though, the traditional bureaucratic model did not serve developing countries very well and a change to *managerialism* accompanied by increased use of the private sector may help Armenia in its transition to a more democratized country. For that reason some components of the concept of PBOs are worth taking into consideration.

THE CONCEPT OF PERFORMANCE BASED ORGANIZATIONS

PBOs are results-driven organizations that strive to deliver the best possible service that would achieve high customer satisfaction. This is a new way of getting things done in the public sector, currently practiced by the U.S. to some extent, Great Britain, New Zealand, and on a smaller scale in Canada. It establishes incentives for high performance and accountability for results, while allowing more flexibility to promote out-of-box thinking, innovation, and increased efficiency. It is a novel approach to achieving established goals and getting results. Further, it is claimed that this can help government agencies to:

- Maintain and improve delivery of services in times of tightening budgets;
- Meet the needs of service-users and the general public;
- Create a business-like management structure within government;
- Reward individuals for high performance; and
- Eliminate barriers to improving organizational performance by obtaining administrative and/or legislative flexibilities.

The conversion to a PBO also provides many of the advantages that have previously encouraged agencies to seek corporation status. Many agencies have sought government corporation status in the past because that was often perceived to be the sole administrative vehicle to obtain broad managerial flexibilities. But the government corporation model also requires the entity to be financially self-sustaining and often leads the organization to believe it has independent organizational and policy authority, separate from executive branch oversight. Such an organization generally creates a board outside the purview of most executive branch policy channels. These features have been disincentives for the copious creation of government corporations. However, the PBO structure is an alternative that eliminates or avoids these 'negative' characteristics.

The question emerges if a PBO would work the way U.S. legislation has defined it. To answer that question the General Accounting Office (GAO) of the U.S. government has examined several features of PBOs over the past years starting from the creation of PBOs to their functioning. In general, GAO supported it as a useful approach to providing more flexibility in exchange for greater accountability and achieving better results (GAO/T-GGD-97-151, 1997).

While in a different setting, foreign experiences with creating organizations similar to PBOs show that customer service can be maintained or improved with fewer resources by creating organizations that have strong incentives to perform and reduce costs. Creating a contractual relationship sharpened the intended results of program activities and increased accountability for results. These countries found that by clearly setting goals and showing results, policymakers were less inclined to attempt to control programmatic inputs. In addition, increasing accountability for performance allowed managers to make a case for being granted greater flexibility in meeting results.

One of the foreign experiences one comes across in literature is the British "Next Steps" program (Scott, 1996). This began in 1988 and has an approach similar to PBOs. Eight years after adopting this reform, the British "Next Steps" initiative has allowed its agencies to save around 4 percent of their planned operating costs for the year while improving service delivery. The British government has converted more than 130 agencies roughly three-quarters of its government. In doing so, the British increased the quality of service or reduced costs. For example, the British Patent and Trademark Office reduced the cost of its common services such as personnel, real estate leases, and supplies by 39 percent between 1992 and 1995, in part by creating incentives to move operations to a lower cost area of the country. In addition, it improved on the goal of issuing patent search reports within a

12-week period from 84 percent of the time to 92 percent of the time. The U.S. Passport Office cut its operating costs by 3 percent per year over successive years, yet at the same time it improved its processing of passports from 3.5 weeks to 6.7 days. And, the U.S. Coast Guard responded to 99 percent of emergency calls within 30 minutes, handled an 8 percent increase in its responses to pollution incidents while being able to cut its spending by 3 percent per year.

While the concept of creating performance-based organizations seems simple and compelling, it requires major changes in the way government traditionally functions. Most practitioners and government officials argue that not every agency can become a PBO. There are several prerequisites they need to satisfy for becoming a PBO Candidate (accessed on January 30, 2013 <http://govinfo.library.unt.edu/npr/initiati/21cent/nextstep.html>).

- First, a PBO candidate must have a clear mission, measurable services, and a performance measurement system in place or in development, at the minimum. The candidate function should be focused on external, not internal, customers which are service-users and the general public.
- Second, the candidate's operations must be separated from policymaking, along with a clear line of accountability to an agency head with policy responsibility.
- Third, the candidate must have top level support in the department for conversion to a PBO.
- Fourth, the candidate must have operational functions, not policy making functions. Those policy making functions may be within the larger agency of which the candidate is a part.

- Sixth, the candidate must have funding levels that correspond to its business operations.

Self-sustaining fee-for-service functions may be excellent candidates, but this is not mandatory for becoming a PBO.

After being selected as a candidate for becoming a PBO there is also a need to form Conversion Teams with representatives from the candidate organization, as well as from the parent department. The roles of this Conversion Team are the following: (a) to work together to create and develop PBO governing documents, such as the 3-5 year framework agreement between the PBO, its Department, and other stakeholders; (b) to specify boundaries of the organization, the policy and administrative arms, as well as to outline cooperative relationships with other agencies that will help create cross-servicing; (c) to provide for the provision of services; and (d) to outline the administrative and legislative flexibilities.

Some of these documents are standard for all agencies but others are unique to PBOs.

Among them are:

- A clearly defined mission statement that can be easily understood by the general public.
- A five-year strategic plan with measurable goals.
- A set of key performance indicators/measures, such as quality, financial, efficiency, productivity, customer service standards taken from the business sector's best experience.
- Annual operating (performance) plan with specific targets for the key measures required by Government Performance and Result Act (GPRA).

After establishing the framework document, the team is to start educating key stakeholders, including employees, unions, congressional staff, interest groups, etc. Those stakeholders will farther review a candidate's proposed legislative package. The last phase of

the team activities includes jointly developing and ensuring the links to the strategic plan, performance measures, and performance agreement; jointly identifying barriers to change and developing strategies to overcome them, as well as ensuring transition provisions. The crucial role is given to the chief operating officer (COO) of the agency, which needs to be a manager appointed for a fixed term from outside the government and rewarded based on his/her performance. Also the key component of such COO is that this person would not be a political appointee or in the career civil service.

In more recent years of the evolution of public Management, the U.S. Congress led a shift toward more results-oriented government in lieu of a government that placed emphasis on processes for the sake of adherence to regulations. This vision of a government that would work better, the U.S. Congress adopted a new form of government — Performance-Based Organizations (PBOs) — which represent distinct units within a department, but are distinguished in the nature of their statutory responsibilities. Given that the proposed PBOs were more or less customer-driven and fee-for-service organizations, the PBO legislation focused on the need to have distinct performance goals, coupled with some flexibility in managing the agency operations, provided the intended results were met.

The first PBO created in the USA was the Student Financial Assistance or Federal Student Aid (FSA) led by Greg Woods who in his speech presented a new business like four-step formula for success, presenting students as customers, and implying the best experience the private sector can offer to a new PBO (Public law, 1993). His main idea was to create an agency that anyone can trust. The PBO created was to complement and strengthen reinvention initiatives already underway within the Department of Education, including Project EASI (Easy Access for Students and Institutions). The establishment of this PBO

was driven by increasing student loan defaults and the need to converting operations to a more Internet-based system for student aid applications.

Thus, the new HEA that established the FSA as a PBO included major changes in:

- **Leadership.** COO who would lead the PBO and would have a strong background in information technology and management and would be employed through a performance-based contract and would report directly to the Secretary of Education
- **Procurement flexibility.** The PBO would have increased flexibility in procurement, with an emphasis on performance-based contracting.
- **Management and personnel flexibility.** The PBO would have new flexibility in personnel management, including hiring and evaluating senior managers, and recruiting technical personnel.

The new personal management system would include promoting and maintaining individual accountability by establishing one or more retention standards for each employee and expressed in terms of individual performance, as well as communicating such retention standards to employees. Those changes also undermine making periodic determinations of whether each employee meets or does not meet the employee's established retention standards, and those whose performance does not meet established retention standards would not get any increases in basic pay, promotions, or credit for performance.

- **Accountability for results.** The COO and employees of the PBO would have specific, measurable performance goals, ensuring accountability for defined results while the Secretary of Education would continue to be responsible for setting federal student aid policy.

Starting from its establishment to the present day, the concept of PBO has shown its capacity to deliver high quality and less costly service to its “customers” (see the example of the FSA Strategic Goal measurements and Reported results to the Senate in table N 1).

CHAPTER 3

RESEARCH DESIGN/METHODOLOGY

The research methodology of the current research project is mixed, using both quantitative and qualitative approaches. Explanatory design method was chosen to get a thorough understanding of the topic. This approach makes possible examination of PBOs, as well as the hybrid PBO in Armenia with data collected from both government and citizens. For the quantitative method a questionnaire was designed with close-ended or multiple-choice questions using the Likert scale. Descriptive statistics were conducted on several characteristics of people surveyed, including gender, age, income, education, and place of residence. For the qualitative method, semi-structured interviews were conducted with experts in the field, which were subsequently analyzed for content using preset descriptors most critical and basic to PBOs.

DATA COLLECTION INSTRUMENTS

Three data collection instruments used were surveys, expert interviews, documents and observations. The survey was conducted among Yerevan residents and measured the level of their satisfaction with the quality of service currently provided by RA public servants and the extent to which they believe reforms in those areas are important and achievable. Additionally, five semi-structured expert interviews were conducted to gather various Armenian high-ranked civil servants' position on the current state of civil service in Armenia. All the interviews were conducted one-on-one and without time limitations to allow the interviewees to comfortably express their position and/or views.

PILOT TESTING OF SURVEY INSTRUMENT

Pilot testing of the survey questionnaire was done among students of the American University of Armenia (AUA), selected randomly around campus; 21 students (10 first year and 11 second year students) from various departments participated. The questionnaire was changed and improved based on their responses and clarification questions during the testing.

PARTICIPANTS

The survey was administered in 3 cities of Armenia (Yerevan, Gyumri, and Vanadzor); 211 surveys were distributed and 205 surveys were collected, among them 200 were valid (five returned surveys were discarded because they were only 20 percent complete). The sample was selected randomly from among Armenian citizens eighteen years of age or older. All the experts interviewed desired to have their names and positions remain anonymous.

DATA ANALYSIS

The primary data received from the surveys was analyzed with using SPSS statistical software. Data analysis included descriptive statistics, mainly frequencies and descriptive analysis, and more sophisticated analytical operations, including cause-and-effect relationships. The latter covered correlations between different variables using Spearman's *rho* correlation 2-tailed coefficient. Additionally, content analysis was performed of observation notes, documents, and notes from the one-on-one interviews. All text was organized, coded and scored for frequency and weight using descriptors derived from the research questions of the current study.

ASSUMPTIONS OF THE STUDY

The main assumption of the current study is that there are significant provisions and requirements of performance-based organizations that might be useful for Armenia and the integration of the hybrid PBO into the Armenian government might provide new opportunities to save taxpayers money, cut the work force, improve customer service, eliminate needless regulations, and improve those the Armenian public is demanding.

LIMITATIONS OF THE STUDY

The study has a variety of limitations such as time, access to government services for observation, additional resources for conducting a full blown case study of the ADA, and for administering the survey(s) to larger sample sizes. The sample size of this study is too small to be representative of the population of Armenia, but it provides a good idea of how the residents of the three major cities of Armenia perceive the adequacy of government services. A larger sample would yield more generalizable results. It would be also appropriate to conduct a comparative study of the local governments in different regions of Armenia. It would be also useful to conduct a study (focus groups) on job satisfaction among civil servants and the extent to which they will support such changes. Given the time limitations only five interviews were conducted mostly with members of the Civil Service Council.

CHAPTER 4

INTERVIEWS IN CIVIL SERVICE COUNCIL OF THE REPUBLIC OF ARMENIA

In the section below, summaries of interviews are presented showing the intensity and frequency of the issue — expressed in the form of a descriptor.

THE DEGREE TO WHICH RA CIVIL SERVANTS/OFFICERS ARE CLEAR ABOUT

SERVICE PRIORITIES (Mean is 3.6 on a scale of 1 to 5)

The interviews conducted with the experts in the field revealed that RA civil servants are mostly clear about their service priorities as every position in the Armenian civil service carries a position description with associated responsibilities, rights and obligations of civil servants and employees are appraised according to their position descriptions (work passports). The majority of all officials state that those position passports are a relatively new undertaking in the RA government and that civil servants are all satisfied to see such clarification of their individual responsibilities, as well as their obligations/duties vis-a-vis the RA Law on Civil Service (2001). On this question, one of the experts raised the issue that even with a position passport there are still rampant duplications/overlaps of functions within the same agency or among agencies. This causes conflicts of interest among civil servants requiring further revisions and improvements in the law.

It was also stated by one of the experts that the decision making process does not allow thorough/open discussions among civil servants as to the execution or interpretation of decisions. This sometimes brings about misunderstandings of the intent of the law and resulting errors in administration. Eventually, such issues rise to the top, creating an immediate need for discussion and debate that distracts employees from their other obligations.

THE EXTENT TO WHICH CUSTOMER SERVICE TRAININGS ARE IMPLEMENTED AMONG RA CIVIL SERVANTS/OFFICERS TO DEMONSTRATE GOOD CUSTOMER SERVICE (Mean is 3 on a scale of 1 to 5)

The experts state that shortcomings in practice seem to be that the requests for training are generally not based on a systematic training needs assessment, that courses are often not tailor-made to the real needs of the civil service. An example given by the expert was recent software training delivered by the Public Administration Academy. This training dealt with software used by the Civil Service Council but not used anymore by the Government.

It was also noticed that the State Administration Academy responsible for professional training of the civil servants, should also include in the training program subjects such as European and international relations, ethics, anti-corruption, management and high quality public service delivery. All this must be done to modernize the Armenian public administration and bring it to a new, better level.

THE EXTENT TO WHICH RA GOVERNMENT TRACKS AND MONITORS CIVIL SERVICE PERFORMANCE (mean is 3.2 on a scale of 1 to 5)

Expert opinions on the subject differed and in some instances contradict one another. One of the experts stated that what is missing in the principles that govern the Civil Service and the public service as a whole, is a reference to the delivery of effective and impartial/objective service to both citizens and other interested individuals. This is a requirement that characterizes the most modern and advanced civil service performance standards and systems. Also, there is no reference to the responsiveness of civil servants to the efficient implementation of policies defined by democratically elected institutions.

The second part of the statement stresses that from a managerial and organizational point of view, job evaluation is crucial for any civil service system. There are, however, no indications that job evaluation based on a sound methodology is practiced in the Armenian system. In practice, the decision of evaluating civil servant's performance depends largely on the respective minister.

One of the experts and a member of the Civil Service Council stated that there exist performance evaluation systems in any agency of the government. The evaluation is done based on both quality and quantity of the work completed, twice a year, at the end of the quarter. This expert believes that such measurement is effective and in reality it demonstrates the full picture of the public servant's performance on the job.

In contrast, another expert believes that such system needs improvements as the evaluation is conducted by the head of the department where there is a high probability of patronage or even corruption. In most cases, employee evaluations are highly dependent on interpersonal relations and the degree to which the employee sponsors/supports the supervisor. He also added that due to the low salaries, the evaluation is performed as a matter of routine without real concern for the quality of performance (they do not care, they just do it in a few minutes) not revealing the real situation, areas of concern, skills needing improvements, etc.

One expert interviewed also noted that by decision of the Civil Servant Council (CSC), ethics rules for civil servants were adopted with the intent to "regulate specific behaviors and attitudes of civil servants based on generally accepted moral principles." Also, an ethics committee was formed. This new provision is being piloted in three agencies of the RA government. The expert continued that during the pilot period to date not a single complaint has reached the committee, speaking to its ineffectiveness and inability to resolve

ethical issues. “Besides obvious faults in its execution and enforcement, the content of this new code of ethics requires thorough review,” concluded the expert.

According to the experts from the CSC, the RA government lacks the appropriate instruments to analyze the processes of service delivery to be able to identify areas of improvement. The experts also stated that there is a great demand in the RA government for a dedicated institution that will assess the needs of the citizens against the skills and abilities of civil servants to determine the types of training the civil servants need to be able to deliver better service. They also state that the most striking gap in the government is that the decisions made and the services provided are not based on citizen needs. That approach is inexistent altogether.

Experts also made important observations on the critical need for conducting research and analysis of the civil service in Armenia. This might raise issues related to defining the exact number of employees needed for standard performance. “A *regulatory guillotine* is needed to enable implementation of quick reforms that lead to new or reformed policies that improve public services and significantly reduce bureaucracy.”

The experts add that Armenia has already started the first phase of such an optimization program and under this program dozens of jobs in the government have been eliminated. Indeed, 996 civil servants were dismissed in 2010. All the experts agree that the RA government is too big and this optimization process needs to go on to reduce the number of civil servants and make civil service more professional. Many agree that the best way to do so is to run a decentralized government that delegates certain functions of government to the private sector and/or to non-governmental organizations. To date, the total number of civil servants was reduced from 8,100 in 2008 to 6,786 in 2012, “but we are far from being done,” concluded the expert.

THE DEGREE TO WHICH RA GOVERNMENT FACILITATES THE CREATION OF AN ENVIRONMENT IDEAL FOR GOOD CUSTOMER SERVICE (Mean is 2.2 on a scale of 1 to 5)

According to the experts from the CSC there is a significant difference in the salary levels of public and private sector employees providing comparable services. This results in filling positions with less qualified civil servants. In turn, this generates lack of efficiency, equity and productivity among government workers. Also, given the low schedule of wages, the government has not been able to attract better qualified employees. Considering these factors, civil servants are not motivated and the work environment is far from “readiness and willingness to provide good customer service,” one expert concluded.

One expert also added that the new and ambitious requirement for developing work plans by agency, subdivision, and all the way down to individual civil servant is a new step toward adopting result-oriented performance in the Government, as launched by the government’s decision of 30 April 2009. This is expected to enhance quality of performance and to enforce accountability on the institutional and individual levels. However, since this system is still in its inception, it will be necessary to evaluate its effectiveness at a later time. To do that well would require resources for retaining independent evaluators from outside the government.

THE DEGREE TO WHICH HIGH PERFORMANCE REWARDS AND RECOGNITION PROGRAMS ARE IMPLEMENTED AMONG RA CIVIL SERVANTS AND EXECUTIVES (Mean is 2.4 on a scale of 1 to 5)

The findings show that annual bonuses are paid to employees, which are one-time payments and are not directly linked to the actual performance or contribution of the employee within the organization. The reward system is not designed in a way to create

an incentive for the workers to achieve high level of job performance and be rewarded accordingly.

Another important point stressed by the experts was that the Civil Service Code (Article 24(1)) (Civil Service Law, 2001) prohibits civil servants to perform other paid jobs with the exception of scientific, pedagogical, and creative work. However, low salaries and resulting low living standards push some civil servants to violate the rules and engage in secondary jobs. This naturally decreases the productivity of those civil servants and is also viewed as an illegal or corrupt activity.

Interviewed experts mentioned two main reasons why citizens want get employed in the civil service: The first one is because their qualifications are inadequate to compete for jobs in the private sector. Secondly, government jobs are more secure in comparison to the private sector. This is true in most countries of the world. Given the restrictions embedded in the Civil Service Code, it is much more difficult to “fire” an employee working in the public sector than it is in the private sector. Further, nearly all public sector workers report getting vacation pay, allowance for sick days and maternity leave, while in the private sector these provisions are far from being consistently adhered to. The expert concluded that “a higher percentage of public sector workers has access to free or subsidized health care, vouchers for family vacation, etc.”

INTERVIEWS WITH OFFICERS OF THE ARMENIAN DEVELOPMENT AGENCY

BRIEF HISTORY

The Armenian Development Agency was established in 1998 by the Government of the Republic of Armenia to facilitate foreign direct investments and promote exports. ADA coordinates the work of the Secretariat of the Business Support Council of the Republic of

Armenia, which provides an effective mechanism to channel issues of concern in the Business Community to the Government, and the Secretariat of the IT Development Support Council of the Republic of Armenia.

ADA cooperates with many international organizations such as the World Bank, Multilateral Investment Guarantee Agency (MIGA), UN Development Program (UNDP), USAID and its implementing partners, and others.

THE DEGREE TO WHICH ADA EMPLOYEES ARE CLEAR ABOUT SERVICE PRIORITIES (Mean is 4.6 on a scale of 1 to 5)

Interviews which took place at ADA were analyzed using the same descriptors that were used for experts interviewed from the RA Civil Service. One of the directors of ADA departments states that their employees and project leaders participate very actively in the decision making process, and that in most cases they decide how the work should be performed, setting minimum performance standards. The expert explained that such an inclusive approach adopted from the business model increases worker motivation, enthusiasm, and employee morale or job satisfaction. The expert showed confidence that this model has proved to be very productive and so far no criticisms or disputes have occurred.

Another expert stated that ADA also experimented with a variety of management approaches to identify the best management model for use in its operations. As was stated by one of the experts, ADA operates as a one-stop shop for foreign investors who need assistance in setting up their business in Armenia. As a customer-centered agency, ADA helps foreign investors in their business project implementation serving as liaison with the government, and providing information on investment opportunities in the country and investment related laws and regulations.

THE EXTENT TO WHICH CUSTOMER SERVICE TRAININGS ARE IMPLEMENTED AMONG THE EMPLOYEES OF THE ADA TO DEMONSTRATE GOOD CUSTOMER SERVICE (Mean is 4.4 on a scale of 1 to 5)

According to the experts interviewed, all ADA employees are hired competitively based on their professional skills and knowledge. Employees are required to possess good knowledge of foreign languages and business management skills. That is the reason why more graduates from foreign universities (including the American University of Armenia) work at ADA as department heads and project leaders. Employees are constantly acquiring new and specialized skills through training and other employee development programs. Experts also stated that despite the fact that ADA workers are not civil servants *per se*, they are all required to pass accreditation tests every three years.

THE EXTENT TO WHICH ADA EXECUTIVES TRACK AND MONITOR EMPLOYEE PERFORMANCE (Mean is 4.6 on a scale of 1 to 5)

The experts noted that ADA has sophisticated tools and measurement indicators that track performance at project and employee levels. The project performance measures at ADA are divided into 2 categories: FDI and export promotion. FDI is divided into six subcategories, which include customer service measures, average response time to investor inquiries, and related indicators. The second category also has subcategories that include measurements such as exports inquiries, generated exports sales, new employment opportunities, and so on. The experts stated that at the employee level, there are performance measurements that cascade down from the project, which include indicators such as time taken to deliver the service, measures of quality and effectiveness of the service, etc.

THE DEGREE TO WHICH HIGH PERFORMANCE REWARDS AND RECOGNITION PROGRAMS ARE IMPLEMENTED AMONG THE EMPLOYEES (Mean is 3 on a scale of 1 to 5)

The payscale at ADA is not based on performance. Remuneration is fixed by scale of the position. All salaries are paid monthly to employees and do not vary from month to month or on the basis of extra hours worked. There are year-end bonuses, given as onetime payment. But even with the absence of performance pay system, agency workers' wages are much higher than the salaries of state employees. During the interviews, many workers complained that sometimes they had to remain in the agency for the whole day to finish the work on time and knowing that their overtime work will not be compensated demotivates some of the employees. In contradiction to this opinion director of the department states that program related employees went to a special training courses on time management, as well as the employees are given the freedom to distribute the work on time and overtime work is a result of poor time management of the employee but not and not exploitation of workers by the agency.

THE DEGREE TO WHICH ADA FACILITATES THE CREATION OF AN ENVIRONMENT IDEAL FOR GOOD CUSTOMER SERVICE (Mean is 4.2 on a scale of 1 to 5)

According to the ADA experts interviewed, the flat organizational structure of the agency allows for high level of communication and a shorter distance to customers. Unlike tall-structures in other government agencies, ADA has a short span of command and a wider span of managerial control. This facilitates a greater level of and more reliable communication among employees and management, and speeds communication, making it more effective than in tall structures. Direct staff input leads to more informative decision making and less behind-the-scene power struggles and disagreements. In most other governmental institutions staff members have less agility and mobility. ADA staffs are, generally speaking, qualified and competent people and fully engaged in the agency's mission accomplishment.

ANALYSIS OF CURRENT SITUATION IN ARMENIA

SURVEY

The survey conducted in three cities of Armenia revealed interesting data for discussion. The questions were designed to gather information on citizen satisfaction with the services rendered by civil servants in Armenia, as well as to identify the extent to which RA citizens would support the idea of creating Performance Based public service in Armenia. For that reason the questions had two measures: one was to identify the *possibility* of such changes, while the second the *importance* of those changes for Armenia.

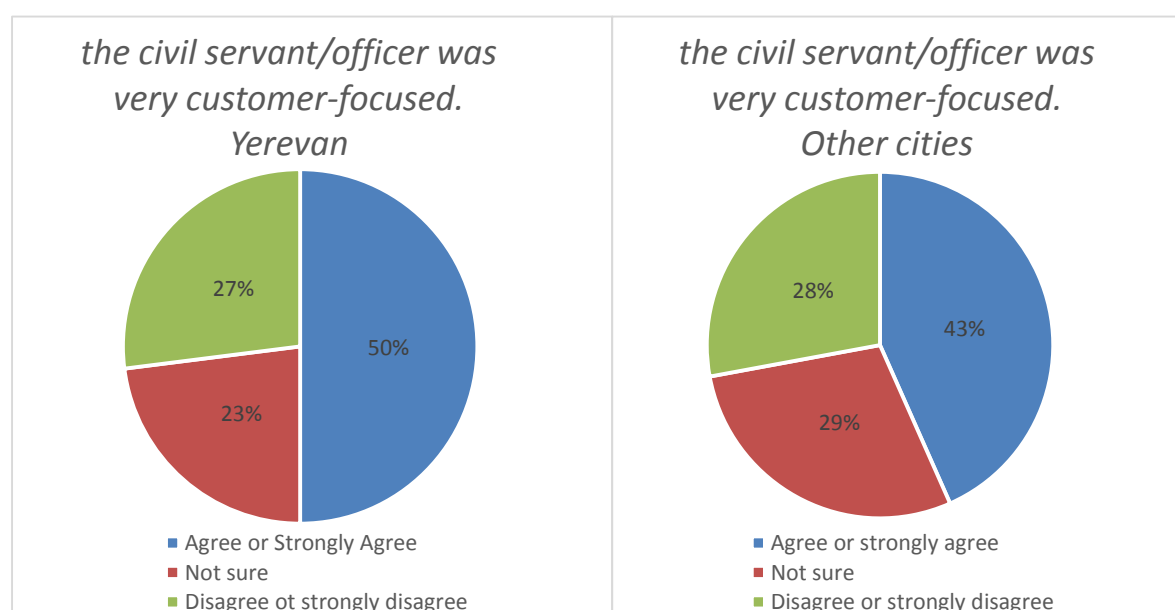
Descriptive statistics was performed to understand how different groups of citizens, segmented by gender, age, level of income, level of education and occupation, would respond to each statement. The first analysis performed on the collected data from the survey (administered on a random sample of citizens) showed that 60.5 percent of respondents were female and 39.5 male. The analysis by place of residence showed that 37 percent of respondents were from Yerevan and the remaining 63 percent were from Vanadzor and Gyumri.

The majority of respondents held a master's degree (38 percent), while 16 percent had a bachelor's degree; 17 percent had a technical/vocational diploma; and 17 percent had some college education; 5 percent had graduated high school; and only 2 percent held doctoratal or post-doctoral education. The respondents were classified in three age groups, where 65 percent were 18-31 years of age; 25 percent 32-50; and only 9.5 percent of the respondents were 51 and older. The next grouping was by level of income. The analysis showed that 62 percent of respondents were in the lowest income group, below AMD 100,000 per month (probably attributed to the fact that residents of Gyumri and Vanadzor have lower incomes compared to Yerevan); 20 percent were in AMD 101,000-200,000 income group; and 6

percent were in the next group; 7.6 percent in the fourth income group of AMD 301,000-400,000 per month; and only 3 percent in the last income group of AMD 401, 000 and above.

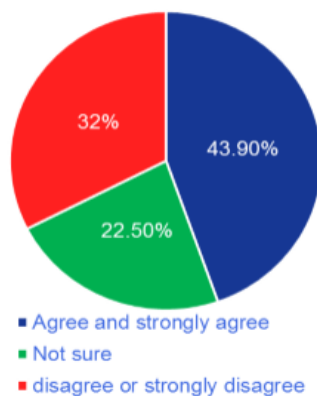
As was stated before the first part of the survey was designed to determine the level of citizens' satisfaction with the existing Civil Service in Armenia. The results show that 52 percent of the respondents answered that accessing a public service was easy or very easy; while 36 percent rated ease of access as neither easy nor difficult; and about 12 percent rated it hard and very hard.

The statistics demonstrate that ease of access to public services differs by place of residence, i.e., 72 percent of respondents in Yerevan had easy or very easy access to the services needed while in the other cities the majority of respondents scored at 46 percent and 39 percent, respectively. The same trend was also found with respect to civil servants' knowledge of the job and level of competence in the job. In Yerevan, 66.7 percent responded positively and much higher than respondents in other cities with 42.4 percent in favor of civil servants' being skilled and competent. As to the question on *“the civil servant/officer was very customer-focused”* the answers are shown in the charts below.

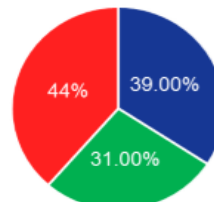


This shows that the levels of customer service are almost the same. This is not contradictory to the general public opinion that civil servants are not being trained in customer service or pay any serious attention to customer service.

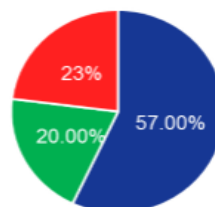
I'm fully satisfied with the service I received from start to finish



Other cities



Yerevan

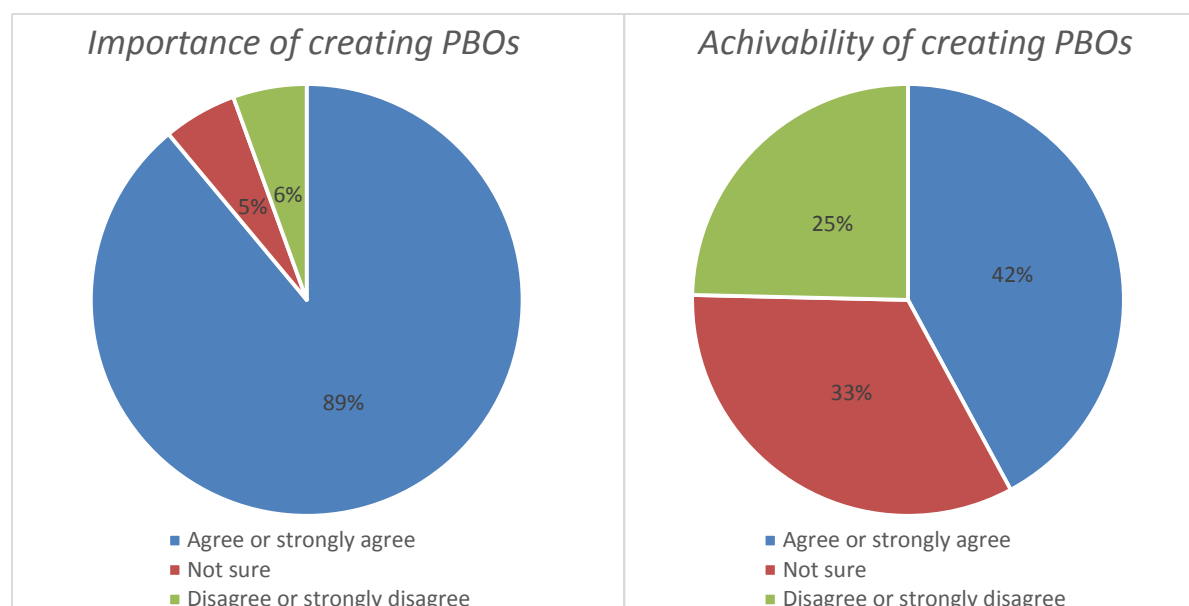


The accompanying chart shows the distribution of the answers to the question on the overall level of satisfaction from the services received. The key finding is that the number of respondents satisfied with the most recent

public service they used exceeds the number of respondents dissatisfied. However, as in the case of previous results, the level of satisfaction also differs by place residence. These results are somewhat understandable since many public services available in Yerevan, especially Passport and Visa Department of the Police, have implemented one-stop-shops allowing the residents of Yerevan to be provided with better and faster service by visiting a single office, while these same services have not yet been reformed in other cities and are still carried out in the traditional way.

Analyzing the same question by age, it was found that people belonging to the 51 and older age group are more satisfied with the extent of the service they received, with 57.9 percent agreeing or fully agreeing with the statement; 32-50 age group showed 48 percent; and the 18-30 age group was last with 43.4 percent agreeing or strongly agreeing with the statement.

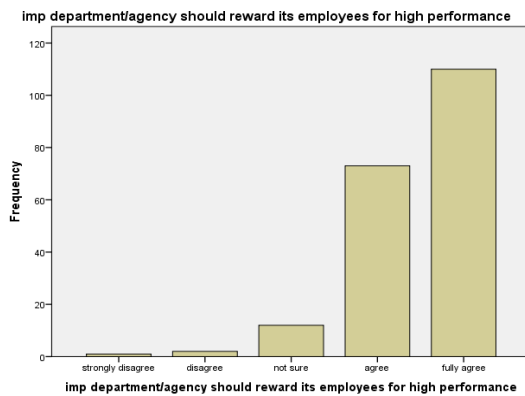
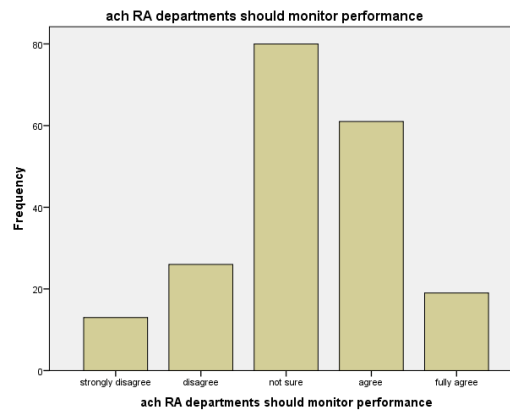
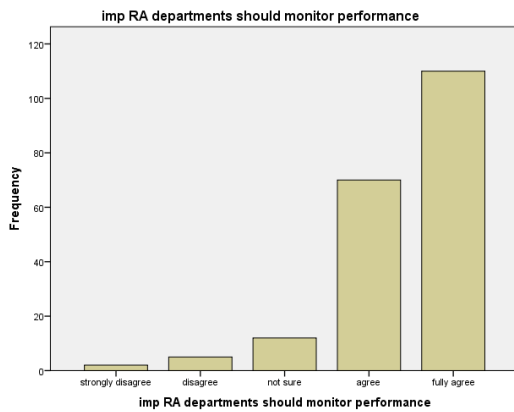
In the next segment, respondents were asked to evaluate certain statements characterizing the components of PBOs in terms rating each for *feasibility* as well as *importance* for Armenia. The results, as shown in the graphs below, show that the



majority of respondents (88.5 %) agreed or strongly agreed with the statement that it is important that the citizens should be treated as customers when requesting a public service. Only 5.5 % disagreed or strongly disagreed; and about 5.5 % were unsure. But in the section on rating the feasibility of such reform in Armenia, 23.4% disagreed or strongly disagreed with the statement; about 40 % of the respondents agreed and strongly agreed; and 25 percent were not sure.

The significantly high scores above for creating PBOs in Armenia can be explained by the desire of citizens to see changes in the work manner of public servants, as witnessed by the surveys, while a relatively low for the degree to which such reforms are feasible in Armenia can be attributed to the consistent mistrust in the government, as seen throughout the results of the study.

The responses are graphed below.



The majority of respondents gave positive answers to the importance of the question whether “Customer service in the RA government can be improved without requiring additional resources by creating organizations that are given strong incentives to perform at reduce costs.” While in the section of feasibility the vast majority of respondents were not sure that such change could be achieved in Armenia. Among the 201 respondents, the vast majority agreed or strongly agreed to the importance of adopting those changes in the civil service of Armenia institutionalizing many of the key features of PBOs, while in scoring the feasibility they scored significantly lower.

Means of the answers in terms of importance and achievability

	Importance	Achievability
Government to be customer oriented	4.42	3.24
Government ensuring customer service trainings	4.49	3.34
Government agencies working together, avoiding duplications and improve the quality of service	4.39	3.24
Government becoming more entrepreneurial	4.32	3.19
Government should treat its citizens as the business sector treats its customers	4.04	3.10
Departments to have clearly defined mission statements, easily understood by the general public	4.54	3.28
Government to monitor and evaluate performance	4.41	3.24
Civil service to be separated from policymaking	4.37	2.92
Performance reward system in government	4.46	3.19
Government to remove bureaucratic barriers to gain legislative/administrative flexibilities	4.45	3.17
Creating PBOs in RA government	4.11	2.99

Going back to the analysis, it managed to identify that there is some statistically significant correlation of **-.250** between place of residence and rating of the most recent service used in terms of *ease of access*.

Correlation N1

		rate the resent service used	residence
rate the resent service used	Pearson Correlation	1	-.250**
	Sig. (2-tailed)		.000
	N	200	200
residence	Pearson Correlation	-.250**	1
	Sig. (2-tailed)	.000	
	N	200	200

** . Correlation is significant at the 0.01 level (2-tailed).

Another negative correlation supporting this finding was found with **-.154** correlation coefficient at a 99% level of significance between place of residence and the satisfaction with the extent of service.

Correlation N 2

			residence	satisfied with the extent of service
Spearman's rho	residence	Correlation Coefficient	1.000	-.154*
		Sig. (2-tailed)	.	.031
		N	200	198
	satisfied with the extent of service	Correlation Coefficient	-.154*	1.000
		Sig. (2-tailed)	.031	.
		N	198	198

*. Correlation is significant at the 0.05 level (2-tailed).

This shows that residents of Yerevan are satisfied with the extent of service they are provided. The result of this analysis shows that the quality of service in the capital differs from the quality in other cities, as was discussed earlier.

Correlation N 3

		subjects gender	imp The government should treat its citizens as the business sector treats	imp citizens should be taken as customers
subjects gender	Pearson Correlation	1	.160*	.150*
	Sig. (2-tailed)		.025	.035
	N	200	197	199
imp The government should treat its citizens as the business sector treats	Pearson Correlation	.160*	1	.405**
	Sig. (2-tailed)	.025		.000
	N	197	197	196
imp citizens should be taken as customers	Pearson Correlation	.150*	.405**	1
	Sig. (2-tailed)	.035	.000	
	N	199	196	199

A weak positive correlation was found between the gender of respondents and the importance of treating citizens as customers females are more prone to see government treating its citizens as customers while there is no significant correlation between the same question and male respondents.

Correlation N4

		age group	residence	imp creating PBO
age group	Pearson Correlation	1	.282**	.259**
	Sig. (2-tailed)		.000	.000
	N	199	199	197
residence	Pearson Correlation	.282**	1	.290**
	Sig. (2-tailed)	.000		.000
	N	199	200	198
imp creating PBO	Pearson Correlation	.259**	.290**	1
	Sig. (2-tailed)	.000	.000	
	N	197	198	198

** Correlation is significant at the 0.01 level (2-tailed).

Positive correlation was also found between the question as to whether “Customer service in the RA government can be improved without requiring additional resources by creating organizations that are given strong incentives to perform at reduced costs” versus respondents’ age group (.259), and place of residence (.290). This shows that residents of Yerevan and people aged 18-31 are paying greater importance to creating such agencies within the government of Armenia. It should be added that several other correlations were identified as well, but these were quite weak and by-and-large insignificant to report

CASE STUDY OF ADA

In this chapter a comparative analysis of the ADA is conducted in compliance with the unique requirements and features of PBOs. The main goal of this case study is to identify if ADA can be considered as a hybrid PBO and if its experience can be used as a pilot to creating other PBOs in the government of Armenia. For that purpose six main criteria were identified and tested, taken from the framework documents of creating PBOs discussed in chapter two. The result of the case study showed that ADA has clearly a defined mission statement understandable by the general public that can be easily found in the official website of the agency along with objectives, goals as well as the list of services provided by the agency. Content analysis of the documents provided by ADA has shown that the agency tracks and monitors its performance with a set of key performance indicators such as quality, efficiency, and productivity, etc. The agency has a strategic plan with measurable goals dedicated to increasing operational efficiency and effectiveness.

By legal status, ADA is a closed joint-stock company (CTC), with the Republic of Armenia owning 100 percent of its shares. ADA’s annual budget is provided through state resources. Being free from bureaucratic ties and having some operational freedoms, has made possible for ADA to move away from traditional civil service bureaucracy and to adopt

a workable and successful customer-oriented and flexible management style grounded in private sector approaches. Annual performance plans with specific targets for the key measures required by the government were also identified. The main criterion which the agency did not meet was the performance reward system or pay-for-performance system.

A clearly defined mission statement that can be easily understood by the general public.	✓
A five-year strategic plan with measurable goals.	✓
A set of key performance indicators/measures, such as quality, financial, efficiency, productivity,	✓
Customer service standards taken from the business sector's best experience.	✓
Reward individuals for high performance	✗
Annual operating (performance) plan with specific targets for the key measures required by the Government	✓

The chart above demonstrates that ADA meets five out of six criteria of PBOs. Based on those results it can be stated that ADA is definitely an example of hybrid PBO in Armenia even without having a pay-for-performance system. Its twenty years of experience working as a hybrid PBO could be utilized for creating other similar agencies in Armenia.

MAJOR FINDINGS

The first finding is that the respondents and the experts interviewed showed support for adopting new business-like customer service in the RA civil service. It was also shown that recent trends in improving the work of the government come closer to key requirements and/or core elements of PBOs. More specifically, creating a government that is small in size, more accountable, and devoted to high performance. However, throughout all encounters with experts and survey responses, one comes across mistrust in government and the

feasibility of realizing much reform that would make the Armenian government more responsible.

Secondly, the findings from this research study also show that the level of satisfaction with the existing quality of government services varies among different city residents. While the residents of Yerevan are generally more satisfied with the extent/quality of service they receive at a particular government service they have used recently, mostly one-stop-shop passport service and other similar bureaus, the residents of the other cities were not satisfied with the extent, timeliness, and quality of service provided by any government service provider.

The third finding shows that ADA surpasses the traditional civil service of Armenia in terms of customer orientation, customer service, development and training of staff, clear direction in service priorities, monitoring and tracking performance, creation of environment ideal for good customer service, and commensurate remuneration. It is worth mentioning that although no pay for performance system was found at ADA, but salaries of ADA employees are far greater than other government offices and are fairly comparable to those in the public sector.

SUMMARY OF MAIN RESULTS

The main result derived from this research study lies in the significant difference in the level of satisfaction from current government services between the residents of the capital and other cities. While the residents of other cities are mainly satisfied with extent of service, the situation is quite opposite in other cities. The second result is that traditional civil service of Armenia lacks the level of automation and/or sophistication needed for improving performance of civil servants, improving the selection and hiring process of government employees, training them to be more customer oriented, and tracking actual performance

against planned targets. An interesting trend was identified that the majority of respondents are in favor of establishing performance-based operations within the government irrespective of gender, age, income level and place of residence, but mistrust in the capacity of the government to adopt/implement such systems appears to be ubiquitous.

TESTING THE HYPOTHESES

The first hypothesis is accepted, because analysis of the data adequately demonstrated that the majority of respondents support the components of PBOs taken separately; respondents are also supportive of increasing customer satisfaction and performance of civil servants.

The second hypothesis is partially accepted, as the data demonstrated that the level of satisfaction with public services differs by city of residence. When the residents of Yerevan are mostly satisfied with extend of customer service in civil service provided by the RA government in other cities the picture is quite opposite.

The third hypothesis is accepted partially. It was identified through the ADB case study, including the interviews of ADB officers, management and staff, that the agency does satisfy five out of six most key characteristics of PBOs, but it fails to fully be considered a hybrid PBO. Its experience of twenty years could be used for establishing other PBOs in fee-for-service governmental agencies.

FINDINGS AND DISCUSSION

Public servants are at the forefront of reform implementation management. The success of government programs and policies depends on the motivation, preparedness, knowledge and skills of public servants. That is the key driver of the large scale transformation taking place in governments worldwide. Governments are under tremendous

pressure to improve delivery of services to the public, under severe budget cuts. The improvement that is seen in many countries all over the world is derived mostly from the application of new management techniques and delivery systems used in the private sector and successful corporations.

In order to keep up with the developing world and weighing in the current political reality in the Republic of Armenia increases the requirement for timely and effective management oversight. Government organizations must be able to see the big picture, including the relationships, connections, and direction, as well as the detailed actions and resources to make informed decisions and improve outcomes. This is the promise of improved government performance management which is the main policy idea of PBOs.

SUGGESTIONS FOR FUTURE RESEARCH

1. To conduct more interviews among high-ranking government officials and civil service experts and representatives of the legislative branch.
2. To conduct more interviews among NGOs and other organizations, which are directly related to public service.
3. It is recommended that the surveys include a larger sample, i.e., more cities/towns to be more representative of the population. This will also contribute to more accurate and generalizable results.

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APPENDIX

Civil service expert N1

Interview Descriptors	1	2	3	4	5
The degree to which RA civil servants/officers are clear about service priorities				√	
The extent to which customer service trainings are implemented among RA civil servants/officers to demonstrate good customer service			√		
The extent to which RA government track and monitor civil service performance			√		
The degree to which high performance rewards and recognition programs are implemented among RA civil servants/officers		√			
The degree to which RA government facilitate the creation of an environment ideal for good customer service		√			

Civil service expert N2

Interview Descriptors	1	2	3	4	5
The degree to which RA civil servants/officers are clear about service priorities			√		
The extent to which customer service trainings are implemented among RA civil servants/officers to demonstrate good customer service			√		
The extent to which RA government track and monitor civil service performance			√		
The degree to which high performance rewards and recognition programs are implemented among RA civil servants/officers		√			

The degree to which RA government facilitate the creation of an environment ideal for good customer service			√		
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Civil service expert N3

Interview Descriptors	1	2	3	4	5
The degree to which RA civil servants/officers are clear about service priorities		√			
The extent to which customer service trainings are implemented among RA civil servants/officers to demonstrate good customer service				√	
The extent to which RA government track and monitor civil service performance			√		
The degree to which high performance rewards and recognition programs are implemented among RA civil servants/officers		√			
The degree to which RA government facilitate the creation of an environment ideal for good customer service		√			

Civil service expert N4

Interview Descriptors	1	2	3	4	5
The degree to which RA civil servants/officers are clear about service priorities				√	
The extent to which customer service trainings are implemented among RA civil servants/officers to demonstrate good customer service			√		

The extent to which RA government track and monitor civil service performance			√		
The degree to which high performance rewards and recognition programs are implemented among RA civil servants/officers		√			
The degree to which RA government facilitate the creation of an environment ideal for good customer service		√			

Civil service expert N5

Interview Descriptors	1	2	3	4	5
The degree to which RA civil servants/officers are clear about service priorities					√
The extent to which customer service trainings are implemented among RA civil servants/officers to demonstrate good customer service				√	
The extent to which RA government track and monitor civil service performance				√	
The degree to which high performance rewards and recognition programs are implemented among RA civil servants/officers			√		
The degree to which RA government facilitate the creation of an environment ideal for good customer service			√		

Interviews ADA

ADA expert N1

Interview Descriptors	1	2	3	4	5
The degree to which ADA employees are clear about service priorities				√	
The extent to which customer service trainings are implemented among the employees of the ADA to demonstrate good customer service.					√
The extent to which ADA executives track and monitor its employee's performance				√	
The degree to which high performance rewards and recognition programs are implemented among the employees				√	
The degree to which ADA facilitates the creation of an environment ideal for good customer service					√

Expert N2

Interview Descriptors	1	2	3	4	5
The degree to which ADA employees are clear about service priorities				√	
The extent to which customer service trainings are implemented among the employees of the ADA to demonstrate good customer service.					√
The extent to which ADA executives track and monitor its employee's performance				√	

The degree to which high performance rewards and recognition programs are implemented among the employees		√			
The degree to which ADA facilitates the creation of an environment ideal for good customer service				√	

Expert N3

Interview Descriptors	1	2	3	4	5
The degree to which ADA employees are clear about service priorities					√
The extent to which customer service trainings are implemented among the employees of the ADA to demonstrate good customer service.					√
The extent to which ADA executives track and monitor its employee's performance				√	
The degree to which high performance rewards and recognition programs are implemented among the employees			√		
The degree to which ADA facilitates the creation of an environment ideal for good customer service				√	

Expert N4

Interview Descriptors	1	2	3	4	5
The degree to which ADA employees are clear about service priorities				√	

The extent to which customer service trainings are implemented among the employees of the ADA to demonstrate good customer service.					√
The extent to which ADA executives track and monitor its employee's performance				√	
The degree to which high performance rewards and recognition programs are implemented among the employees				√	
The degree to which ADA facilitates the creation of an environment ideal for good customer service				√	

Expert N5

Interview Descriptors	1	2	3	4	5
The degree to which ADA employees are clear about service priorities					√
The extent to which customer service trainings are implemented among the employees of the ADA to demonstrate good customer service.				√	
The extent to which ADA executives track and monitor its employee's performance				√	
The degree to which high performance rewards and recognition programs are implemented among the employees		√			
The degree to which ADA facilitates the creation of an environment ideal for good				√	

customer service					
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Table N1



FY 2012 Performance Highlights of Federal Student Aid

Performance Metrics	FY 2012 Target	FY 2012 Actual	Result	Reference Page
Strategic Goal A: Provide superior service and information to students and borrowers.				
% of first-time FAFSA filers among high school seniors	>=52%	54.0%	Met 	50
% of first-time FAFSA filers aged 19-24 among those in population that are high school graduates, no college	>=27%	28.4%	Met 	51
% of first-time FAFSA filers among workforce aged 25+, high school graduates, no college	>=3.6%	3.7%	Met 	52
% of first-time FAFSA filers among low-income students	>=57%	63.1%	Met 	53
Customer satisfaction score (ACSI)	78	78.5%	Met 	54
Strategic Goal B: Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.				
Ease of doing business school survey (1-100 Scale)	>=72	74	Met 	55
Percent of borrowers >90 days delinquent	<=10%	9.5%	Met 	56
Strategic Goal C: Develop efficient processes and effective capabilities that are among the best in the public and private sectors.				
Aid delivery costs per application	\$10.90	\$10.85	Met 	57
Loan servicing costs per borrower	\$19.64	\$18.94	Met 	58
Strategic Goal D: Ensure program integrity and safeguard taxpayers' interests.				
Improper Payment rate	Set baseline	Pell Grant 2.10% Direct Loan 0.58% FFEL 1.93%	Met 	59
Direct Loan default rate	<=11.3%	9.6%	Met 	60
Collection rate	Set baseline	\$31.90	Met 	61

Survey sample

1. Gender

- ☐ Male
- ☐ Female

2. Age group

- ☐ 18 - 31
- ☐ 32 - 50
- ☐ 51 +

3. Level of personal income

- ☐ Below 100 000 AMD
- ☐ 101,000-200 000 AMD
- ☐ 201,000-300 000 AMD
- ☐ 301,000-400 000 AMD
- ☐ 401,000 AMD and above

4. Which of government services listed below have you used in the last 2 years?

- ☐ Republic of Armenia Police
- ☐ State Committee of the Cadastre
- ☐ Passport and Visa Department of the Police
- ☐ State Property Management Department
- ☐ RA State Revenue Committee (tax and customs)
- ☐ National Healthcare Agency

- ☐ State Social Security Service
- ☐ RA Accreditation Agency
- ☐ RA Intellectual Property Agency
- ☐ Civil Registry Agency
- ☐ Agency of the Public Register of Legal Entities
- ☐ National library
- ☐ Other _____

5. How would you rate the most recent service you used in terms of *ease of access*?

- ☐ Very hard
- ☐ Hard
- ☐ Neutral
- ☐ Easy
- ☐ Very easy

6. Please rate the statements that follow using the most recent government service that you have used, which is _____

Please rate the following statements on a scale of 1-5, Where:

1 = strongly disagree, 2= disagree, 3= not sure, 4=agree, 5= fully agree

The time it took to complete the service task from start to finish was very reasonable and acceptable	1	2	3	4	5
The waiting time to get to my turn was very reasonable and acceptable	1	2	3	4	5
The service I was provided, including related information, was complete, precise, and accurate	1	2	3	4	5
The officer/civil servant attending to my request was very courteous and understanding of my need(s)	1	2	3	4	5
The whole service was completed in one visit and by a one-stop-shop	1	2	3	4	5
The civil servant/officer was responsive to my unusual circumstance and knew what	1	2	3	4	5

to do					
The civil servant/officer was well-trained and competent in his/her position	1	2	3	4	5
The civil servant/officer was friendly and treated me with respect	1	2	3	4	5
I civil servant/officer was very customer-focused	1	2	3	4	5
The service I received was complete and did not require reentry to the same or any other office	1	2	3	4	5
I'm fully satisfied with the service I received from start to finish	1	2	3	4	5
I am fully satisfied with the extent and thoroughness of the service	1	2	3	4	5
The fee for the service I received is fair and fully justified	1	2	3	4	5

Please rate the following statements on a scale of 1-5, Where:

1 strongly disagree, 2= disagree, 3= not sure, 4=agree, 5= fully agree

Achievable in Armenia
Armenia

Important for

1	2	3	4	5	RA civil servants/officers should view the public services requesters as their customers whose needs should be met to the fullest	1	2	3	4	5
1	2	3	4	5	The government should ensure that civil servants/officers assigned to respective positions are trained in customer service	1	2	3	4	5
1	2	3	4	5	The government agencies should work together to share common practices, avoid duplication and improve the quality of service	1	2	3	4	5
1	2	3	4	5	The government should become more entrepreneurial, and dedicated to customer satisfaction	1	2	3	4	5
1	2	3	4	5	The government should treat its citizens as the business sector treats its customers	1	2	3	4	5
1	2	3	4	5	All RA departments must have clearly defined mission statements that are easily understood by the general public	1	2	3	4	5
1	2	3	4	5	All RA departments should monitor performance and review and evaluate the progress made towards meeting goals, objectives, and service standards	1	2	3	4	5
1	2	3	4	5	Operational sections of RA departments should be separated from policymaking sections	1	2	3	4	5
1	2	3	4	5	The department/agency should reward its employees for	1	2	3	4	5

					high performance in order to increase quality of work					
1	2	3	4	5	The RA government should remove certain barriers in order to improve organizational performance and adopt administrative and/or legislative flexibilities	1	2	3	4	5
1	2	3	4	5	Customer service in the RA government can be improved without requiring additional resources by creating organizations that are given strong incentives to perform at reduce costs	1	2	3	4	5