

Performance management within the public accountability framework in Estonian local governments

accountability; local governments; PDCA cycle; performance management

The main purpose of this paper is to assess the capacity of the performance management systems of local governments in promoting public accountability to its stakeholders using the PD-CA cycle model. This study uses primarily document content analysis, reviewing and analysing the information contained in strategic and operational plans, budgets and annual reports of 25 municipalities of Estonia in the year 2012. Results show that the annual budgeting, reporting and decision-making follow a closed-loop cycle, but the integration of strategic planning into the on-going management process is still not observable to the general public, resulting therefore also in weak public accountability and poor governance arrangements.

I. Introduction

The main purpose of this paper is to assess the capacity of the performance management systems of local governments in promoting public accountability to its stakeholders. The present study focuses on the performance information produced in the various stages of the performance management system using the PDCA (Plan-Do-Check-Act) cycle model (Deming 2000; Epstein/Campbell 2002), in Estonian local governments (LG). The performance information is analysed from the public accountability perspective.

The research issues addressed in this paper are as follows:

- How comprehensive and variable is public performance information in various stages of performance management of LGs?
- Are the performance management and local governance arrangements promoting public accountability to the stakeholders of the LG from the perspective of collaborative partnership?

This study uses primarily document content analysis, describing and analysing the performance information from the public accountability perspective. The information contained in strategic and operational plans, budgets and annual reports of 25 municipalities of Estonia in 2012 is reviewed and analysed.

The rest of the paper is structured as follows. First an overview of the literature concerning local governance and public accountability in a performance management framework from the perspective of collaborative partnership is given to establish the theoretical framework for the study. Then an overview of the general framework of performance management arrangements in Estonian LGs is reviewed. Section IV. gives a short overview of the methodology used. Sec-

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tion V. presents the results of the analysis of disclosed performance information in the documents of 25 municipalities. To conclude the paper a number of key messages are highlighted.

II. Literature review

“Governance” in the public domain is a relatively recent concept (Bovaird 2005). The appearance of “governance without government” has partly emerged from the limitations of New Public Management (NPM) being inadequate to explain in appropriate way the more complex and dynamic processes of contemporary public decision making (Bovaird 2005). Peda (2012) stresses that the availability of the performance-related information plays an important role in aligning governance actors’ interests through established governance mechanisms. Local governance can be viewed as interplay of structures, processes and other mechanisms linking networks of stakeholders for the purposeful achievement of outcomes valued by external stakeholders (Bovaird/Loeffler 2007). According to Riege and Lindsay (2006) stakeholders in public policy may include any person or organisation whose interest may be positively or negatively affected, whereas the local residents can be considered a primary group of stakeholders for local governance. Peters (2011) argues that successful governance requires at least the fulfilling of goal selection, goal reconciliation and coordination, implementation, feedback and accountability. According to Loeffler (2009) and Bovaird and Loeffler (2002) in order to move more towards the local governance, the local government institutions need to consider governance as a process of interaction involving also the following aspects:

- Introducing long-term plans and asset management for the whole community.
- Publishing of performance information based on the needs of community stakeholders.
- Involving stakeholder groups into the definition of performance standards and performance measurement against the results achieved in other communities.
- Encouraging innovation and learning at multiple levels.

The elements of local governance described above reflect the idea of the PDCA (Plan-Do-Check-Act) cycle (Deming 2000) consisting of four stages (Epstein/Campbell 2002; Haldma et al. 2008):

- strategic and annual planning (Plan);
- performance budgeting (Do);
- performance measurement and reporting (Check);
- performance-based decision making (Act).

The stages of the cycle cover different elements of performance management. As stated by Bogt (2001, p. 621) only integrated information about proposed (e.g. budgeting) and realised performance (e.g. accounting) can contribute to the effective control. Poister (2010) underlines that there are tight links between strategic planning and performance measurement – strategic planning on the one hand establishes a frame for performance management, on the other hand performance management feeds information into the strategic planning system, enabling the clarification and adjustment of goals. According to Haldma et al. (2008), we know, that the integration of strategic goals through measures and activities into the management process of the local government authority indicates, to what extent the interest of general public are taken into

account while providing public services. In order to be accountable to the general public for attainment of these goals, the integration of the goals into the management process has to also be disclosed in comprehensible way to the general public. Performance-based budgeting as an element of PMS has been broadly seen as a method linking performance information to budget allocations (Robinson/Brumby 2005; Hatry 1999). Curristine et al. (2007) distinguish presentational, performance-informed and direct/formula performance budgeting depending on the strength of the links between performance information and respective budget allocations.

Berry and Wechsler (1995) pointed out that the plans and budgets are very seldom revised or changed based on actual performance evaluation or measurement results. Also Globerson (1985) underlines the need for constant comparisons of planned results with actual results and enforcing corrections in strategic or action plan on the basis of those evaluations as key components of an effective performance management system. Therefore, it is crucial that the plans and reports are designed in the same format in order to provide capacity for comparisons and consequently also accountability.

Performance measurement and evaluation in local governments is widely recognised in connection with increasing demands for accountability. Accountability is often taken for granted as a critical element of democratic public administration (Anderson 2009), presented as essential for democracy and often as a path to efficiency and effectiveness (Bovens 2005; Brandsma/Schillemans 2013). Still, remarkably little is known how it works in the practice (Brandsma/Schillemans 2013). Roberts and Scapens (1985) see accountability as “the giving and demanding of reasons for conduct” (Roberts/Scapens 1985, p. 447). According to Bovens (2005) public accountability first relates to openness, where account giving is done in the public with information at least accessible to the citizens. Emerson et al. (2012) point to the collaborative aspects that are particularly present in local governance, defining collaborative governance broadly with various levels of civic and public involvement. Newman et al. (2004) find that collaborative governance is in many cases used by local officials as a tool to alleviate the pressures from the central government. If governance considered as a process of interaction between elected officials, career civil servants and external stakeholders (Loeffler 2009), LG and its stakeholders as collaborative partners in an governance network. Then according to the governance principles described in Bovaird and Tizard (2009), the partners must be prepared to account to each other for their actions and performance on all issues that arise. Ansell and Gash (2008) discuss the advantages and problematic of collaborative governance. They point to productive discussions, enhanced relationships with stakeholders and collective learning as values of collaborative strategies and power inequalities, lack of commitment and distrust as main obstacles of success from collaboration (Ansell/Gash 2008). Greiling and Spraul (2010) have pointed to the reluctance to disclose information and deliberate information overload as main issues concerning accountability.

McKernan (2012) examines accountability’s entanglement in the tension between, morality and ethics, singular and general responsibilities and concludes that accountability relies on responsibility but that the rendering of accountability itself tends to undermine responsibility. Messner (2009) lists the three limits of the accountable person:

- the accountable individual is not always capable of relating its actions to a purpose;
- the accountable individual does not always know exactly the expectations placed upon him or her;
- the tensions arising from a mediated accountability relationship.

Public sector organisations can be viewed as complex organisations due to the multiplicity of different actors, therefore the mediation of the accountability relationship is inevitable (Joannides 2012). The public servant in a LG is firstly accountable to his or her immediate supervisor, the higher principal (the mayor), to the municipal council and ultimately, to local residents. Joannides (2012) points to the tensions arising from unclear accountability relationships and potentially contradictory demands, where the public servant might not always understand the role of his or her evaluation in creating value for the local citizens.

However it is difficult to overcome the limits of accountability, Riege and Lindsay (2006) stress the importance of clear communication of policy outputs and outcomes to stakeholders. Also, Greiling and Halachmi (2013) argue the importance of the learning attribute of the accountability process, since future-oriented organisational learning is more likely to contribute to long-term accountability as opposed to the short-term focus of the controlling attribute of the accountability. They conceptualise dynamic accountability originating from organisational learning with the phases of information, debating and consequences (Greiling/Halachmi 2013):

- honest, unbiased provision of all the relevant facts, including the admission of errors;
- mutual openness and direction to identify possible areas for improvement;
- implementation of lessons learned.

As alternative to traditional calculative accountability several practices have been introduced in the literature, termed as “intelligent accountability” (Roberts 1991), “accounterability” (Kamuf 2007; McKernan 2012), “reflexive accountability” (Butler 2005) and “dynamic accountability” (Greiling/Halachmi 2013). They basically suggest that in common that straightforward calculative accountability should be replaced with a more flexible form of accountability, where trust in the accountability relationship can result in an “accountability narrative” or “testimony” of accountability with a long term focus (Butler 2005; Greiling/Halachmi 2013; Joannides 2012; Kamuf 2007; McKernan 2012; Roberts 2009; Shearer 2002). The management report in an organisation’s annual report has been viewed as one possible mechanism of such flexible form of accountability (Shearer 2002; McKernan 2012).

The financial management model for the Estonian public institutions was originally built on the idea of the PDCA-cycle (Ülevaade tulemuslikkuse 2010). Several aspects of this cycle have been incorporated also in the legislation concerning the financial management of LGs. Estonian LGs currently have an obligation to compile strategic plans, prepare their annual budgets according to their strategic plans and report performance against targets in their annual reports in order to provide public accountability to their stakeholders.

III. Local government performance management provisions in Estonia

Nowadays, the territory of Estonia is divided into 15 counties (maakond) and 215 local government units, comprising 30 cities (linnad) and 185 rural municipalities (vallad). Since 1993, the local government system have been functioning at one tier which consists of rural municipalities and cities. During 1993-1994 a package of regulations for a local government was adopted. This package included the following acts, which also impact the regulation of financial management and accounting issues in local governments:

- Local Government Organisation Act (adopted in 1993);
- Rural Municipality and City Budgets Act (adopted in 1994 and valid until the end of 2011);
- Rural Municipality and City Budgets and State Budget Correlation Act (adopted in 1994 and valid until the end of 2011);
- Local Taxes Act (adopted in 1994).

According to the Local Government Organisation Act, each municipality in Estonia is an independent public legal person, and an economic and accounting entity. The local government is based on the administrative territorial division of the country and is realised through democratically elected representatives and authorities. Local budgets are separated from the national budget. Since 1998 the accrual-basis principles of accounting have been formally introduced for local governments and by 2004 the Estonian public sector organisations have adopted the main principles and rules of private sector accounting (Haldma 2006). In the same year also the design of the performance budgeting process started. These steps contributed to the design of closed-loop continuous performance management cycle in Estonian local governments.

In 2005, the Decree on the Types of Strategic Development Plans and System to their Compilation, Implementation, Evaluation and Reporting was adopted. The Decree requires compiling a report on the succeeded objectives and effectiveness of actions concerning the implementation of strategic development plan. Section 13 of the Decree even states, that abovementioned report is a basis to update the strategic development plan. Consequently, the Decree supports the idea of PDCA cycle. Further, the concept of the development of the public financial management was developed by the Ministry of Finance in 2008. Still, the arrival of the global financial crisis changed the focus of the public sector accounting and financial management, resulting in changes in the design and timeframe of the concept. In 2010, the next regulation, the Local Government Financial Management Act was adopted which broadened the scope of the local government financial management beyond simple budget management. The Act stated the requirements not only for the budgeting process of the local governments, but also the requirements for long term (strategic) planning, reporting (content of the management report within an annual report) and the measures of ensuring fiscal discipline on accrual basis. Also, local governments must consolidate their accounts with entities that are under significant and governing influence.

Currently, the procedure for preparation, approval and implementation of local budgets and the relationship between local budgets and state budget is regulated by the Local Government Financial Management Act. The Act was adopted in 2010, but was fully implemented in 2012.

The main aims of the Local Government Financial Management Act adoption are stipulated in the explanation letter of the Act (2008) as following:

- Define the financial management of the local government unit beyond the scopes of mere budgeting. The Act defines financial management of local government as organising monetary affairs by integrating budgeting, risk management and accounting into a single instrument of financial management.
- Harmonising the budgeting and financial accounting, giving an impetus for accrual budgeting.

Consequently, the Local Government Financial Management Act broadened the scope of the local government financial management beyond simple budget management. The Act stated the requirements not only for the budgeting process of the local governments, but also the requirements for long term (strategic) planning, reporting (content of the management report within an annual report) and the measures of ensuring fiscal discipline on accrual basis. Performance management framework and implementation plan give the vision and help to set the local government financial management reform priorities. In 2012-2013 the harmonisation of budgeting and accounting was further improved to enable the implementation a financial management based on a PDCA cycle model. In these years more detailed requirements for alignments of strategic plans, annual budgets and annual reports were adopted. Next steps to implement the integrated financial management in Estonian public sector, the adoption of accrual basis budgeting on ministry level in 2015 and on the state budget level in 2016 are foreseen (Jõgiste et al. 2012). Currently already two local governments in Estonia compile their budgets on accrual-basis.

IV. Research method

This study relies primarily on desk study of primary and secondary source archival material as the authors have studied strategic plans, budgets, and annual reports of local governments and also government publications, legal acts and regulations related to the issues under discussion. The performance information contained in strategic and operational plans, budget related documents and annual reports was reviewed and assessed. In particular, the set of documents reviewed and evaluated for every LG in the sample were following:

- the general strategic and operational plans effective in year 2012;
- the explanatory memorandum for 2012 budget;
- the management report as a part of 2012 annual report.

25 largest local government units based on population size in the end of 2012 were chosen for the analysis. Although, the number of LGs in the sample is 12 % from the total number of LG units in Estonia, the residents of those LGs involve 67 % of the population of Estonia. The object of the analysis is the LG unit as defined by the Local Government Organisation Act and Local Government Financial Management Act. The LG is based on the administrative territorial division of the state and the respective representative bodies and authorities forming a separate budgeting and accounting entity. Therefore the LG in this paper includes organisations that

are managed by the LG and its budget, but not the whole consolidation group with independent but still governed entities.

The review of the relevant sources revealed that quantitative performance indicators were not present in most of the documents. Therefore, we arranged a qualitative assessment of the performance information contained in the documents disclosed to the external stakeholders of the LG using the PDCA-cycle framework.

V. The performance information reported by the local governments

In order to answer the question about how comprehensive and variable is the performance information disclosed by the LGs, we have studied the disclosure of performance information through different stages of performance management as described by the Deming’s model. First, we have explored the strategic and operational plans of 25 municipalities in Estonia. As the Local Government Organisation Act prescribes only general guidelines about the content of strategic and operational plans of LGs, the performance information contained in the strategic plans of various municipalities turned out as a quite variable. According to the Local Government Organisation Act, the development plan of the city must contain at least:

- the economic, social and cultural needs and long terms trends;
- the analysis of problems and opportunities for different fields;
- the strategic objectives with the pursued effect by the end of the period of development plan;
- actions needed to achieve the objectives by the end of the period of development plan.

Consequently, the usage of performance indicators is not compulsory and as it can be seen from the table below, less than half of the sample LGs use any kind of performance indicators.

Type of performance information	No. of municipalities
Annual target levels of performance indicators	2
Target levels of performance indicators	6
Performance indicators	11
Description of planned results	20
Description of planned activities or measures	24
Description of objectives	25

Table 1: Performance information in the development plans of municipalities

Source: Authors’ compilation

As our analysis revealed eleven municipalities (from the sample of 25) have stated some indicators (although not all of them are measurable) to monitor the achievement of results but only two municipalities have stated measurable performance indicators in their development plans that could be reported and assessed every year. Six municipalities have stated the target levels of performance indicators, but mainly measurable in the end of the development plan period. Although six LGs in the sample use some target levels of performance indicators, the exact definition, calculation and sources of information are disclosed only in one development plan

of a LG. Some municipalities use quite broadly defined indicators for monitoring of performance where the basis for calculation or the source of information can't be followed. For example, one city has described its objectives for local governance as follows:

- Objective – the town is the centre of Lääne county, that is governed through sustainable management and purposeful implementation of activities foreseen in the development documents.
- Monitoring indicators – budget balance, developments carried out, information materials, number of visitors of town's web-page, fulfilment of duties set out in law.

Eight LGs use measurable performance indicators in their development plans and for those LGs their performance can also be measured. For the remaining 17 municipalities the actual performance against planned performance can only be evaluated. Although performance measurement based on qualitative criteria might form a more flexible basis for accountability than performance measurement based on quantitative indicators (Joannides 2012; Kamuf 2007; Shearer 2002), it also requires intensive work by assessing the achievement of the objectives and results. Due to the more subjective nature of evaluation, it also poses more requirements on the neutrality and impartiality of the evaluator.

Most of LGs in Estonia currently use traditional cash-basis and input-based budgeting. In our sample only one municipality used accrual-basis and service-based budgeting. The rest of 24 municipalities used cash-basis and input-based budgeting. To ensure alignment of budgets and strategic plans, and to demonstrate the performance links of budgeting, municipalities must disclose the planned achievement of the objectives defined by the development plan in the budget year since 2012. Therefore, proceeding from the budgeting classification proposed by Curristine et al. (2007), we can classify the budgeting in LG of Estonia as presentational performance budgeting. From the 25 municipalities in our sample only eleven have demonstrated more or less explicit connection of budgets with strategic plans, whereas in eight of them the connection of budgets and strategic plans is rather implicit. Two municipalities of those eleven have disclosed annual targets for indicators from strategic plan and one municipality has drafted a table with objectives that would be addressed this year and the corresponding expenditures. Therefore, although the formal requirements imposed on local governments should theoretically ensure the link between strategic plans and annual budgets by splitting the long-term strategic goals into smaller short-term goals in the budget, in practice the link between the strategic plans and annual budgets remains to be rather weak in Estonian municipalities, with only a few exceptions.

The last two stages of the Deming's cycle cover performance measurement, performance-based decision making and corrective actions (including changes in strategic plans). In our study we were particularly interested in the non-financial performance information that should be disclosed within the management report of the 2012 annual report of the LGs. According to the Local Government Financial Management Act the management report should include a review of attainment of objectives from the development documents of LGs within the reporting period. By reviewing the management reports of the sampled LGs, we found that only six municipalities out of 25 have disclosed the actual performance information in their management reports in accordance with the format in their strategic plans. Therefore the explicit measurement or evaluation of actual performance against the planned performance can be made with those

six, whereas in the remaining 19 cases the evaluation of the performance can only be implicit. Only one out of six LGs used measurable indicators to demonstrate the achievement of objectives. Mostly the achievement of objectives was presented on the scale “achieved”, “achieved partly”, “not achieved” for the activities planned, but the actual evaluation of the performance in terms of evaluating the achievement was missing. At the same time, for example, if the objective was the “satisfaction of residents”, the actual results of survey’s were not presented or discussed. Also, when the indicators were used in the development plans, their actual values were often not disclosed.

The non-alignment of performance information in development plans and management reports presents a poor example of public accountability, where the citizens and other external stakeholders have no actual comparable information on the actual performance. Therefore, we can conclude that from the perspective of collaborative partnership no effective performance-based decision making as the last step of the PDCA-cycle can be observed or realised by the local citizens.

Earlier research has outlined associations between performance information and citizens trust (Mason et al. 2014; Yang/Holzer 2006). Ansell and Gash (2008) have identified trust between stakeholders as one crucial driver for success of collaboration strategies. Lack of trust might also leverage the limits of accountability (Joannides 2012; Messner 2009). Therefore, building trust between officials and residents as important stakeholders is an important task for all LGs in Estonia.

Earlier studies have also identified external requirements as one of the most important drivers for development of performance management systems in Estonia (Haldma 2006; Haldma et al. 2008). Since Estonia has chosen a stepwise implementation of performance management systems, where requirements for compiling strategic plans have been implemented first and are currently stated in more detail than requirements for other stages of performance management, this stage is also more developed, as has been demonstrated. The requirements for aligning budgets with strategic plans, reporting performance against strategic plans and performance-based decision making have been implemented recently and are stated also in a more general way. Although, due to the fact that the requirements apply for all LG and should therefore allow for flexibility in some degree, it is evident that more specific requirements in legal acts would promote the development of performance management and reporting.

VI. Conclusion

The present study investigated, using the PDCA-cycle model, how Estonian local governments use the elements of performance management in provision of public services. The approach is interesting since different stages play different roles in performance management process in practice. The use of performance management is assessed through disclosed performance information.

The findings using this approach lead us to a number of observations. First, since there is no clear format of performance information set in legislation, the performance information in strategic plans, budget documents and reports is very flexible. Second, there is a weak link between

strategic planning and annual budgets in most of the municipalities and furthermore a weak causal relationship exists between strategic goals, corresponding performance measures and reports of performance against strategic goals and objectives. Third, drawing from Haldma et al. (2008) we can conclude that the annual budgeting, measuring (reporting) and decision-making follow a closed-loop cycle, but the integration of strategic planning into the on-going management process is still not observable to the general public. Therefore, it results also in weak public accountability and poor governance arrangements. The LGs and their stakeholders do not act as collaborative partners in a governance network for most of the LGs in Estonia. The performance information presented to external stakeholders is often not comprehensible in strategic plans and management reports. Successful governance implies trust between parties (Bovaird /Tizard 2009; Mason et al. 2014; Yang/Holzer 2006) and disclosing performance information will therefore promote collaborative partnership between LG and its residents. Since external requirements have been identified as an important driver influencing the disclosure of performance information, expressing the requirements for the performance information more explicitly in legislation would promote the development of performance information in Estonian LGs.

Finally, it should be noted that this study has several important limitations. First of all the desk study of archival material has a static character and limited scope, if we should have performed a complementary field study, the findings and conclusions might have been somehow different.

Zusammenfassung

Karina Kenk und Toomas Haldma; Performance Management im Rahmen der öffentlichen Rechenschaftspflichten in estnischen Kommunen

Kommunen; PDCA-Zyklus; Performance-Management; Rechenschaftspflicht

Der Beitrag beurteilt die Fähigkeit der Performance-Management-Systeme der Kommunen bei der Förderung der öffentlichen Rechenschaftspflicht gegenüber den Beteiligten an dem PDCA-Zyklus-Modell. Die veröffentlichten Informationen in Form von strategischen und operativen Pläne, Budgets und Jahresberichten der 25 Gemeinden aus Estland im Jahr 2012 wurden bewertet und analysiert. Die Ergebnisse zeigen, dass die jährliche Budgetierung, Berichterstattung und die Entscheidungen einen geschlossenen Zyklus bilden. Die Integration der strategischen Planung in den laufenden Managementprozess ist dagegen für die Öffentlichkeit nicht erkennbar. Daraus folgt, dass die öffentliche Rechenschaftspflicht nur schwach erfüllt wird und deutlicher Verbesserungsbedarf bei der Governance entsteht.

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