

**THE SETTING UP, AUTONOMY, CONTROL AND PERFORMANCE OF THE  
LITHUANIAN PUBLIC SECTOR ORGANISATIONS: TENTATIVE FINDINGS AND  
SUGGESTIONS FOR FURTHER RESEARCH**

Paper for the COST ISO601 action „Comparative Research into Current Trends in Public Sector  
Organization“ (CRIPO)

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(work in progress)

April 2009  
Vilnius, Lithuania

## Introduction

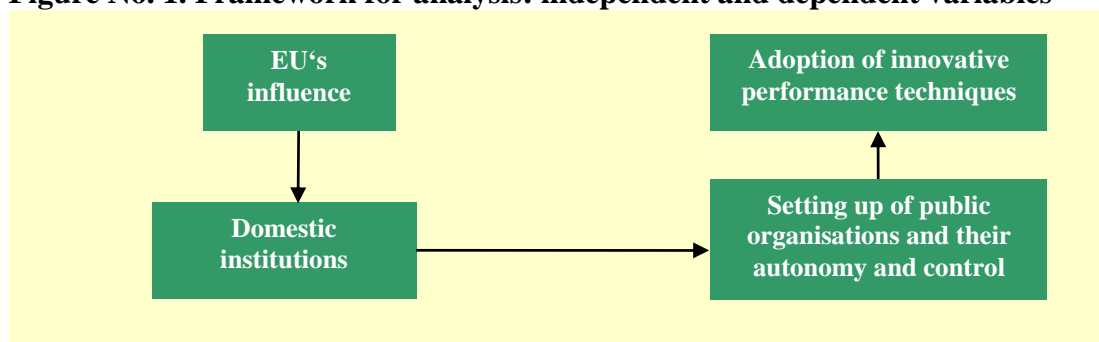
In the end of the XXth century many Western governments engaged in public management reforms. These reforms were initiated in response to macro-economic problems (of a large government, significant budgetary deficits, a perceived lack of public sector performance) as well as a drop in trust and legitimacy in public institutions.<sup>1</sup> The national governments were a main driving force behind these reforms. For instance, Norway undertook NPM reforms, when its political parties initiated certain reform programmes.<sup>2</sup>

Unlike in Western European countries, public management reforms in Central and Eastern European countries were heavily influenced by the prospect of EU membership.<sup>3</sup> The EU impact on Central and Eastern European countries was often explained in terms of an effective conditionality (as a political strategy of the EU institutions as well as its causal impact on domestic policies).<sup>4</sup>

Based on the methodology of Pollitt and Bouckaert in the area of public management reforms<sup>5</sup> Lithuania was found to be reaching a second category of states called “modernisers” (similar to such countries as Canada, Finland, France, the Netherlands and Sweden). However, the contents of the reform programme were mixed in Lithuania. For instance, Lithuania has achieved a moderate progress in the area of financial management (budgeting, accounting and audit) as well as performance management, but little progress has been made in the area of public administration organisation.

This paper seeks to assess the influence of the EU and domestic institutions on the setting up of Lithuanian public organisations as well as their autonomy and control. A framework for analysis links two main independent variables (the EU’s influence and domestic institutions) and two main dependent variables (the setting up of new organisations and their autonomy and control as well as the adoption of innovative performance techniques) (see Figure No. 1 below).

**Figure No. 1. Framework for analysis: independent and dependent variables**



<sup>1</sup> G. Bouckaert. “Public Sector Reform in CEE Countries: An Introduction”. G. Bouckaert, J. Nemeč, V. Nakrošis, G. Hajnal, K. Tönnisson (eds). *Public Management Reforms in Central and Eastern Europe*. NISPACE, 2009, p. 9.

<sup>2</sup> P. Lægred, V. W. Rolland, P. G. Roness, J-E. Ågotnes. *The Structural Anatomy of the Norwegian State 1985-2007: Increased Specialisation or a Pendulum Shift?* Paper presented at the COST meeting, Utrecht 3-4 June 2008, p. 10.

<sup>3</sup> Bouckaert, *ibid.*, p. 15.

<sup>4</sup> F. Schimmelfennig, U. Sedelmeier. (eds) *The Europeanisation of Central and Eastern Europe*. Ithaca: Cornell University Press, 2005, p. 2.

<sup>5</sup> C. Pollitt, G. Bouckaert. *Public Management Reform: A Comparative Analysis*. Oxford: Oxford University Press, 2000.

The EU's influence is defined as the ability of the EU institutions to affect domestic policy and institutional decisions. In the pre-accession period the EU exerted its influence on the applicant countries through such instruments as gate-keeping; benchmarking and monitoring; the provision of legislative and institutional models; advice and financial assistance<sup>6</sup>. However, after their accession to the EU the ex-ante control of the EU institutions was replaced with several instruments of the ex-post control (such as the possibility of infringement procedures or such softer forms of control as "naming and shaming" under the Open Method of Co-ordination).

The process of domestic institution building could be also facilitated or constrained by domestic institutions. These institutions are defined as various formal institutions and more informal norms embedded in them as well as various standard decision-making procedures.<sup>7</sup> This paper will deal with such domestic institutions as public management reform initiatives, formal organisational procedures or informal organisational practices in Lithuania.

Finally, the paper analyses the impact of the NPM-style reforms and domestic administrative culture on the adoption of innovative performance techniques. The NPM doctrine has long argued<sup>8</sup> that the introduction of innovations in the public sector is closely associated with the adoption of two principles: "let managers manage" and "make managers manage". Also, it is interesting to assess how administrative culture (such as innovation culture) affects the adoption of innovative performance management techniques in Lithuania as the post-communist country of continental administrative tradition.

The analysis of the COBRA data was carried out in line with the COBRA methodology<sup>9</sup>. When necessary, additional variables were introduced (such as a variable of the EU's influence or the formal autonomy of Lithuanian public sector organisations) or the construction of a few COBRA variables modified on the basis of the Lithuanian COBRA questionnaire and data. Also, the analysis of the COBRA data sometimes involved selected cases of the Lithuanian organisations (such as the groupings of the Lithuanian organisations according to their status). Since the process of analysing the COBRA data is still ongoing, the paper will present main tentative findings of the analysis and some suggestions for future research, thus setting an agenda for researching public sector organisations in Lithuania.

The paper is divided into several sections. The first section outlines the structure of Lithuania's public administration and its growth. The second section presents main hypotheses for the analysis. The third section analyses the EU's influence on setting up Lithuanian public sector organisations and their autonomy/control. The fourth section analyses the influence of domestic factors on these variables. A fifth section analyses what are the key drivers (autonomy, incentives and culture) of

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<sup>6</sup> Adapted from H. Grabbe. 'How Does Europeanisation Affect CEE Governance? Conditionality, Diffusion and Diversity' // *Journal of European Public Policy*. Vol. 8, No. 4, 2001, pp. 1013-1031.

<sup>7</sup> Olsen J. P. *Europeanization and Nation-State Dynamics*. Arena Working Paper. No. 9/95. Oslo: University of Oslo, 1995.

<sup>8</sup> E.g. R. Norman. "Letting and making managers manage: the effect of control systems on management action in New Zealand's central government". *International Public Management Journal*, Vol. 4, No. 1, 2001, 65-89; Ch. Hood. „A Public Management for All Seasons?“ *Public Administration*. No. 1, Vol. 69, 1991, 3-19; P. Aucoin. „Administrative Reform in Public Management: Paradigms, Principles, Paradoxes, and Pendulums“. *Governance*, No. 2., Vol. 3, 1990, 115-137.

<sup>9</sup> K. Verhoest, S. Demuzere and D. Galli, *Joint Database for the COBRA-research: a list of variables and indices*. Unpublished, 2007.

innovations in the Lithuanian public sector. Finally, the paper concludes and presents suggestions for further academic research.

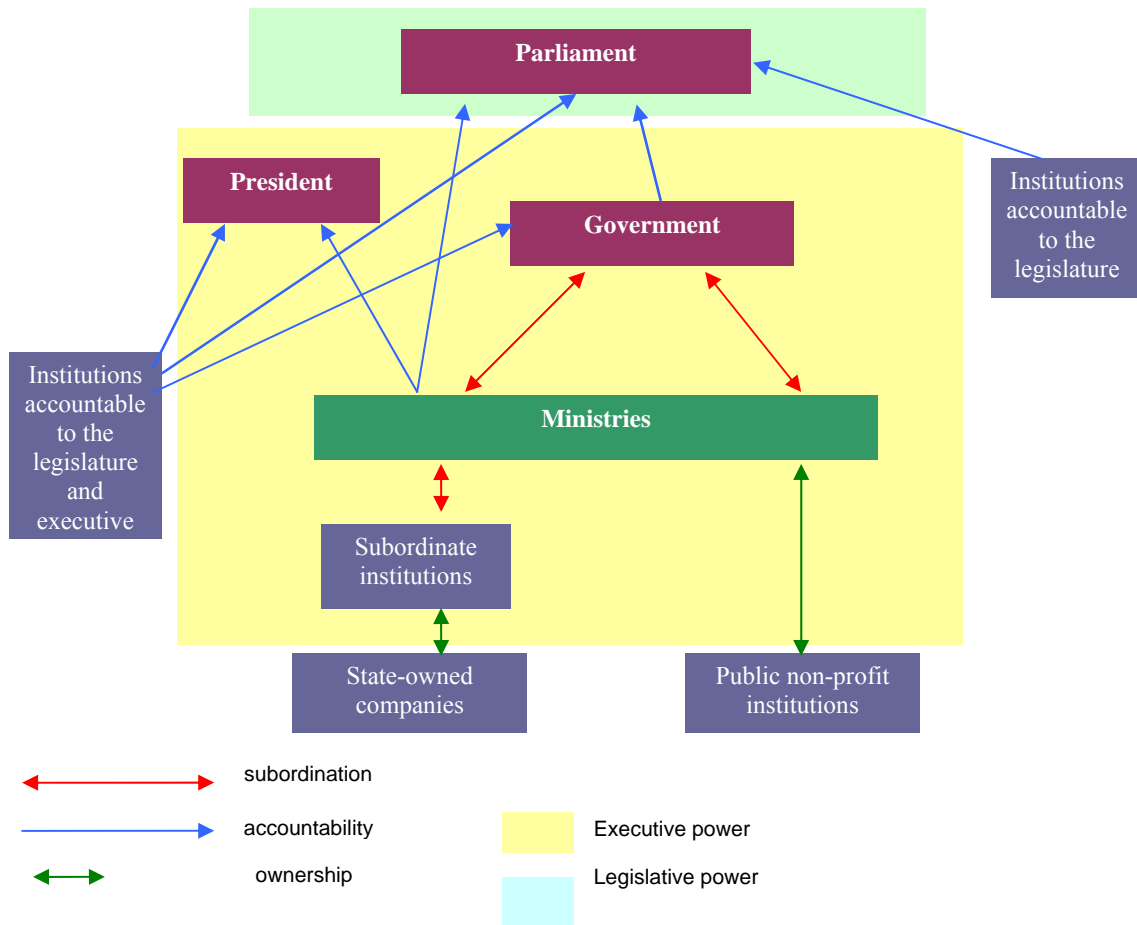
## **1. Public administration system in Lithuania**

There are two levels of government in Lithuania: the central government and local government (with 60 local authorities). Lithuania is a centralised state: the legal competence and financial resources are concentrated at the central level. The administrative system is rather complex in Lithuania. There are about 900 Lithuanian budgetary institutions (including their territorial units) operating at the central or local levels. The administrative system at the level of the central government is organised into the State Chancellery, 14 ministries and other public administration organisations subordinate to the government or ministries.

Also, about 200 public non-profit institutions, were established by various state institutions or other appropriation managers, receive funding from the budget in a direct or indirect way. In addition, some state-owned or municipal companies are involved in the provision of services or products for the public. Moreover, a few foundations receive funding from the state budget in Lithuania.

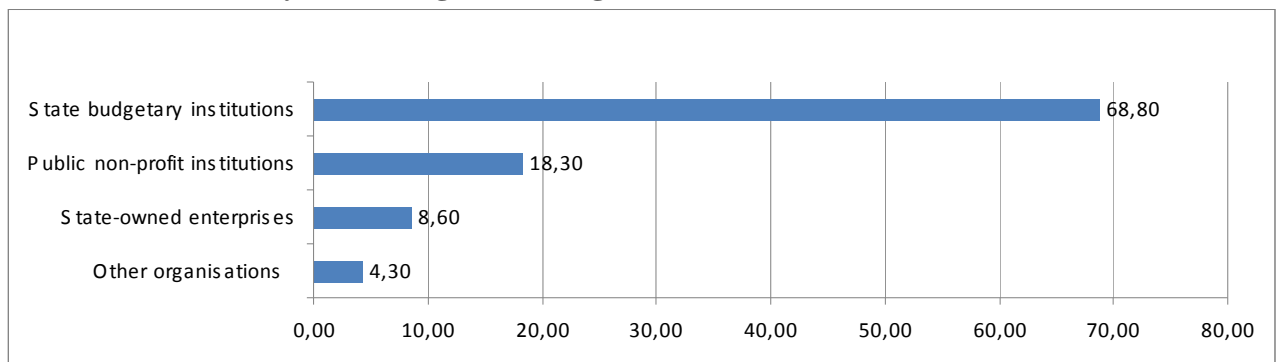
There are several state organisations, which do not belong to any branch of power. The Lithuanian Constitution explicitly defines such semi-independent organisations as the Bank of Lithuania, the National Audit Office or the State Security Department. Also, a number of regulatory authorities (such as the Communications Regulatory Authority) are only accountable to the legislature and executive without direct subordination.

### **Figure No. 2. Organisational set-up at the central level of Lithuania**



The COBRA survey, which was carried out in Lithuania in 2008, was representative of the Lithuanian public administration system at the central level. About 69 % of all public sector organisations, which answered the questionnaire, were state budget institutions, about 18 % – public non-profit institutions, about 9 % – state-owned enterprises (see Figure No. 3). The remaining organisations, which participated in the survey, were foundations, non-governmental organisations and other types of public organisations.

**Figure No. 3. The breakdown of the Lithuanian public sector organisations, which responded to the COBRA survey, according to their legal status, 2008 (n = 93)**



Source: the COBRA survey, 2008.

Since 1990 there has been a fast growth in the number of public sector organisations in Lithuania. There is no aggregate data about the dynamics of these organisations, but the analysis of the

Lithuanian COBRA data shows that almost all Lithuanian organisations have been established since the re-establishment of Lithuania's independence after the collapse of the Soviet Union.

Also, the growth in the number of the civil service positions points to increasing size of Lithuania's public administration. According to the Register of Civil Servants, the number of the civil servants reached 28 974 in the first quarter of 2008 from 19 568 in the last quarter of 2003. The growth in the number of public sector organisations and civil servants is usually associated with the emergence of new functions at the central or local level during the processes of transition and accession to the EU.

## 2. Main hypotheses of the paper

Although the EU's influence is associated primarily with the Weberian model of public administration, some characteristics of NPM occurred in Lithuania in the pre-accession period (programme- and project-based management, policy implementation agencies, monitoring and evaluation).<sup>10</sup> For instance, the Lithuanian government needed to establish a number of implementation agencies and other organisations to absorb the EU funds under the Common Agricultural Policy (CAP) and Cohesion policy. In particular the EU contributed to the emergence of a regulatory model through the establishment or strengthening a number of relatively autonomous regulatory authorities in the area of competition, telecommunications, energy, water, railways, post, public information, securities, environment, food safety, personal data and other policy areas.<sup>11</sup>

The paper seeks to analyse the influence of the EU on setting up public sector organisations in Lithuania. The following hypotheses are formulated:

- 1) *the EU contributed to the establishment of new public sector organisations and the re-organisation of the existing public sector organisations, increasing the size of Lithuania's public administration;*
- 2) *in particular, the EU contributed to the establishment of Lithuanian public sector organisations in the area of economic regulation as well as the implementation of such EU's redistributive policies as the CAP or the Cohesion policy.*

Also, it is interesting to analyse the influence of the EU on the autonomy of Lithuanian public sector organisations and their (ex-ante or ex-post) steering. First, since the process of EU accession involved the establishment of autonomous regulatory authorities and policy-implementation agencies, one can expect that the Lithuanian public sector organisations gained more autonomy. So it is possible that the EU reinforced the ideas of NPM in the pre-accession period.

However, it was previously argued that in the countries of continental Europe (with a 'Rechtsstaat' tradition) it is hard to shift from ex-ante control to ex-post control during public management reforms.<sup>12</sup> Also, it was found that the absorption of performance management is difficult in the traditional public administration system of Lithuania, based on the execution of laws and

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<sup>10</sup> V. Nakrošis. "Lithuania". G. Bouckaert, J. Nemeč, V. Nakrošis, G. Hajnal, K. Tönnisson (eds). *Public Management Reforms in Central and Eastern Europe*. NISPAcee, 2009, p. 231.

<sup>11</sup> K. Maniokas. *Europos Sąjungos plėtra ir Europėizacija: Vidurio ir Rytų Europos valstybių įsijungimas į Europos Sąjungą*. Eugrimas, Vilnius, 2003, p. 150.

<sup>12</sup> K. Verhoest, B. Verschuere, G. Peters and G. Bouckaert. *Controlling autonomous public agencies as an indicator of New Public Management*. Management International. 9(1): 25-35, 2004, p. 34.

procedures and ex-ante controls on the input side.<sup>13</sup> Therefore, it is possible that a large volume of the ex-ante controls could remain in place, despite the EU's influence.

Second, successful accession to the EU required a stronger co-ordination from the top (the government centre or the Ministry of Finance), increasing the control of sectoral organisations. For instance, it was found in one paper that departments in the accession countries (Estonia, Latvia, Lithuania, Poland, The Czech Republic, Hungary, Slovenia, Bulgaria) are subject to more control compared with these in the non-accession countries (Moldova, Georgia, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan and Mongolia).<sup>14</sup> However, after achieving EU membership a central steering over the EU matters has considerably declined in Lithuania.<sup>15</sup> Therefore, although it is theoretically possible that the EU contributed to a stronger control of public sector organisations, this probability is rather small.

The following hypotheses are formulated to assess the influence of the EU on the autonomy and control of Lithuanian public sector organisations:

- 3) *the Lithuanian public sector organisations, whose setting up was largely influenced by the EU, obtained more personnel or financial autonomy;*
- 4) *they remain strongly controlled on the ex-ante and ex-post basis due to the importance of domestic institutions.*

In addition to the EU, the paper seeks to examine the influence of domestic factors on organisational change in Lithuania. First, it is important to analyse political initiatives of public management reform. The main reason why Lithuania is more advanced in the area of performance management than Poland or other countries of Central and Eastern Europe is the fact the Lithuanian government designed and implemented a performance management initiative. However, taking into consideration the slow progress of organisational reforms in Lithuania, it is hypothesised that

- 5) *there has been little organisational change at the central level stemming from public management reform initiatives.*

Therefore, it is difficult to expect any significant effect on the autonomy and control of public sector organisations.

Also, it is important to assess the influence of domestic formal institutions that should play an important role in Lithuania, which belongs to the tradition of continental public administration. The Lithuanian public organisations should differ in their autonomy according to their legal status. In Lithuania, state budget institutions are less autonomous than public non-profit organisations in the area of financial management. State budget institutions are financed from the budget as

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<sup>13</sup> V. Nakrošis. "Reforming Performance Management in Lithuania: Towards Result-Based Management". *Mixes, Matches and Mistakes : new public management in Russia and the Former Soviet Republics* (ed. B. G. Peters). Open Society Institute, Budapest, 2008, p. 72.

<sup>14</sup> L. Johannsen, O. Nørgaard. Governance in Central and Eastern Europe: A cross-sectional perspective. How the EU accession broke institutional path dependencies in post-communist regimes. Paper prepared for the 12th NISPAcee Annual Conference: 'Central and Eastern European Countries inside and outside the European Union: Avoiding a new divide', Vilnius, Lithuania, May 13-15, 2004, p. 15-16. <http://www.demstar.dk/papers/Vilnius2004JohannsenNorgaard.pdf>

<sup>15</sup> K. Maniokas, R. Vilpišauskas. „National coordination of European policy in Lithuania“, in H.Kassim (ed.), *National Coordination of EU Policy in the New Member States*, special issue of Public Administration (forthcoming).

appropriation managers, their accounting is based on the Public Sector Accountability Law and other legal acts, internal audit units audit their financial and non-financial performance. Public non-profit institutions usually have no status of an appropriation manager, and the existing legal framework does not prescribe their responsibility for the administration of state budget resources. Also, civil service authorities are less autonomous than other public sector organisations in the area of human resource management because their personnel management procedures are prescribed by the Civil Service Law and secondary legal acts.

Table No. 1 below groups all public sector organisations (with the exception of state-owned enterprises) into four groups according to the criteria of formal financial and personnel management autonomy. It is assumed that in formal terms foundations and public non-profit institutions, which have no status of an appropriation manager (Group No. 4), are the most autonomous, while state budget institutions with the status of civil service authorities – the least autonomous (Group No. 1). Other two groups of public sector organisations should fall in between Group No. 1 and No. 4.

**Table No. 1. Formal financial and personnel management autonomy of Lithuanian public sector organisations according to their legal status**

<b>High personnel management autonomy</b>	Group No. 3: public non-profit institutions, appropriation managers Group No. 2: state budget institutions, not civil service authorities	Group No. 4: public non-profit institutions/foundations, not appropriation managers
<b>Low personnel management autonomy</b>	Group No. 1: State budget institutions, civil service authorities	-
	<b>Low financial management autonomy</b>	<b>High financial management autonomy</b>

It is hypothesised in this paper that:

- 6) *Formal autonomy of the Lithuanian organisations should somewhat correspond to their actual autonomy and control, acknowledging the fact that Lithuania belongs to the tradition of continental public administration.*

While in the above framework the autonomy and control of public sector organisations are treated as dependent variables, they could also be considered as independent variables. As it was mentioned in the introduction of this paper, the introduction of innovations in the public sector is based on two main principles: “let managers manage” and “make managers manage”. The former principle relates to higher managerial autonomy, while the latter refers to the system of incentives for managers to adopt innovative management techniques and methods.

Therefore, taking into consideration a vast NPM literature<sup>16</sup>, one can assert that higher managerial autonomy provides the means, whereas ex-post sanctions and rewards provide the incentives for

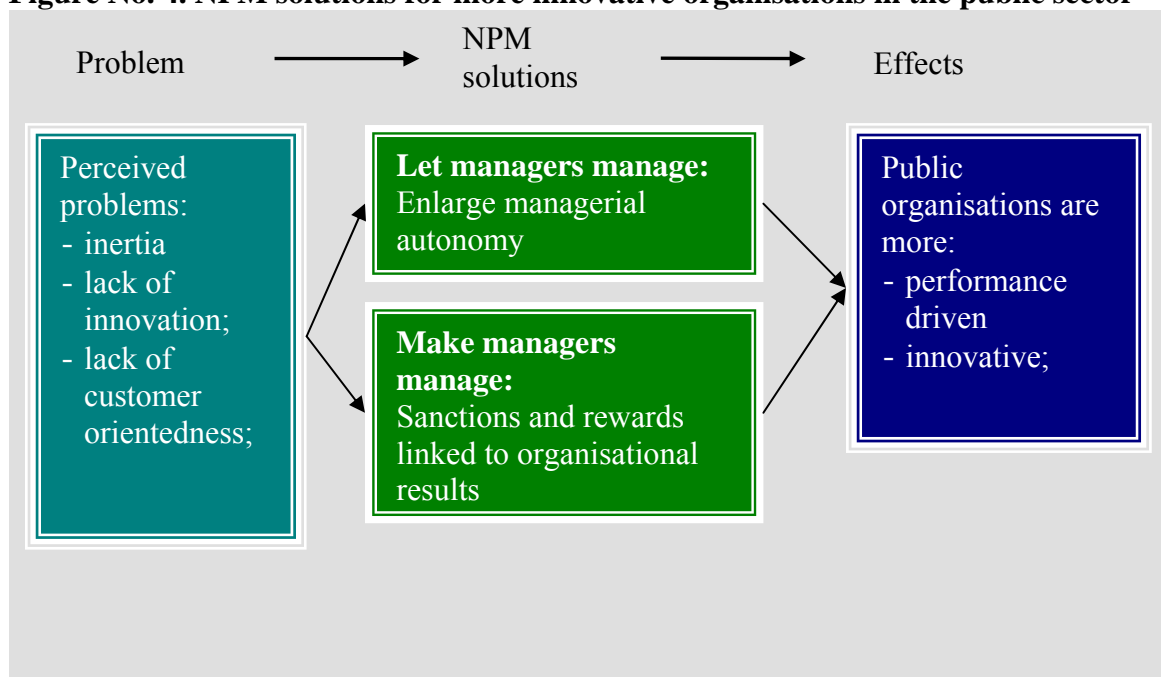
<sup>16</sup> See: C. Pollitt. „Decentralization: A Central Concept in Contemporary Public Management“, in E. Ferlie, L. E. Lynn, C. Pollitt. *The Oxford Handbook of Public Management*. Oxford, New York: Oxford University Press, 2005. C. Hood. „A Public Management for All Seasons?“. *Public Administration*, No. 1, Vol. 69, 1991, 3-19. P. Aucoin. „Administrative Reform in Public Management: Paradigms, Principles, Paradoxes, and Pendulums“. *Governance*, No. 2., Vol. 3, 1990, 115-137.



managers to innovate (see Figure No. 4). Accordingly, the following hypotheses could be formulated:

- 7) *Higher managerial autonomy leads to the adoption of innovative practices;*
- 8) *The existence of sanctions and rewards for managers in case of achievement or non-achievement of results leads to the adoption of innovative practices.*

**Figure No. 4. NPM solutions for more innovative organisations in the public sector**



Source: adapted from K. Verhoest, B. Verschuere, G. Bouckaert. „Pressure, „Legitimacy and Innovative Behavior by Public Organisations“, *Governance: An International Journal of Policy, Administration, and Institutions*, Vol. 20, No. 3, 2007, 471.

In addition to the regime of autonomy and managerial incentives, administrative culture could also potentially explain the adoption of innovative performance techniques and methods. This line of argument is particularly important to the new EU member states, which have inherited a specific post-communist culture. This culture could be counter-productive for copying NPM-style reforms from the West, in particular from the Anglo-Saxon countries. Therefore, we will test whether:

- 9) *Administrative culture contributes to the adoption of innovative practices.*

#### **4. The influence of the EU on setting up Lithuanian public sector organisations and their autonomy/control**

This section of the paper seeks to analyse the influence of the EU on setting up Lithuanian public sector organisations as well as their autonomy and control. According to the 2008 COBRA survey in Lithuania, about 39 % of the Lithuanian public sector organisations agree that the EU had a large influence on their set up (the establishment of new organisations or the re-organisation). The EU’s influence varies according to the legal form of Lithuanian organisations: it was stronger for public non-profit institutions (about 47 % of all such institutions agree with this statement), but weaker for state-owned enterprises (about 25 % of all such institutions agree) (see Table No. 2 below). The form of a public non-profit organisation was used for setting up implementation agencies to absorb the EU assistance (e.g. the Lithuanian Business Support Agency, the Ignalina Nuclear Power Plant

Regional Development Agency or the joint INTERREG secretariat) or some advisory bodies to provide public information, advice or training on certain EU issues (e.g. the European Consumer Centre or the Centre for Equality Advancement).

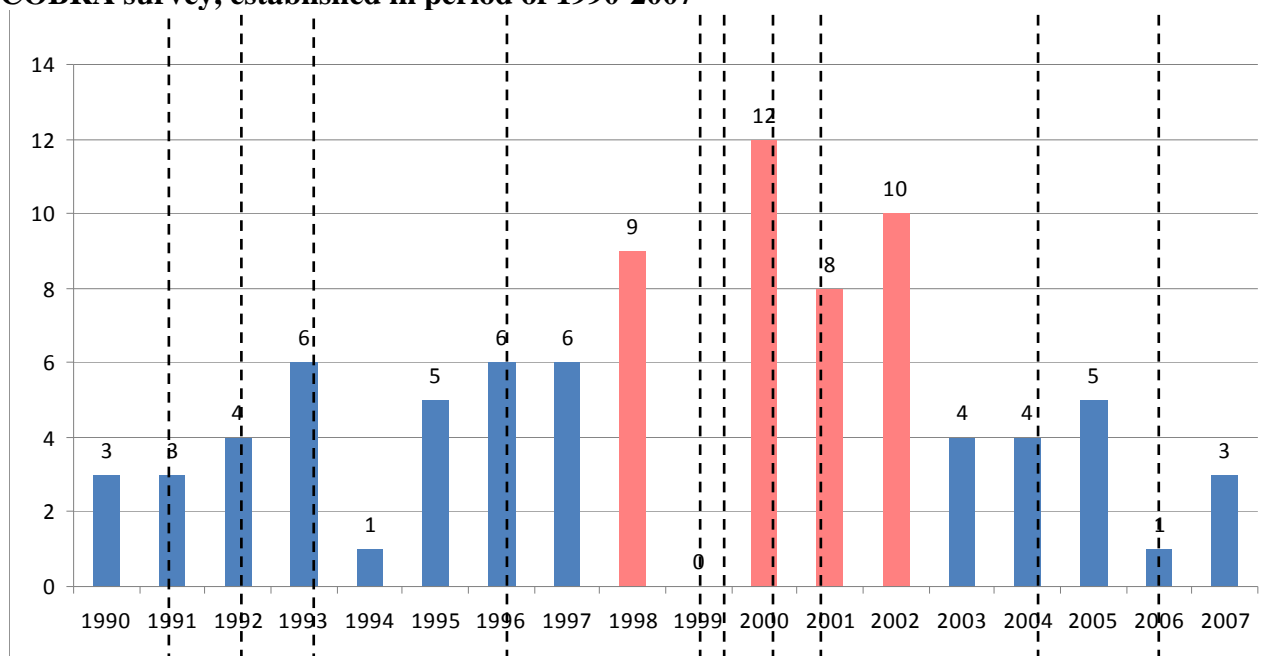
**Table No. 2. The influence of the EU for setting up public sector organisations in Lithuania according to their type**

Type of Lithuanian public sector institution	Influence of the EU (in %)		
	Large	Small	No influence
State budgetary institutions	35,9	39,1	25,0
Public non-profit institutions	47,1	17,6	35,3
State-owned enterprises	25,0	12,5	62,5
<b>Total:</b>	<b>38,7</b>	<b>32,3</b>	<b>29,0</b>

Source: analysis of the data from the COBRA survey, 2008.

Figure No. 5 below shows that the establishment of new public sector organisations was especially fast in the period of 1998-2002 (except for 1999), when the European Commission published its regular reports on Lithuania’s preparation to join the EU. In these reports the European Commission identified particular legal or institutional obstacles to meet the obligations of EU membership. To remove these obstacles, the Lithuanian government needed to undertake certain public policy or institutional commitments. For instance, the pre-accession period of 1998-2002 saw the setting up of such regulatory authorities as the State Non Food Products Inspectorate or such implementation agencies as the National Paying Agency.

**Figure No. 5. The number of Lithuanian public sector organisations, which responded by the COBRA survey, established in period of 1990-2007**



Source: the 2008 COBRA survey.

Remark: the dashed lines in Table No. 5 indicate a change of government in Lithuania, dividing the whole period of 1990-2007 into eleven main political terms.

In addition to establishing new organisations, the process of institution building often involved the merger of several existing organisations. Those public sector organisations, whose set-up was largely influenced by the EU, were more frequently subject to merging (67 %) and less frequently -

to dividing (22 %, see Table No. 3 below). For instance, the Environment Protection Agency under the Ministry of Environment or the State Seed and Grain Service under the Ministry of Agriculture were set up by merging in Lithuania.

**Table No. 3. The influence of the EU on the type of organisational change in Lithuania (n - 93)**

Type of institutional change	The influence of the EU on setting up public sector organisations (%)			Total (%)
	Large	Small	No influence	
1. Merging	66,7	16,7	16,7	6,5
2. Dividing	22,2	55,6	22,2	9,7
3. Undertaking the functions of previous organisations	36,4	36,4	27,3	23,7
4. Newly established	43,1	27,5	29,4	54,8
5. Other	0	40,0	60,0	5,4
<b>Total</b>	<b>38,7</b>	<b>32,3</b>	<b>29,0</b>	<b>100</b>

Source: the analysis of the COBRA data, 2008.

A large influence of the EU on setting up Lithuanian public sector organisations as well as the timing of this influence confirms the first hypothesis of this paper. The EU' influence clearly contributed to expanding the size of the Lithuanian public sector especially in the pre-accession period.

According to the analysis of the COBRA data, the EU influenced the setting up of the Lithuanian public sector organisations in many sectors of economic activities (from economic policy to law and order). This could be explained by a broad scope of the EU's competence as well as the conditionality of EU membership in the pre-accession. Only in the sectors of defence or recreation, culture and religion, where the EU does not exercise much authority, the EU's influence was weaker.

In addition to regulating economic activities, the process of institution building for EU membership also concerned the provision of public services and policy implementation. The Lithuanian public sector organisations, whose set-up was largely influenced by the EU, usually perform regulatory functions (it is a main task for 48 % of such institutions), provide services for the public, businesses or other public sector organisations (43 %) and implement public policies (41 %). However, it seems that there was no large need to establish many new organisations or re-organise them for the purpose of policy formulation (it is a main task for 33 % of the institutions, whose set-up was largely influenced by the EU). It is likely that the existing institutions (in particular the Lithuanian ministries) undertook these functions before or after EU accession.

Therefore, the second hypothesis - the EU contributed to the establishment of the Lithuanian public sector organisations in the area of economic regulation as well as the implementation of such EU's redistributive policies as the CAP or the Cohesion policy – is only partially confirmed. The EU's influence was much broader and not limited to the regulatory or redistributive policy areas.

The link between the EU's influence and the autonomy of Lithuanian public sector organisations can be analysed on the basis of several variables. Managerial autonomy was defined as the extent to which an organisation can take decisions regarding its personnel, financial resources and choose policy instruments to achieve its objectives. The autonomy in terms of personnel management includes two dimensions. First, it is the extent to which an organisation without interference from a

higher jurisdiction (minister or sponsoring department) can take decisions regarding general rules for setting the level of salaries, conditions for promotion, evaluation, appointment and downsizing of personnel. This type of autonomy is called strategic personnel management autonomy captured by the SPA 1 index. Second, it is the extent to which an organisation can independently take decisions regarding the level of salary, promotion, evaluation, appointment and dismissal of specific employees. This type of autonomy is called operational personnel management autonomy captured by the OPA 1 index.

The financial management autonomy relates to the extent to which in its overall budget an organisation can shift between personnel and running costs as well as between personnel or running costs on the one hand and investments on the other hand. This type of autonomy is captured by the FA 2 index. Furthermore, autonomy in terms of choice of policy instruments is defined as the extent to which an organisation can independently choose its policy instruments (subsidies, etc.). This type of autonomy is captured by the POINST index.

The outputs of the analysis are presented in Table No. 4 below. The results indicate that the level of autonomy is not statistically related to the EU's influence. Therefore, the third hypothesis – Lithuanian public sector organisations, whose setting up was largely influenced by the EU, obtained more personnel or financial autonomy – was not confirmed. It is possible that domestic factors could better explain the autonomy of Lithuanian public organisations (see the following section below).

**Table No. 4. Outputs of the correlation between the autonomy of organisations and the EU's influence**

			SPA1	OPA1	FA2	POINST	EU_IMPACT
Kendall's tau_b	EU_IMPACT	Correlation Coefficient	,085	,125	,145	-,070	1,000
		Sig. (2-tailed)	,416	,255	,251	,535	.
		N	73	71	54	59	73

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

In order to test the fourth hypothesis – the Lithuanian public sector organisations, whose setting up was largely influenced by the EU, remained strongly controlled on the ex-ante and ex-post basis – two indexes of ex-ante and ex-post control were constructed.<sup>17</sup> The index of the ex-ante control (EXANCO) is based on two variables: 1) the presence of a board in an organisation and its functions (advisory and decision-making); 2) the procedure of appointing a head of an institution and the term of appointment (permanent or fixed term). The index of the ex-post control (EXPOCO) is based on five variables: 1) the involvement of an organisation in setting its goals; 2) reporting about results and achieved goals; 3) the evaluation of the results and goal attainment; 4) the existence of rewards and; 5) the existence of sanctions.

The outputs of our statistical analysis are presented in Table No. 5 below. It indicates a weak statistical relation between the EU's influence and the ex-ante steering of public sector

<sup>17</sup> These indexes were calculated on the basis of the 2008 COBRA data, taking into consideration the COBRA methodology and some research papers, especially K. Verhoest, B. Verschuere, G. Peters and G. Bouckaert. *Controlling autonomous public agencies as an indicator of New Public Management*. Management International. 9(1): 25-35, 2004.

organisations. This means that even if because of EU membership the ex-ante steering of the Lithuanian public sector organisations could have been relaxed to a small extent or in some cases, the EU did not have a large influence on this factor. Since the COBRA data does not fully support the fourth hypothesis, it is important to analyse the importance of domestic institutions on the ex-ante steering.

**Table No. 5. Outputs of the correlation between the control of organisations and the EU's influence**

			EXANCO	EXPOCO	EU_IMPACT
Kendall's tau_b	EU_IMPACT	Correlation Coefficient	,224*	,024	1,000
		Sig. (2-tailed)	,046	,814	.
		N	53	64	73

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

## 5. The influence of domestic factors on organisational change

This section of the paper analyses the influence of domestic factors (political initiatives of public management reforms, formal procedures and informal practices of functioning public sector institutions) on organisational change in Lithuania.

The influence of public management reform initiatives on setting up Lithuanian public sector organisations was limited. The establishment of new organisations in the period of 1990-2007 seems to be unrelated to the political programmes of the Lithuanian governments. The governments of right-wing parties, which served in the periods of 1990-1992 and 1996-2000, and the governments of left-wing parties, which served in the periods of 1992-1996 and 2001-2006, did not differ in terms of new organisations established. Figure No. 5 above in the previous section does not show any significant relationship between the number of new Lithuanian public sector organisations and any political terms of the Lithuanian governments.

However, the largest number of public organisations (12) was established in 2000, when a right-wing government led by Prime Minister Andrius Kubilius was in office. This government is known for introducing certain NPM reforms, especially strategic planning (or performance management).<sup>18</sup> Yet in the 2008 CORBA survey about half of the public organisations, which were set up in 2000, acknowledged a large influence of the EU. Therefore, the establishment of public organisations in 2000 cannot be attributed to a political programme of the 1999-2000 government.

Public management reform initiatives had also little effect on the re-organisation of the existing Lithuanian organisations. Despite a review of 99 public non-profit institutions in 2007-2008, only two public non-profit institutions have been abolished, while other two have been merged into one budgetary institution.<sup>19</sup> This is because proposals from the advisory Sunset Commission did not receive enough political support in the Lithuanian government of 2006-2008.

However, one political initiative of the 1999-2000 government should be noted in the area of regulation. In the middle of 2000 two new regulatory institutions (the State Food and Veterinary Service and the State Non-Food Product Inspectorate) were established by re-organising five other

<sup>18</sup> Nakrošis, 2008, *ibid.*

<sup>19</sup> Verslo žinios. *VšĮ iki šiol neįveikiama tvirtovė valdžiai*. 2009 03 09, Nr. 45, p. 5.

institutions on the recommendation of the Sunset Commission.<sup>20</sup> However, this re-organisation was linked to Lithuania's preparation for EU membership, making it difficult to disentangle the EU's influence from domestic political initiatives. Overall, the fifth hypothesis that the political initiatives of public management reforms had little effect on organisational change was supported by the empirical evidence.

Nevertheless, it is likely that since the end of 2008 political parties will start playing a more important role in the process of public management reforms in Lithuania. A new governing coalition, whose centre-right political parties campaigned on the NPM platform, already initiated some organisational reforms. The fiscal crisis also affects these organisational changes. The Lithuanian government already established a new energy ministry (with 47 positions), by dividing the Ministry of Economy into two smaller ministries. Also, the government agreed to abolish two organisations responsible for ethnical minorities and the Lithuanians abroad by transferring their functions to two responsible ministries. It was also proposed to establish two new agencies ('Invest in Lithuania' and 'Enterprise Lithuania') by dividing the existing Lithuanian Development Agency. However, it is too early to assess the scope of these reform initiatives on the institutional set-up in Lithuania.

The fact that no single institution was set up in 1999 is associated with the negative impact of the 1998 Russian financial crisis on the Lithuanian budget. However, a large number of public organisations were established the following year of 2000, when budgetary constraints became less binding. One case study found that although the Communications Regulatory Authority should have been established immediately after legislative changes in 1998, it was established only in the middle of 2000 owing to the lack of financial resources and disagreements concerning the appointment of a director of this regulatory authority.<sup>21</sup> Therefore, it confirms that budgetary constraints used to delay the establishment of new public sector organisations in Lithuania. A new fiscal crisis, which started in the end of 2008, could also constrain the establishment of new organisations in Lithuania (unless there is a strong political priority or no additional financing is required).

If the influence of domestic political initiatives has been rather small on organisational change, domestic administrative culture (formal and informal institutions) played a more important role in setting up public sector organisations in Lithuania as well as defining their regimes of autonomy and control.

In order to test the sixth hypothesis – formal autonomy of the Lithuanian organisations should somewhat correspond to their actual autonomy and control – a variable of formal autonomy (FORMAUT) was constructed. This was done by grouping all public sector organisations, which participated in the 2008 COBRA survey, into four groups as discussed in the second section (see Table No. 1 above). Then this variable was correlated with four variables of organisational autonomy (SPA1, OPA1, FA2 and POINST discussed in the previous section) as well as the two indexes of organisational control or steering (EXANCO and EXPOCO discussed in the previous section).

Table No. 6, which presents the outputs of these correlations, shows a strong relation between the formal autonomy and strategic personnel autonomy as well as ex-ante steering. This means that actual autonomy of the Lithuanian public sector organisations strongly matches their formal

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<sup>20</sup> Vilpišauskas, R., Nakrošis, V. (2003) *Politikos įgyvendinimas Lietuvoje ir Europos Sąjungos įtaka*. Eugrimas, Vilnius, p. 53.

<sup>21</sup> Vilpišauskas, Nakrošis, *ibid.*, p. 92.

autonomy in strategic personnel management: Lithuanian civil service authorities are bound by the central rules of personnel management. However, there is no similar relation between the formal and actual autonomy in the area of financial and operational personnel management. It is possible that the application of these rules could vary in different Lithuanian public sector organisations. Therefore, the sixth hypothesis is true in terms of strategic personnel management autonomy and ex-ante steering, but the hypothesis does not hold in other cases.

**Table No. 6. Output of the correlations between the formal autonomy as well as actual autonomy and control of the Lithuanian public sector organisations**

			SPA1	OPA1	FA2	POINST	EXANCO	EXPOCO
Kendall's tau_b	FORMAUT	Correlation Coefficient	,469**	-,069	-,211	-,089	,362**	,173
		Sig. (2- tailed)	,000	,559	,112	,471	,003	,106
		N	63	66	51	54	48	59

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

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

Both variables of the ex-ante control index (the presence of a board and its functions as well as the appointment of a head of institution) are strongly linked with the formal autonomy. This correlation implies that the higher is the formal autonomy of the public sector organisations, the stronger is their ex-ante control. For instance, the heads of less autonomous civil service authorities are usually recruited for a life-long tenure by special internal recruitment commissions, while the heads of more autonomous public non-profit institutions are appointed by their owners or other stakeholders on the basis of fixed-term and non-fixed-term contracts that could be terminated. However, there is no significant relation between formal autonomy and the ex-post control of the Lithuanian public sector organisations.

An important finding of this paper is the fact that formal institutions (or legal procedures) matter in defining the regimes of control and autonomy in Lithuania. New Lithuanian organisations are established or the existing organisations are re-organised on the basis of the existing legal framework. It should be noted that in Lithuania, unlike in other countries, there is no special legal regime for regulatory authorities. Therefore, almost all regulatory organisations have been established as state budgetary institutions because other legal types of public organisations (public non-profit institutions or state-owned enterprises) are more suitable for the provision of public services or products. Consequently, they obtained little financial and personnel management autonomy.

The establishment of the Communications Regulatory Authority provides an interesting example. One case study reported a strong disagreement between the Government and the President concerning the accountability of the Communications Regulation Authority as well as the appointment of its director and board, which contributed to delaying its establishment.<sup>22</sup> This regulatory authority obtained a few special provisions in its control regime: its director and board are appointed by the President upon the proposal of the Government, but it is not subordinate to any institution. There were a few attempts to increase the control of the Communications Regulatory Authority during its functioning: during the preparation of a new communications law in 2002 the

<sup>22</sup> *Op. cit.*

government made a proposal that the director of this authority should be appointed by the Government, but it was not adopted.

An important role of informal institutions is apparent in the establishment of public non-profit institutions. According to the 1996 Law on Public Non-profit Institutions, the purpose of this institution is to serve the public interests in the activities of education, training, research, culture, health care, environment, sports, social and legal assistance. As it was mentioned, these institutions have large autonomy: they always operate outside the legal framework of the Civil Service Law (e.g. the government should not approve the positions of civil servants) and often outside the Budgeting Law (often they have no status and obligations of budgetary appropriation managers). Since the establishment of a new state budgetary institution required the approval of the government (to allocate a certain number of the civil service positions) and the Ministry of Finance (to introduce a special budget line for a new appropriation manager) the Lithuanian ministries and other institutions found the possibility of circumventing the direct control of the government and the Ministry of Finance. They sometimes used an informal practice of establishing public non-profit institutions for the purposes other than those indicated in the Law on Public Non-profit Institutions.

Therefore, the number of such institutions has proliferated since 1996. It was estimated that the number of public non-profit institutions, whose owners or stakeholders are the Lithuanian ministries, reached 117 in 2003 and 128 in 2007.<sup>23</sup> The Sunset Commission, which reviewed 99 public non-profit organisations in 2007-2008, found that they often carry out public administration functions not related to the provision of public services. Consequently, the status of a state budgetary institution would have been more appropriate to implement these functions. Also, the Sunset Commission found that no adequate steering of some public non-profit institutions was often ensured by their owners and stakeholders.<sup>24</sup>

However, the statistical analysis indicated that more autonomous organisations tend to have stronger ex-ante control (in terms of appointing a head of an institution as well as the existence of a board, see Table No. 6). More academic research (especially the case studies of individual public non-profit institutions or their groups) is required to explain the steering of public non-profit institutions in Lithuania. The COBRA survey provides some evidence about how the pressure for performance differs according to the status of public sector organisations in Lithuania. The application of internal and external performance techniques does not differ between state budget institutions and Lithuanian public non-profit institutions (see Table No. 7 below). However, it is interesting that, if the application of *mandatory* performance techniques is more intense in state budgetary institutions (71 % compared with 60 % in public non-profit institutions), the application of *voluntary* performance techniques is more intense in public non-profit institutions (51 % compared with 37 % in state budgetary institutions).

**Table No. 7. The application of performance techniques in Lithuanian public sector institutions in Lithuania according to their status, %**

Status of Lithuanian public sector institution	Performance techniques				
	Internal	External	Quality	Mandatory	Voluntary
State budgetary	55	44	45	71	37

<sup>23</sup> Verslo žinios. *Op. cit.*

<sup>24</sup> Valstybės valdymo sistemos tobulinimo komisijos („Saulėlydžio“ komisijos) veiklos ataskaita (2008). *Veiklos ataskaita. 2007 metų liepa – gruodis*. Sausio mėn. Vilnius, p. 3-4.  
[http://old.lrv.lt/saulelydzio\\_komisija/Sinternet/Sindex.html](http://old.lrv.lt/saulelydzio_komisija/Sinternet/Sindex.html)



institutions					
Public non-profit institutions	53	49	47	60	51
State-owned enterprises	38	35	45	58	28
<b>Total (including other institutions):</b>	<b>45</b>	<b>39</b>	<b>47</b>	<b>58</b>	<b>37</b>

Source: analysis of the data from the COBRA survey, 2008.

Remark: the *internal* techniques are the following: long-term performance planning, special human resource management instruments (competence management, result-based pay, etc.), improvement of internal management processes, impact assessment of draft decisions, e-government and the application of IT, performance assessment and monitoring, development of cost-calculation systems, review and simplification of legal acts; the *external* techniques: involvement of private persons in the provision of infrastructure and services, commissioning research and other analysis, publishing performance reports, participation of stakeholders; the *quality* techniques: quality management, surveys of the customers' satisfaction, benchmarking, the principle of one-stop-shops. Selected internal, external and voluntary techniques were grouped as *mandatory* or *voluntary*, depending on the existing legal requirements in Lithuania.

Therefore, it seems that the owners, stakeholders or managers of some public non-profit institutions are willing to introduce management techniques, which are not required according to the legislation. One example would be the introduction of certain quality management techniques in the agencies of the EU structural funds: the Central Project Management Agency (a public non-profit institution, no status of an appropriation manager) introduced the Common Assessment Framework, and the European Social Fund Agency (a foundation, no status of an appropriation manager) – the ISO 9001 standard. This stems from the need of these agencies to legitimise their autonomous status and to improve their internal business processes. It was found in another paper that the Flemish organisations, in which quality management techniques are used, to a large extent tend to rather autonomous organisations with high levels of result control.<sup>25</sup> It could be possible that some public non-profit institutions are more self-steered rather than steered externally by their owners or other stakeholders.

## 6. Explaining innovations in the public sector: the NPM or culture?

This section of the paper seeks to explain the main factors behind the adoption of innovative performance techniques and methods. The second section raised two alternative hypotheses. On the one hand, in line with the NPM argument, higher managerial autonomy and managerial incentives should lead to adoption of innovative techniques. On the other hand, administrative culture is also expected to play a prominent role. In order to test these hypotheses, this section initially defines main variables: autonomy, incentive and administrative culture (independent variables) as well as the adoption of performance techniques (dependent variable). Then this section provides the outputs of the statistical analysis.

Managerial autonomy is defined as the extent to which an organisation can take decisions regarding its personnel (SPA1 and OPA1), financial resources (FA2) and choose policy instruments to achieve its objectives (POINST). A more precise definition of the SPA 1, OPA1, FA2 and POINST indexes was provided in the fourth section of this paper.

<sup>25</sup> S. Demuzere, K. Verhoest and G. Bouckaert. *Quality management in public sector organizations: which factors do make a difference?* Paper presented at the 2008 EGPA annual conference at Erasmus University, Rotterdam, September 3-6, 2008, p. 29.

The second independent variable – the existence of sanctions and rewards – assesses whether there are rewards in the case of good results or the achievement of goals/targets (captured by REWARDS) and whether there are sanctions in the case of bad results or failure to achieve goals or targets (SANCTIONS). The existence of sanctions and rewards is also measured by the composite SAREW index.

The third independent variable examines main features of administrative culture. An index of the innovation culture (CULTINNO) was constructed to assess the pertinence of such values as innovation, risk taking, experimentation and creativity.

The main dependent variable – the adoption of innovative practices – is captured by the extent to which organisations use the following innovative techniques and methods: long-term performance planning; special human resource management instruments (competence management, result-based pay, etc.); improvement of internal management processes; impact assessment of draft decisions; e-government and the application of IT; performance assessment and monitoring; development of cost-calculation systems; review and simplification of legal acts; involvement of private persons in the provision of infrastructure or services; commissioning research and other analysis; publishing performance reports; participation of stakeholders; quality management; surveys of the customer's satisfaction; benchmarking; the principle of one-stop-shops. The extent to which these practices are adopted is captured by the INOV index.

In order to test the above hypotheses we used the data from the COBRA survey, which was carried out in 2008 in Lithuania. The indices above were constructed in line with COBRA methodology<sup>26</sup>. An additional INOV index was constructed, which provides a mean of the answers to the questions regarding the adoption of innovative practices and techniques.

**Table No. 8. Outputs of the correlations between the degree of autonomy, system of incentives, innovative culture and adoption of innovative performance techniques**

			SPA1	OPA1	FA2	POINST	REWARD	SANCTIO N	SAREW	CULTINO
Kendall's tau_b	INOV	Correlation	-,035	,183	-,005	-,092	,202	,100	,166	,208*
		Coefficient								
		Sig. (2-tailed)	,702	,065	,966	,365	,053	,337	,103	,017
		N	68	69	54	58	66	66	64	68

The outputs of the correlations between these variables are provided in Table No. 8. They indicate that:

- the seventh hypothesis does not hold. There is no statistically significant relationship between the strategic personnel management autonomy (SPA1), operational personnel management autonomy (OPA1), financial autonomy (FA1) and autonomy in terms of choice of policy instruments (POINST) on the one hand, and the extent to which innovative practices and techniques have been adopted (INOV) on the other hand;

<sup>26</sup> K. Verhoest, S. Demuzere, D. Galli. *Joint Database for the COBRA-research: a list of variables and indices*, unpublished, 2007.

- the eighth hypothesis does not hold. There is apparently no statistically significant relationship between the structure of ex-post incentives (sanctions and rewards) and the adoption of innovative techniques.
- the ninth hypothesis is correct, albeit quite weak. There is some relationship between the prevalence of innovation-related cultural values and the adoption of innovative techniques. However, this relationship is quite small and does not have very high statistical significance.

## Conclusions

Table No. 9 summarises all hypotheses of the paper and the extent to which they were confirmed by the empirical findings presented in this paper. The paper shows that the EU influenced setting up of the Lithuanian public sector organisations to a large extent. However, the analysis indicates that the EU yielded a much broader influence on organisational change than it was previously thought. In addition to the regulation of economic activities and implementing the EU funds, the process of institution building for EU membership also concerned the provision of public services and other functions of policy implementation in Lithuania. It is also interesting that the EU's influence on organisational change was particularly strong in the pre-accession period with some decline following Lithuania's accession to the EU.

**Table No. 9. Empirical support to the hypothesis of the paper**

No.	Title of the hypothesis	Confirmation of the hypothesis
1.	The EU contributed to the establishment of new public sector organisations and the re-organisation of the existing public sector organisations, increasing the size of Lithuania's public administration	Confirmed
2.	In particular, the EU contributed to the establishment of Lithuanian public sector organisations in the area of economic regulation as well as the implementation of such EU's redistributive policies as the CAP or the Cohesion policy	Partially confirmed
3.	The Lithuanian public sector organisations, whose setting up was largely influenced by the EU, obtained more personnel or financial autonomy	Not confirmed
4.	The Lithuanian public sector organisations, whose setting up was largely influenced by the EU, remain strongly controlled on the ex-ante and ex-post basis due to the importance of domestic institutions	Not confirmed/partially confirmed
5.	There has been little organisational change at the central level stemming from public management reform initiatives	Confirmed
6.	Formal autonomy of the Lithuanian organisations should somewhat correspond to their actual autonomy and control	Partially confirmed
7.	Higher managerial autonomy leads to the adoption of innovative practices	Not confirmed
8.	The existence of sanctions and rewards for managers in case of achievement or non-achievement of results leads to the adoption of innovative practices	Not confirmed
9.	Administrative culture contributes to the adoption of innovative practices	Partially confirmed

The lack of political initiatives in the area of organisational reforms explains why the process of institution building or strengthening was not related to the political terms of the Lithuanian governments (with some exception of the 1999-2000 government). Also, one should note that Lithuanian political parties co-operated concerning the priorities of EU and NATO membership with more competition along a left-right dimension and a pro- and anti-Russian dimension in the

political party system.<sup>27</sup> Since the process of institution building was strongly dominated by the EU, it was largely of non-partisan nature. However, the situation is likely to change from 2009: a new coalition government (headed by Prime Minister Andrius Kubilius) already initiated, approved and even implemented a few important organisational changes.

The autonomy and control of Lithuanian public sector organisations is more a result of formal and informal domestic institutions rather than the EU's influence. Both the COBRA survey and other sources of information (such as case studies and government or media reports) support this conclusion. For instance, the COBRA data proved that the actual autonomy and control of the Lithuanian public sector organisations corresponds rather well to their formal autonomy and control. However, there is no empirical support to the hypotheses that the Lithuanian public sector organisations, whose setting up was largely influenced by the EU, obtained more personnel or financial autonomy.

The empirical evidence of the paper also indicates that the NPM argument – higher managerial autonomy and the existence of incentives systems for managers lead to innovations – does not work in Lithuania. Instead, the dominant values and administrative culture seems to yield a higher influence on the adoption of innovative techniques in Lithuanian public organisations. This is not surprising, given the post-communist and continental tradition of public administration in Lithuania.

Further academic research is required to analyse the questions of setting up and steering the Lithuanian public sector organisations as well as their performance. It is recognised that the operation of public organisations should stem from a complex interplay between various political and administrative, formal and informal, external and internal factors.<sup>28</sup> Based on the research agenda outlined in this paper it is planned to produce a few articles for the international and Lithuanian audience. If the analysis of the COBRA data has been limited to the impact of specific independent variables, it would be useful to assess the interplay between various independent variables (e.g. by undertaking regression analysis). In addition to the data of the COBRA survey, it would be important to gather additional empirical evidence by undertaking the mapping of Lithuanian public sector organisations or the case studies (both state budgetary institutions and public non-profit institutions).

Also, a comparative analysis would be very useful between Lithuania and any Western or Eastern European countries. Since Estonia is sometimes assigned to the Nordic tradition of public administration and it was found to be one of the new EU member states closest to the NPM doctrine<sup>29</sup>, the comparative analysis of the Lithuanian and Estonian organisations could be very relevant and even feasible (taking into consideration the plan to launch the COBRA survey in Estonia).

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<sup>27</sup> A. Ramonaitė. 'The end of the Left-Right Discourse in Lithuania?' in *Lithuanian Political Science Yearbook 2002*, Vilnius: Institute of International Relations and Political Science, Vilnius University, 2003, pp. 22-35.

<sup>28</sup> See P. Laegreid's case study protocol „Reform and Co-ordination – One-stop-shops as a case“ prepared for the 2009 COST-CRIPO meeting.

<sup>29</sup> Tönnisson, K., T. Randma-Liiv. "Estonia". G. Bouckaert, J. Nemeč, V. Nakrošis, G. Hajnal, K. Tönnisson (eds). *Public Management Reforms in Central and Eastern Europe*. NISPAcee, 2009.

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