Marketing of Local Public Services under the Reduction of Administrative Expenditures

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Abstract. The concerns for reducing administrative expenditures have been expressed in the last 10-15 years in concrete initiatives. It is worth to remark the occurrence of networks concerning the application of Standard Cost Model (SCM), aimed to reduce administrative expenditures for affairs. Even the European Commission aims to elaborate and implement a strategy to reduce administrative costs for affairs inside the European Union. We find similar initiatives in OECD, several European states, i.e. United Kingdom, Denmark, Netherlands, Sweden, Norway, as well as other countries. An international project “Cross Country Benchmarking” is important in this respect.

These concerns have developed and diversified due to the worsening of the economic crisis. The crisis effects, already visible in the public sector too, lessen more and more the possibilities of satisfying the citizen’s needs. The marketing specialists bring up more and more frequently new marketing instruments that, giving the context, should generate products and services meant to satisfy the citizens’ needs. The product and service, in itself, as well as their price, become the main marketing instruments. The present paper proposes an assessment, based on the two instruments of the public marketing mix, of the way in which the reduction of the administrative expenditures can lead to a reduction in the price of the public services or to their diversification with regard to the consumers’ needs. By using elements specific to the production theory, the product management shall be substantiated, as well as the strategies regarding the prices of the public services.

Key words: public marketing; administrative burden; strategies; expenditure reduction.

JEL Codes: H76, M31, M38.
REL Codes: 13G, 14G.
1. Introduction

From private marketing to public marketing

Improving the activities of the public organisations makes more and more reference, in the last decades, to adopting and adapting the instruments that the private sector is using in order to carry out its activity more efficiently. From the practices transferred from the private to the public sector, we emphasize: measuring and assessing the activities, cost-benefit and cost-effectiveness analyses, subcontracting (Kotler, Lee, 2007, pp. 8-9), etc. For the public service marketing, there are extended relevant analyses from Bréchignac – Raubaud (2001), Matei (2006), as well as Proctor (2007). At the same time, theoretical or empirical specialised researches deserve to be mentioned, as they capture particular aspects of public marketing; in the public administration, Nedelea (2007), Matei (2008) or, in general, the non-profit sector, Burguete Vazquez (2004), Mauri (2004), Toca (2007), Hintea (2008), and others, as well as their implications in the quality of the local services: Gutierez Rodriguez (2009), or in the public service performance: Matei and Matei (2008). The literature, through papers of reference in the field, Kotler and Lee (2007), emphasizes the need for a new approach of the issue of marketing in the public sector, starting from the observed reality in many public institutions, where the marketing concept comes down to one of its instruments, namely promotion. “Marketing turns out to be the best planning platform for a public agency that wants to meet citizen needs and deliver real value. Marketing’s central concern is producing outcomes that the target market values. In the private sector, marketing’s mantra is customer value and satisfaction. In the public sector, marketing’s mantra is citizen value and satisfaction.” (Kotler, Lee, p. 11).

The administrative burden – strategies and mechanisms of reduction

The concerns for adequate administration of public expenditure have been always present with the main objective focused on efficient use of resources in view to obtain high economic performance.

In the latest 10-15 years to these efforts, some concrete initiatives were associated on reducing public expenditure, both for the public sector and private sector.

The terminology and contents of administrative costs are different and depend on the analysed situations and contexts. In various situations, they refer to expenditure for achieving the information obligations. According to the International Standard Cost Model Manual, the administrative burden refers to “expenditures generated in companies, when they meet the information obligations, required by public administration based on the legislative rules”.

The extension of this issue towards the public sector will lead to an extension of the sphere of administrative burden to “compliance costs for enterprises, services and citizens, including administrative and bureaucratic (operational) costs as well as capital costs”.
reduce the administrative expenditures for businesses. Even the European Commission aimed to elaborate and implement a strategy for reducing the administrative costs for the businesses inside the European Union. We find similar initiatives in OECD and several European states as well as other countries, for ex. United Kingdom, Denmark, Netherlands, Sweden, Norway etc.

SCM Network comprises for the time being over 19 states and organisations, and recently also Romania. In fact, for Romania, the Strategic Plan of the General Secretariat of Government for the period 2007 – 2009 – management component – comprises as priorities on medium term, “preliminary analysis of the issue of administrative burden, development of a general methodology to assess the administrative costs and to elaborate a concrete action plan in order to implement the Standard Administrative Cost Model”(2).

Public expenditure represents “the ensemble of annual expenditure with public nature of a country, financed on the basis of public budgetary resources” (Dobrotă, 1999, p. 98). In fact, public expenditure reflects the political choices of the Government, representing costs of the elements of economic policy aiming to deliver public goods. These costs relate to delivering goods through the budget of the public sector or represent expenditure in the private sector, induced by regulations and laws made by the public sector.

What we called the administrative burden of private companies can be framed in this second category of expenditure. The costs from the first category are in fact public expenditure, as such, of which a part represents the costs of bureaucracy in any public administration. In an extended meaning for the administrative burden, the costs of bureaucracy are in this category for a public administration.

The premises of a strategy of public marketing based on the reduction of administrative burden

The most relevant instruments for the substantiation of a public marketing strategy for local public services under certain reduction policies for the administrative burden will be the product management and the price. By product it should be understood both public goods and services. The product management will consider their components and their types in the public sector. The discussed marketing strategy will comprise both the preliminary ideas with regard to the target-markets, the product positioning, as well as the other elements of the marketing mix. For the local public services the sales prognoses refer to the utilization degree or the anticipated participation level.

The economic analysis represents the basic operation for the assessment of the economic attractiveness. This refers mainly to the anticipated total cost (\(C_t\)) and to its comparison to the financial or non-financial benefits of the public service. The economic analysis creates the necessary link between the two named marketing instruments. The anticipated total cost will substantiate the price as the most important factor that influence the decision of a buyer. From this perspective, the most relevant aspects that are to be taken into account in the local public services will be:
Through the applied price, the public service pursues to cover its direct costs and its eventual indirect costs, or to maximize its sales, the degree of participation or utilization; The assessment of the public market demand or, better said, in the public sector, the citizen’s interest; Establishing the demand sensitivity against the price; Assessing the product cost, more precisely the direct costs and the indirect ones; Pointing out the weight of the administrative expenditures in the product cost and of the demand elasticity against their variation.

The reduction of the administrative expenditures and, as a consequence, of their weight in the final price of the product will substantiate for a public organization, its own strategy of price adjustment. The field literature (Kotler, Lee, 2007, p. 76) points out also other elements of the strategies of prices’ adjustment in the public sector through the use of vouchers, special tariffs, discounts, etc.

I. The administrative burden

1.1. The evolutions

The weight of public expenditure is different and depends on the development levels for the public or private sector. Reported to the latter, the administrative burden in the public sector will have a certain non-linear evolution. It is worth to mention the models formulated by Musgrave (1974) and Rostow (1960), stating that in the earlier stages of growth and economic development, investments in the public sector are high, providing the core social infrastructure. The purpose of these investments is to help economy to reach higher development stages, where, although the state will continue investments, their role will be to complete the private investments. The conclusions of the two economists are relevant also for the evolution of the administrative burden, both in the public and private sector.

While total investments increase as proportion from GDP growth, the relative share of the public sector decreases (Musgrave, 1974, p. 35).

When economy reaches the maturity stage, the mix of public expenditure will be oriented from the expenditure for infrastructure to expenditure for education, health and welfare services (Rostow, 1960, pp. 9-10).

Therefore, if we take into calculation the total administrative burden obtained by summing up those from public and private sector:

\[ PA_{tot} = PA_{public} + PA_{private} \]  

(1)

it will have the following characteristics:

- \( PA_{tot} \) can be considered constant, for certain periods of economic development;
- \( PA_{public} \) and \( PA_{private} \) are variables in time;
- between \( PA_{public} \) and \( PA_{private} \) there is bidirectional transfer due to effects of dislocation between public and private expenditure, specific for different periods of economic and social development.

The above assertions are based on Peacock-Wiseman analyses, stating that: “Governments have the trend to spend more money and the citizens do not wish to pay many taxes. Consequently, the Governments
should take into consideration the wishes of their citizens” (Payne et al., 2006, p. 37). In this context, it occurs the so-called *effect of dislocation*, namely the public expenditure dislocates the private expenditure in certain periods, such as crises periods.

I.2. The assessment

The idea to assess the administrative burden is based on simple judgments, focused on the structure of the public sector, respectively private sector. In the specialised literature, public expenditures are grouped depending on different administrative or economic criteria. An administrative classification of expenditures could be as follows:

- *organic*, when expenditures are grouped depending on institutions: ministries and other central bodies, administrative-territorial units, other public institutions;
- *functional*, when expenditures are grouped depending on the profile of the activity of public institutions: public power and general administration, justice and police, international relations, army, culture, education, social actions, economic actions.

Taking into account the economic criterion, the classification is as follows: operational expenditure, transfer expenditure and investment expenditure. In this context, the administrative burden in the public sector will be included, mainly, in the operational expenditure and it will be direct proportional with the number and size of the institutions concerned.

The assessment of the administrative burden in the business environment, consequently in the private sector, takes into consideration another philosophy. The roots of such activity are situated in the Netherlands, when at the beginning of 1990s it formalised the first methods for assessing and reducing the administrative burden for small and medium-sized enterprises. The practical experience and positive results of the Netherlands were undertaken by several EU Member States, representing general concerns of each organisation to reduce bureaucratic expenditures.

The administrative burden, as shown in the introduction of this paper, represents those expenditures done by a company to achieve its information obligations to the state. Consequently, the assessment activity for the administrative burden should start with precise identification of information obligations. “An information obligation (IO) represents the duty to draw up and keep record of certain information and to make them available to public administration or other authorised institutions. It is a compulsory activity for companies. Each information obligation comprises a number of data requirements, and the companies should submit them” (3).

The assessment of the costs for administrative activities imposed by IO respect the following scheme, which represents in fact the structure of SCM.
Combining the components above described, we obtain the core formula for SCM:

\[
\text{Administrative cost}^{(3, 4)} = \text{Price} \times \text{Time} \times \text{Quantity} \quad (2)
\]

where:

- **Price**: price consists of a tariff, wage costs plus overhead for administrative activities done internally or hourly cost for external service providers;
- **Time**: the amount of time required to complete the administrative activity;
- **Quantity**: comprises the size of the population, the accomplished businesses affected and the frequency of the activity that must be completed each year.

### 1.3. EU – the need of a “fresh wind” on reducing bureaucracy

In the EU, since the middle of 1990s, we witness the pressure for reducing the administrative burden, necessary to be paid to administration. This effort embraces various forms: “best practice”, “one-stop-shop”, etc.

Since January 2008, at EU level, a group of 15 experts was set up, led by the former Prime Minister of the German Land Bavaria, Edmund Stoiber, group subordinated to Commissioner Günter Verheugen, direct responsible with reduction of bureaucracy in the EU. Stoiber wants to make “brave recommendations”, wants to bring “fresh wind” in the too quiet EU initiative on reducing bureaucracy, declares his spokesman.

The expenses due to EU compulsory bureaucratic requirements should decrease by 2012 by 25%, meaning around 150 billion Euros for the European economy. Roland Berger expert, belonging to the group in the European Commission, states: “without discussions, we shall develop new proposals. Beyond the existent laws, we shall take into consideration new laws. Additionally, we should analyse what has to be regulated at EU level and what has to be solved at national level. In this situation, it is compulsory to put under the question mark the tasks received and assumed by EU bureaucracy up to the present.”
The European Union has three priorities in the next three years for SMEs:

- reducing bureaucracy by 25%;
- intensifying youth qualification for the economic activities;
- increasing (direct and indirect) EU financing for SMEs in 2007-2013; it will be by about 50% greater related to the previous period of time. SMEs in the EU spend 5% with bureaucracy from their revenues; 30% from the expenses with bureaucracy of SMEs can be reduced in the next years, signifying tens of billion euros available for SMEs development and consumption;
- creating a commission for reducing the administrative burden for SMEs that received already 600 proposals and it analyses them; EU launched an action to simplify the existent legislation, aiming:
  - to eliminate the useless provisions and regulations;
  - to eliminate the provisions repeated in several regulations;
  - to eliminate the provisions that cannot be applied.

I.4. Romania – incipient stage

The topic of reducing the bureaucratic expenses was introduced recently on the working agenda of the public authorities. In the first part of the paper we presented the introduction of this topic in the Strategic Plan of the General Secretariat of the Government for the period 2007 – 2009.

The Governance Programme 2009-2012 stipulates the elimination of the administrative barriers through:

- elaboration of simple, clear and stable legislation;
- simplification of formalities on companies entrance and exit from the market;
- reduction of administrative procedures on obtaining authorisations, approvals and certificates.

In order to simplify the procedures for authorisation of the activity of the companies, there are taken into consideration the following:

- elimination of double copies and authorisations, certificates, licences and permits that are not compulsory according to acquis communautaire and practices in the EU Member States;
- implementing unitary procedures in order to obtain authorisations;
- simplifying the application of tacit procedure by:
  - recognising the authorisation based on the certificate issued by the register of the public authority, attesting that the inquiry was submitted and it was not issued in the legal term;
  - establishing the individual accountability and contravention accountability for the staff with tasks in issuing the certificate;
  - reducing the terms to issue the authorisations, certificates, licences and permits for the companies, so that the highest term will be of 15 days (instead of 90 days). If the authorisation is not obtained in 15 days from the competent authority, it is tacit approved.

In order to reduce the bureaucratic expenses, a specialised website should be
achieved, providing all the information necessary to obtain authorisations, certificates, licences etc. The website should be achieved under Government patronage and it should be updated permanently.

It should be implemented an electronic system to submit online the demands in order to obtain authorisations, certificates, licences and permits for the activity of the companies.

All these actions aim to reduce bureaucracy and administrative expenditures on authorising the company activity, improving the transparency and simplifying the administrative procedures, enhancing the relation of administration with the companies.

Since January 2008, Romania, through the General Secretariat of the Government, belongs to the network of the users of the instrument on standard expenditures. The governmental strategy will have a chapter dedicated to reducing bureaucracy. In this chapter the focus will be on the financial aspect and simplification of legislation. The Government should have established the percentage to reduce the bureaucratic expenditures. At EU level, this percentage represents 25%. For Romania, the objective is to have a competitive percentage.

The initiatives to reduce the administrative burden of enterprises were focused on the SMEs sector, for the beginning.

In 2006, it was achieved the inventory for authorisations, certificates, licences and permits for the activity of companies, finding out that 34 public institutions have competences in their issuance. It is a total number of 534 authorisations, certificates, licences, permits and there are authorisations under the responsibility of several public institutions.

The real number of authorisations, certificates, licences and permits is 488; the difference between the total number and the real number results from the existence of double competences for issuance.

The legal duration to issue authorisations, certificates, licences and permits is between 5 working days and 90 days, only for 21.3% of the authorisations (only 104) the procedure of tacit approval is apply.

II. Determining the economic performance when reducing the administrative burden

The proposed model starts from the idea that the economic performance in the public sector is determined also by the used strategies of public marketing. The quantitative approaches are necessary in order to substantiate the marketing instruments described in the introductory part of the paper.

As a consequence, we shall start from an approach, which has become classical, of the production process in an enterprise, using the function of production, Cobb-Douglas.

\[ Y = A \times K^\alpha \times L^\beta \]

where:

- \( Y \) – output resulted from the production process;
- \( K \) – fix capital of the enterprise used in the production process;
- \( L \) – labour force involved in the production process;
- \( A, \alpha, \beta \) are constants with economic significances, well established, namely:
  - \( A \) – coefficient of dimension, \( \alpha \) - elasticity of production related to capital, and \( \beta \) - elasticity of production related to labour force. We will consider the variables and
coefficients as value expression.

From (3), a series of performance indicators can be defined, mentioning the average productivity (average output) as well as the marginal productivity (marginal output). On its turn, the average productivity can be determined depending on capital ($R_K$) or labour force ($R_L$) as follows:

$$R_K = \alpha K^{\alpha-1} \times L^\beta,$$

(4) respectively,

$$R_L = \alpha K^{\alpha} \times L^{\beta-1}$$

(5)

II.1. The formal model

The model describing the influence of reducing the administrative burden on the economic performance is based on the following important hypotheses:

- in the public organisation there is a policy for reducing the administrative burden, determined both by own, internal measures and external measures;
- the administrative burden is within a relation of proportionality both with the total capital, $K_t$, and total labour force, $L_t$.

In a simplified expression, this second hypothesis is translated through existence of positive, sub unitary constants $\lambda$, $\mu$ so that the administrative burden $PA$ is as follows:

$$PA = \lambda K_t + \mu L_t$$

(6) under the situation of reducing the administrative burden, the flows of money are used exclusively in production, assuming that they will determine an increase and a diversification of it.

Consequently, in the absence of other influences, we shall have:

$$K_t = K + \lambda K_t$$

(7) $L_t = L + \mu L_t$

Solving (5) and introducing in (3) we obtain:

$$\frac{Y}{(1-\lambda)^\alpha (1-\mu)^\beta} = \alpha K_t^\alpha \times L_t^\beta$$

(8)

If we write:

$$Y_i = Y / \Pi k_i$$

(9) $Y_i$ will have the significance of a total production that will be obtained using totally the capital and labour force, so with zero administrative burden.

The expression: $k = (1-\lambda)^\alpha (1-\mu)^\beta$ (10) will be defined as a factor of influence for the administrative burden on production.

- In the case of a policy for reducing the administrative burden spread out on several years, $n$, we obtain a succession of effects overlapped, due to annually factors of influence, $k_1, k_2, ..., k_n$ and consequently:

$$Y_i = Y / \Pi k_i$$

(11) where:

$$k_i = (1-\lambda_i)^\alpha (1-\mu_i)^\beta$$

(12) represents the factor of influence of the administrative burden on production in the year $i$.

Through a similar judgment we obtain factors of influence on average productivity depending on capital, $k_K$, or depending on labour, $k_L$, namely:

$$k_K = (1-\lambda)^{\alpha-1} (1-\mu)^\beta,$$

(13) respectively,

$$k_L = (1-\lambda)^\alpha (1-\mu)^{\beta-1}$$

(14) In the context of the theoretical model design, the total cost ($C_t$) will be:

$$C_t = K_t + L_t$$

(15)
So, the final price of the product, $P_f$, will be stated against the initial price, $P_i$, as it follows:

$$P_f = \frac{C_I}{Y_t} = \frac{C_i}{Y} \times k = P_i \times k$$ \hspace{1cm} (16)

From (16) results an assessment of the price reduction due to the reduction of the administrative burden. It can be observed that in the scientific substantiation of public marketing, the influence factor of the administrative burden upon production has an essential role.

II.2. An empirical model

In order to provide an example on the above mentioned issues, we turned into consideration the autonomous regies RA “Apa”, Braila, Romania, (RA “Water”), whose general objective is to develop the system of water and sewerage at local level through modernisation and its enlargement to peripheral areas of Braila Municipality.

Analysing the statistic data during 2000 – 2005 we obtain:

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (Y)</th>
<th>Capital (K)</th>
<th>Wage expenses (L)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>12,510,578</td>
<td>24,253,760</td>
<td>4,821,499</td>
</tr>
<tr>
<td>2001</td>
<td>11,430,219</td>
<td>18,552,430</td>
<td>5,675,151</td>
</tr>
<tr>
<td>2002</td>
<td>12,490,810</td>
<td>20,537,752</td>
<td>5,122,277</td>
</tr>
<tr>
<td>2003</td>
<td>13,821,040</td>
<td>25,003,426</td>
<td>6,069,335</td>
</tr>
<tr>
<td>2004</td>
<td>15,733,981</td>
<td>25,683,846</td>
<td>6,841,239</td>
</tr>
<tr>
<td>2005</td>
<td>18,844,835</td>
<td>31,368,067</td>
<td>7,813,556</td>
</tr>
</tbody>
</table>

From Table 1, in the same manner, through approximation:

<table>
<thead>
<tr>
<th>Year</th>
<th>ln Y</th>
<th>ln K</th>
<th>ln L</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>30.3</td>
<td>30.8</td>
<td>19.5</td>
</tr>
<tr>
<td>2001</td>
<td>29.7</td>
<td>30.5</td>
<td>20.2</td>
</tr>
<tr>
<td>2002</td>
<td>28.7</td>
<td>30.7</td>
<td>19.8</td>
</tr>
<tr>
<td>2003</td>
<td>30.2</td>
<td>30.8</td>
<td>20.2</td>
</tr>
<tr>
<td>2004</td>
<td>30.3</td>
<td>30.9</td>
<td>20.3</td>
</tr>
<tr>
<td>2005</td>
<td>30.8</td>
<td>31.3</td>
<td>20.6</td>
</tr>
</tbody>
</table>

From calculation reasons, in order to determine in a unique manner, the constants $A$, $\alpha$, $\beta$, we shall divide the analysed period in two sub periods, 2000 – 2002, respectively 2003 – 2005, and we shall obtain for the first period:

$$\alpha = \frac{3}{2}, \quad \beta = -\frac{1}{4}.$$

In order to ensure that these constants are unique we shall repeat the procedure for the second period of time. After checking, the results are compatible.

III. Conclusions - a hypothetic situation regarding the substantiation of a public marketing strategy

Formulating a hypothetic situation for reducing the administrative burden at the level $l = 5\%$ and $m = 10\%$, we obtain, using (10), that the value of the factor of influence on production is:

$$k = \sqrt{\frac{19}{20}} \times \sqrt{\frac{10}{9}} = 0.951$$ \hspace{1cm} (18)

Consequently, the limitation of the administrative burden at the level above described will involve an increase of...
production by $1/k = 1.051$, namely 5.1%. Calculating the average productivity depending on capital or labour, we shall discover that the reduction of administrative burden does not lead necessarily, at least for the present example to its increase.

In fact, using (13), respectively (14), we get:

$$k_K = 1.0006, \quad k_L = 1.056 \quad (19)$$

leading to the following finding: an insignificant reduction of the average productivity depending on capital and a reduction by 5.3% of productivity depending on labour force.

Therefore, the conclusion is as follows: while reducing the administrative burden there are necessary measures to change the structure of production so that the average productivity increases, in the same time with the increase of the total production.

In what regards the price, according to (16) and (18), it will suffer a reduction of 4.9%.

**Notes**


(5) A similar and detailed description can be found in Matei, A., (2008), Performance of Public Expenditure Management at Local Governance in Romania, Transylvanian Review of Administrative Sciences, no. 23E/June/2008, pp 59-74

(6) Data from the Bulletins of the National Institute of Statistics during 2000 – 2005 as well as from reports and financial statements, transmitted by R.A. „Water” to local authorities.

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