# HANDBOOK ON
# NEW PUBLIC GOVERNANCE

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# The Role of Governance

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**WHAT ARE THE PURPOSES OF GOVERNMENT? Those of us who have grown up in the United States tend to answer this question by referring to the Preamble to the U.S. Constitution:**

> We, the people of the United States, in order to form a more perfect Union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do ordain; and establish this.
>
> \- *Constitution for the Unites States of America.*

How do we achieve these ends through government? What does it mean to govern?

## Government Functions and Governance Capacity

What does a government do when it governs? It chooses, implements, and enforces policies that are embodied in a system of laws and regulations, It produces routine regulatory actions. It issues licenses and permits; allocates access to government resources and subsidies; monitors compliance of companies, non-governmental organizations (NGOs), and individuals; and intervenes to stop activities that do not meet regulatory standards. It either produces public goods and services itself — such as roads, schools, and clinics — or contracts for these goods and services. Then it distributes access to governmental goods and services among the citizenry according / to its own criteria of need and program eligibility. Effective governance refers to the government's ability to do these things efficiently.

The current emphasis on the importance of effective governance to development comes partly from a recognition of government's vital role in creating the physical, legal, and social infrastructure that permits mar-kets to function, private firms to operate, and community organizations to flourish. Even in a development strategy that expects the private and non-governmental sectors to be the engines of growth, it turns out that effective government is a key prerequisite for that growth. Paradoxically, a strategy that de-emphasizes government as the source and means of growth ends up emphasizing the tasks the government retains.

We do not endorse a minimalist view of the role that government can ) and should play. This nevertheless instructive to examine the free-market-oriented minimalist perspective, because this view turns out to endorse die idea of increased governance capacity in many areas of government in the developing world. If governments are to do what Adam Smith and Milton / Friedman thought of as their minimal functions[1], they must not reduce but rather expand their activities and capacities in key areas. These functions include (1) providing die physical and educational infrastructure nec-essary for a national economy; (2) establishing and maintaining the system of law that creates the societal rules of the game; (3) private firms cannot defending the law and order of this system against external military threats and internal illegality; (4) arbitrating disputes through a judicial system; (5) managing a sound system of currency that allows the economy to function without monetary disruption; (6) monitoring and adjusting the rules of the game to deal successfully with market failures; (7) dealing with natural monopolies to ensure that they are not run against the public interest; and (8) providing a safety net or last resort for the welfare of peo-ple unable to provide for themselves. Government must also do its part to establish and maintain a societal infrastructure without which no complex society can survive and no economy can function.

Stagnating societies are frequently those in which the government has been unable to make necessary improvements in the administration of key governmental functions and has tried to do many things that govern-ments do not have to do — for example, running hotels, marketing boards, and fertilizer plants. As a result, the transport, power, and communications infrastructure is inadequate to support increased investment or production. The educational infrastructure is inadequate to provide the skilled labor for industrial expansion. The currency management system breaks down repeatedly, leading to rampant inflation; the resulting investment risks are so high that even local capitalist investors choose to invest their money outside of the country. Chronically poor societies will be able to develop only if their governments can dramatically improve their governance capacity.

Development disasters—societies that are moving away from Broad Based Sustainable Development (BBSD) rather than toward it, sometimes with cataclysmic" speed—are societies in which the government has grown increasingly unable to provide one or more of these necessary elements. Frequently, the maintenance of law and order has broken down in the face of civil conflict, as demonstrated in Somalia, Cambodia, Lebanon, Rwanda, Liberia, Haiti, and Yugo-slavia, among others. In development disasters, die first priority for recon-struction, after humanitarian relief has begun to meet basic human needs, is to reconstitute a government with the capacity to carry out its necessary functions. This is an extremely difficult job, calling for diplo-matic, organizational, and managerial skills appropriate to the cultural and societal context. It is the area of development where the least is known and the applicability of generic how-to techniques is most open to question. But nothing is more essential for development. The realization of this fact on the part of development professionals and donor agencies has led to increased funding for governance projects in recent years, despite a lack of experience and the absence of a repertoire of tested interventions that are known to work.

**Power, Legitimacy and Governance**

The new governance initiatives in many developing countries are begin-ning to build up a body of specific concepts about what it means to improve governance. But many of these findings are not intuitively obvi-ous. To understand them, some basic political science concepts must be examined: how governments get the power to govern, and the role of legitimacy in maintaining that power.

The power pyramid is a conceptualization of the answer to what has been the basic question of political science since Machiavelli:[2] how do leaders get followers to follow their lead? When rulers set rules and issue commands, the rules must be respected and the commands obeyed, or the rulers will lose their ability to rule. Successful leaders have little trouble getting almost all people to respect almost all their rules and obey almost all their commands. They are routinely able to maintain and exercise their power. Unsuccessful leaders have a great deal of trouble getting anyone to respect any of their rules or obey any of their commands. They are rarely able to scrape together enough power to actually do any leading. What makes the difference? Max Weber, a founder of both political sci-ence and sociology in the 1890s, is the source of most of the concepts that modern social, scientists use to address this question, which are summarized in Figure 4.1.[3]

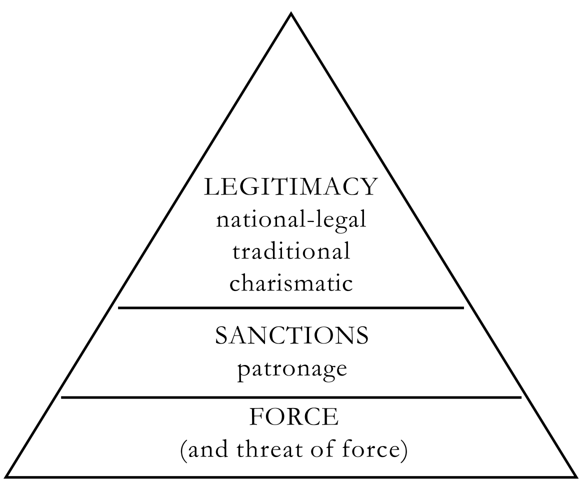


**Figure 4.1**
**The Power Pyramid: How Rulers Get the Ruled to Follow the Rules**

The bedrock on which power rests is die ability to use force, and to maintain the credible threat of using force, to ensure that rules arc followed and commands obeyed. Force is the basis for Weber's famous minimum definition of a government: that entity that has a monopoly over the use of force among a given population in a given territory. If a government loses its ability to enforce its rule over the population of an area, due to either a political insurgency or unchecked crime (gangs, bandits, warlords), then it ceases to be a zeal (de facto) government of that population, even if it hangs on to its international recognition as the nominal (de jure) government.

Although force is the indispensable minimum for successful rule, it is not very efficient. If compliance with every command requires enough physical coercion to keep the constant threat of force credible, then the ruler has no limit the number of commands issued, spend huge resources on military enforcement, or, most likely, do both. This describes the ini-tial situation of a government based on conquest and military occupation of a hostile population. All its resources and energies must be spent merely to stay in power.

It is much more efficient to buy compliance with the hope of reward than to coerce compliance with the fear of force. That is what patronage systems do. They distribute access to government benefits (services, jobs, subsidies, contracts, and so forth) in such a way as to provide tangible benefits to those who respect and obey and to withhold benefits from those who are least cooperative. But a patronage-based system of govern-ment can work only if it violates some norms of universality (government benefits and services should be equally accessible to all citizens) and some norms of efficiency (government benefits and services should be distributed to maximize impact, meet the greatest need, and make the biggest difference).

Reformers have often scorned patronage-based governments, but they can be remarkably effective. When the population to be governed is ethni-cally diverse and culturally heterogeneous, or when the population is unused to dealing with a national level of government, or when the government is new, patronage may be the best basis for statecraft. This was the case when urban political machines built city governments with immigrant populations during the industri-alization of the United States, and it was the case in Africa and Asia when "big men" built multiethnic states in the early stages of postcolonial political independence.

Patronage governments cannot continue to govern, however, in die absence of rewards to distribute. Since they are, in essence, buying coop-eration, they can govern only as long as they have resources. If the resource base dries up, the ability to govern decays. When industries and their tax revenues fled the American cities after World War II, heading first for the suburbs and the rural south and then overseas, America's urban political machines lost their support and collapsed. When in newly independent Africa the traditional colonial-era export base declined from lack of renewed investment, and die new government's export tax base shriveled, the ruling "big men" looked smaller and their governments collapsed.

If buying compliance is more efficient than forcing it, think how efficient it would be if compliance were free and voluntary. Free and vol-untary compliance is the great gift to government that legitimacy can provide. "When citizens believe that a government has rightfully set a rule or rightfully issued a command, they also believe that the only accept-able response is to respect the rule or obey the command. In such cases, citizens comply with the government because they think that they should. In the eyes of these citizens, the government has legitimacy.

Since legitimacy is such a boon to those who would govern, all leaders seek it. They do so by appealing to the citizens on one of three grounds: tradition or habit, charisma, or rational legality. Often, a leader makes all three appeals, emphasizing different ones' to different constituencies. Legitimacy cannot be asserted; it is not a property of government. Rather, it is a belief or attitude of citizens about the government. There- fore, a government may be legitimate in the eyes of some citizens and not in others.

The oldest, and still the most common, form of legitimacy is tradi-tional or habitual legitimacy. It is present when a ruler has taken power in the traditionally accepted way (for instance, by inheritance from the previous ruler) and when the ruler follows tradition in the setting of rules and the issuing of commands. In this case, compliance can become uncritical and even habitual. The rules are familiar, and obedience to them is an unquestioned way of life, like driving on the right side of the road. In well-ordered societies, habitual legitimacy is the source of much of the order. But as a source of innovation and change, it is useless. If a traditional leader starts issuing new rules and unconventional com-mands, the citizens will think them illegitimate. Not only that, but the cit-izens will start questioning the legitimacy of all the other rules and commands as well, because the habit of unquestioning compliance has been broken.

Historically, traditional legitimacy has been the most durable type. Any leader who stays in power long enough will acquire some measure of it. But the modern era of global information is not a hospitable time for traditional legitimacy. Citizens who are exposed to political traditions other than their own —as all are today—are less likely to assume that their government's way of doing things is the only way that things should be done.

Charismatic leaders can make their own legitimacy. Leaders are charis-matic to the extent that they articulate the sense of identity and the deep aspirations of their followers. Political charisma is a secularized version of religious charisma. "When people look at a charismatic political leader, they see not the essence of God but the essence of their own identity. To the followers, a charismatic leader is a living embodiment of their collec-tive self. Unlike tradition, charisma puts no limit on its legitimacy. Followers freely and voluntarily respect any rule and obey any command the charismatic leader makes, because they own the rules and commands as if they were theirs, Leaders of revolutions in the twentieth century are remarkable examples of charisma at work: Lenin in the USSR, Hitler in Germany, Mao in China, Castro in Cuba, and Mandela in South Africa.

Although charisma puts no limits on legitimacy, charisma itself is lim-ited in scope and transitory in time. Charisma does not travel well across ethnic or cultural lines. The very forces of personality and style that make a leader charismatic within one culture make the same leader seem alien and uncongenial in another cultural context. Charisma is also subject to what Weber called routinization. It can never be handed on to a successor, and even the original leader loses charisma over time as routine adminis-trative decisions are made about resource allocations. There is no way for a leader to decide which neighborhoods get a sewer this year and which ones will have to wait without dissipating some of his or her charisma.

Although it seems at first that charisma is not a learned trait—either you have it or you don't—this is not true. It is possible for a leader to cre-ate a situation in which citizens are more likely to perceive him or her as charismatic. The way to do this is to heighten the sense of ethnic national identity. The more fervently nationalist the population, "the more charisma the people are likely to perceive in their national leaders. Since nothing builds nationalism like a strong external threat, it is possible for military leaders who face genuine external threats—like Park Chung Hee in South Korea, Chiang Kai-shek in Taiwan, or Fidel Castro in Cuba—to maintain a nationalist charismatic legitimacy over quite a long time. Historically, this is one of the two most important sources of change-oriented durable legitimacy.

The other source of change-oriented durable legitimacy is constitu-tionalism. A government can appeal for rational-legal legitimacy if it can show that its rules and commands are legal. Two kinds of legality are required. First, the rules and commands must be issued by the constitu-tionally authorized leaders following constitutional procedures. Second, the content of the rules and commands themselves must fall within a rational interpretation of what the constitution mandates. In other words, rational-legal legitimacy can exist when a prior constitution or social contract exists and when the current government can successfully invoke prior agreement as the authorization for its current commands.

In European political history, constitutions or social contracts replaced divine right as the basis of legitimate government. By their nature, they are, at least in principle, somewhat democratic, since constitutions reflect agreements reached between at least one group of people and the govern-ment. Generally, the group that makes the social contract is not the entire population of die country to be governed. The citizens whose representa-tives approved the US. Constitution, for example, included all residents of the colonies who were free, white, male, and property owners. Then, as now, they were only a small minority of the total population that came under the rule of the new government. Yet the Constitution was and still is a sufficient basis for almost all the population to view succeeding gov-ernments as having rational-legal legitimacy.

Everywhere in the world today, the core social contract between a gov-ernment and its citizenry is that the people expect the government to produce development. Governments that are able to bring about development can gain increased legitimacy from their performance. Conversely, failure to produce development eats away at rational-legal legitimacy. Even con-stitutionally elected governments that are unable to provide development for their citizens find themselves resorting increasingly to patronage and force to maintain their hold on power, while growing more vulnerable to an unconstitutional overthrow. Even in a culture like the United States—where the idea of a smaller and less obtrusive government is popular, and cynicism about government's importance is everywhere—local, state, and federal officials are judged overwhelmingly on their ability to bring eco-nomic development to their constituents. The legitimacy of governments in developing countries is even more dependent on their ability to pro-duce development.

The traditional politician's instinctive response to improved gover-nance — and, not coincidentally, to increased power—is to try to move up the power pyramid. Political leaders seek to expand the proportion of the population that views the government as legitimate. To the extent that they are successful, patronage resources are freed up for use among hos-tile segments of the population that have previously cooperated only from fear of force. To the extent that patronage motivates new obedience to the government's policies, police and military resources can then be concentrated where they are most needed to extend the government's rule among populations that are most hostile to it.

To increase a government's legitimacy is to increase its governance capacity. Increased legitimacy means that policies can be more easily implemented, with fewer resources devoted to monitoring and enforcing these conditions, which include most countries emerging from the Soviet system, the knowledge gap is obvious; it is perceived by all concerned, and the thirst for technical training is great. Professional training of government employees in these circumstances can be money well spent.

**Organizational Effectiveness**

Another technical obstacle to effective governance may be the organizational and managerial structure of the government. Even if manages have the technical training to decide what actions should be taken, do their organizations have the capacity to follow through on these decisions? Do the management systems, the incentive systems, and the communications systems of the agency encourage the rapid identification and solution of problems, or do they tie the agency up in endless red tape or battles over turf? Organizational effectiveness or manageability, as it is sometimes called, is another obvious key to effective governance. Here too, the gap between most industrialized and developing societies might not be great, because most countries in the world consider the issue of reinventing government or increasing the effectiveness and productivity of government agencies to be a major problem.

It is ironic, though, that one of the keys to increased organizational effective-ness in many government agencies of the developing world is increased bureaucratization. Bureaucracy is a form of organization, first developed in the world's most modern military systems, for the mass production of routine services (such as unemploy-ment compensation payments) and routine decisions (such as building permit approvals). Bureaucracies are characterized by a specialized division of labor, a system for classifying the infinite number of individual clients or applicants into a finite number of types of cases, a set of procedures for treating each type of case in the same way, and meticulous record keeping so that the file for each case can be passed from one department to the next until the process has been completed and the service provided or the decision made.

Cases are processed in a bureaucracy like cars on the assembly line, and the result is more decisions made or services provided than could ever be accomplished if each case were handled individually. Bureaucracies are impersonal, but the impersonality can result in decisions that are fair and uninversalistic – citizens do not have to know somebody or pay a bribe to get services. Bureaucracies are unable to deal with truly unique cases, but these can be handled by more skilled and knowledgeable employees in a special process for exceptions to the normal rules. The problem in many bureaucracies, especially in developing countries, is that every case processed is treated as an exception, and the routine cases (of applicants or clients with no money or influence) pile up and arc never processed.

**Accountability**

Accountability means holding people responsible for their performance and holding managers responsible for the results of their decisions. Accountability can range from the narrow, technical concept of financial accountability, which holds people responsible for correct handling of the money they control, to the broad concept of political accountability, which holds officials responsible for living up to the expectations they cre-ated while campaigning for-election. In analyzing accountability, it is necessary to consider (1) who is being held responsible (2) to whom they are being held responsible and (3) how they are being held/responsible.

The minimum core of effective accountability form of organiza-tion with a functioning division of labor and definition of management responsibilities. It is present in an organization to the extent that all important responsibilities are assigned to specific individuals, there are positive or negative consequences for those whose responsibilities are ful-filled or not, and individuals know to whom they report in the carrying out of their responsibilities.

Democracy and political participation are increased when account-ability is supplemented by additional lines of responsibility to create a built-in system of checks and balances. This happens when government officials are responsible not only to their bureaucratic superiors on the organizational chart but also to a political party or constituency organisation that they must keep satisfied and to a professional association that insists on its own standards for their performance. Thus, a lawyer working in an environmental protection agency may have to account for her actions not only to her own direct superior but also to environmental monitoring groups and to the standards of professional competence and ethics of the bar association.

This may slow down an agency, as conflicting demands must be worked out to die point where an operational consensus is possible, but also greatly increases the visibility of the agency's performance and reduces the likelihood of graft and corruption. Some of the most effective governance development projects have focused less on managerial reorganization within the government and more on strengthening professional and civil society organizations that hold government agencies accountable.

**Rule of Law**

Governance is enhanced to the extent that there exists a functioning and effective rule of law. The rule of law refers not only to the actual content of regulations but, more importantly, to the -institutional process by which rules are made, amended, interpreted, and enforced. An effective rule of law is conducive both to democracy and to rational-legal or con-stitutional legitimacy. Its role in development is to maximize the ease with which private firms and NGOs can assess the legal risks associated with their plans of action, thus maximizing the likelihood that firms and NGOs will be innovative and active. Stability is key to an effective rule of law. But since no system of rules can be literally stable and unchanging in a dynamic environment, the stability must come from an open and predictable process for changing the rules.

**Transparency and Open Information Systems**

Both accountability and an effective rule of law require open and public procedures — in other words, transparency. They also require that infor-mation about the economy and society be regularly and objectively collected and widely published. "Without information about policy and program results, policy and program accountability is almost meaning-less. Transparency and good information systems are thus two additional characteristics of a system of effective governance.

**Measuring Governance**

There have been no successful systematic efforts to measure governance quantitatively. The absence of effective governance is readily apparent: public resources are diverted to private ends, laws are not widely publi-cized at the time they are implemented, laws are enforced arbitrarily or not at all, and no honest data are publicly available. Everyone agrees that governance is an important component of BBSD, but nobody claims to know how to measure it or how to tell whether governance in a particular country is growing marginally better or marginally worse from one year to the next. It is possible to compare the annual performance of particu-lar agencies in terms of cost-effectiveness and efficiency. In essence, this requires keeping track of the agency's output (immunizations by the pub-lic health department, miles of road repaired by the highway department) and comparing the ratio of those outputs to the expenses involved. But these measures are unique to each type of agency. They cannot be mean-ingfully compared or aggregated to get an overall picture of governmen-tal effectiveness.

One increasingly common approach to measuring and monitoring governm-ental effectiveness is through public opinion polls. This is not a precise measure of actual governmental perfor-mance, but it has several advantages. It can measure legitimacy very effectively, and it can increase democratic accounta-bility if the opinion polling is performed regularly and independ-ently and if the results are announced publicly. Thanks to new computer and communications technology, opinion polling is cheap and easy/and its practice is growing throughout the world.

## Notes

[1] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, 1937), Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962).

[2] Niccolo Machiavelli, *The Prince* (New York: Heritage Press, 1954).

[3] Max Weber, "Class, Status and Power," in *From Max Weber*, ed. Hans Gerth and C. Wright Mills (New York: Free Press, 1948).

# 2

# Urban Governance: Lessons from Best Practices in Asia

DINESH MEHTA

## Introduction

*Governance includes the state, but transcends it by taking in the private sector and civil society. All three are critical for sustaining human development. The state creates a conducive political and legal environment. The private sector generates jobs and income. And civil society facilitates political and social interaction—mobilising groups to participate in economic, social and political activities. Because each has weaknesses and strengths, a major objective of our support for good governance is to promote constructive interaction among all three.* (UNDP Policy Document on Governance for Sustainable Human Development, Jan. 1997)

Governance is a term that has been used in development literature only in recent years. The Oxford English Dictionary defines governance as the, "action or manner of governing." From this very narrow meaning of the term, it is now used to describe various processes of participatory development. This broader meaning of the term largely stems from the fact that the governments, at all levels, have not been able to fulfil the goals of human development. In the context of the urban areas of the developing world, the inability of the local government to cope with the provision of basic services and infrastructure is starkly visible. With rapid growth of urban population, these challenges will become insurmountable unless the mode of urban governance, as described in the UNDP policy document, is adopted.

Over the past two decades, many countries in Asia have experienced rapid economic growth. This has led to a rapid rise in their urban population. It is estimated that by the turn of this century, nearly half of Asia's population will reside in urban areas. However, in spite of a significant increase in national wealth and personal incomes, the quality of life of an average urban resident is quite poor. Squalor, slums, traffic congestion, and shortages of water and power characterize urban centres in Asia. While the national governments pursue the goals of economic development, it is generally left to the local governments to manage rapidly growing urban areas, and provide for basic services to its residents.

Urban governance has assumed increasing importance as the capacity of a nation to pursue its economic goals is contingent upon its ability to govern the cities. This is largely due to the significant contribution that urban centres make in the national income. In fact, it is often said that 'cities are the engines of growth of the national economy'. Economic liberalization and decentralization of government have been the most common feature of developmental policies of most countries in the past decade. Nations have evolved policies aimed at achieving high economic growth rates, integrating the national economy with the global economy and increasing economic efficiency through greater competition. The interdependency of national economic development, globalisation and urban development is clearly seen in the recent economic crisis in East and Southeast Asian countries. This has affected the cities in these countries more adversely and has resulted in increased poverty, unemployment and violence.

The emergence of these trends has profound implications on urban governance. In the general discussion of macroeconomic policies, the role of urban economies is not well recognized. The macroeconomic policies often have an anti-urban bias and programmes restricting the growth of large cities, reducing migration to cities, and achieving a 'balanced urban pattern' have been pursued by the national governments. It is only in recent years that the role of city economies in national development has been recognized. It is seen that in a global economy, there is an increasing competition among cities to attract cross-border investments. The ability of a city to attract the global investments largely determines the extent of investments in a nation. Many local governments in Asia have been actively promoting their city to the domestic and international investors.

The economic crisis in Asia has led to a rapid decline in investments in the Asian cities in the recent months. This is likely to further exacerbate the problems facing cities. The challenge now is to adopt innovative policies to enhance economic growth in cities. The flight of international capital from Asian cities in recent months and the rapid erosion of economic base of these cities have necessitated readjustments of local priorities. The close link of national economic development and urban growth now requires that 'bail-out' packages for cities of East and Southeast Asia will also need to be considered. On the other hand, for cities in South Asia, the present East Asian economic crisis provides an opportunity to attract global investors and capital. National and local governments in these countries would need to evolve policy frameworks within which a participatory urban development could be achieved. The strategy of city consul-tation of the Urban Management Program of UNDP/UNCHS provides an extremely relevant framework for identifying national and local priorities and action programs that can be implemented in a participatory mode.

Decentralization programmes initiated in many Asian countries have now given the urban local governments a greater responsibility for management. Urban local governments are expected to provide an adequate infrastructure base to attract domestic and international investments as well as ensure that a minimum level of basic services is available to all its residents. New forms of urban government structure and decentralization policies of some kind have been implemented in most South Asian countries in recent years (e.g. Nepal, India, Pakistan and Bangladesh). In many countries, this has been associated with a move to democratic rule or a return to democracy. In some countries these national efforts were encouraged by citizen and community pressure for more effective and accountable local authorities.

The rapidly changing macro-economic environment and the return to democracy pose enormous challenges to the elected representatives and municipal officers. The ushering of local democracy has inducted a new cadre of political leaders who are quite enthusiastic but lack the requisite knowledge and skills for local level decision-making. For the municipal staff, the process of local democracy and the problems of rapid urban growth have necessitated an improved managerial, technical and financial capacity. There is now a perceived need for a major shift away from the traditional methods of urban governance. This would require development of new institutions as well as a change in the existing institutional framework.

In many Asian countries, inspite of the decentralization programme, local governments that have most of the responsibilities for managing urban change and growth often lack the power and resources to fulfill them. The balance of power and distribution of functions between national and local governments is still evolving. The notion of 'subsidiarity' that has been discussed in the European Union should become the basis of the decentralisation efforts in South Asia.

The Article 3b of the European Community states, "The Community shall act within the limit of the powers conferred upon it by this Treaty and of the objectives assigned to it therein. In areas which do not fall within its exclusive competence, the Community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community. Any action by the Community shall not go beyond what is necessary to achieve the objectives of this Treaty." *(Maastricht Treaty, 1996)*

The 'principle of subsidiarity" propagated by the European Union dates back to the notion of subsidiarity propagated by the Catholic Church,"A community (or a government) of a higher order should not interfere in the internal life of a community (or a government) of a lower order, depriving the latter of its functions, but rather should support it in case of need and help to coordinate its activity with the activities of the rest of society, always with a view to the common good". *(North Dakota Catholic Conference at http//ndcatholic.org)*

Even in the field of Corporate Governance, the principle of subsidi-arity is advocated as one of the guiding principles. "Subsidiarity is a basic democratic principle that decisions be made at the lowest level of society as is practical and consistent with the overall public good. No decision affecting the lives of others should be undertaken by government without mandate or by a corporation without authority by government granted by charter or legislation." *(George Porter, Policies and Guidelines for survival, www.converge.org.nz)*

However, the national governments in South Asia are as yet not inclined to invoke the principle of subsidiarity and devolve greater power to the local authorities. For effective urban govern-ance, it is necessary to ensure that adequate powers and responsibilities are granted to local governments. At present the success of these de-centralized efforts in South Asia have been varied.

On the positive side, it is important to recognise that for the first time in many decades, democratically elected urban local governments are in place in all the South Asian countries. Though these local democracies are in a nascent stage, and their specific functional and fiscal domains are not well defined, there are examples of a few urban local governments that have adopted innovative approaches of urban gover-nance to meet the new challenges. These 'successful' urban authorities provide useful lessons to others to em-bark upon a new mode of governance.

In this paper the broader concept of urban governance as Participatory Urban Management is used. The paper traces the concepts of governance and reviews the various characteristics of “Good Governance”. The paper provides a brief description of some successful experiences of good govern-ance in South Asian countries. The paper ends with a discussion on the lessons learned from these successful partnerships and provides a strategy for encouraging a new mode of partnership.

## MEANING OF ‘GOVERNANCE’: FROM GOVERNING TO PARTICIPATORY DEVELOPMENT

As stated earlier, governance is a term that has been used in development literature only in recent years. It is, therefore, used by various authors and agencies to describe very different phenom-enon and processes. The origin of the term is in the Latin verb, *gubernate*, meaning steering a ship. This supplies the root for terms such as govern governor, government and governance. Most of the earlier uses of this term relate to its narrow dictionary meaning of ‘action or manner of governing’. For example, The World Bank (1992) defined it as the “manner in which power is exercised in the management of a country’s economic and social resources for development.” It identifies three distinct aspects of governance: (i) the form of political regime, (ii) the process by which authority is exercised in the manage-ment of country’s economic and social resources; and (iii) the capacity of the government to design, formulate, and implement policies and programmes and discharge its functions.

From this very narrow meaning of the term, it has now begun to mean more than government or its management. It now refers to the relationship, not only between governments and state agencies, but also between government, communities and social groups.

The OECD links governance to participatory development, human rights and democratization. It advo-cates the member states to link governance issues to: legitimacy of government (degree of democrat-ization), accountability of political and official elements of government (media freedom, transparency of decision making, accountability mechanisms), competence of governments to formulate policies and deliver services, respect for human rights and rule of law (individual and group rights and security, framework for economic and social activity and participation).

The UNCHS (1996) ‘Global Report on Human Settlements’, identified three critical factors that have led to a focus on urban governance. These were:

1. The elaboration and implementation of decentralization policies including the emergence and acceptance of the concept of subsidiarity

2. The introduction of or return to democratic principle of government in many countries, both at the national and local level

3. The increased importance of citizen and community pressure, as well as urban social movements, combined with concerns for economic development and environmental degradation, have helped place a greater emphasis on local control and involvement in decision making.

The preparatory process of Habitat II Conference at Istanbul in June 1996 took a much broader view of the term governance.

“Governance is a broader and more inclusive term than government, as it encompasses the activities of a range of groups-political, social, and governmental - as well as their interrelationships." *(UNCHS,1996).*

It defined governance as broader than "government." It said that governance concerns not only the public administr-ations and official State, regional and municipal institutions that formally manage public affairs, but also encompasses the activities of many other political and social groups. "Governance is the sum of many ways individual citizens and institutions, both public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests and needs may be accommodated and cooperative action taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interests."

A UNDP policy document 'Governance for Sustainable Human Development' (Jan 1997), states that, "governance includes the state, but transcends it by taking in the private sector and civil society. All three are critical for sustaining human development. The state creates a conducive political and legal environ-ment. The private sector generates jobs and income. And civil society facilitates political and social interaction—mobilising groups to participate in economic, social and political activities. Because each has weaknesses and strengths, a major objective of our support for good governance is to promote constructive interaction among all three."

However, its description of the process of governance takes the more narrow view of the term. The process of governance is described as the exercise of economic, political and administ-rative authority to manage a country's affairs at all levels. This comprises the mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences. This UNDP document further states that, Governance has three legs: economic, political and administrative. Economic governance includes decision-making processes that affect a country's economic activities and its relation-ships with other economies. Political governance is the process of decision-making to formulate policy. Administr-ative governance is the system of policy implementation.

In its definition of the state, private sector and the civil society, the UNDP (1997) has adopted an inclusionary approach. It states, "what constitutes the state is widely debated. Here, the state is defined to include political and public sector institutions.... The private sector covers private enterprises (manufacturing, trade, banking, cooperatives and so on) and the informal sector in the marketplace. Some say that the private sector is part of civil society. But the private sector is separate to the extent that private sector players influence social, economic and political policies in ways that creates a more conducive environment for the marketplace and enterprises. Civil society, lying between the individual and the state, comprises individuals and groups (organised or unorganised) interacting socially, politically and economically—regulated by formal and informal rules and laws. Civil society organisations are the host of associations around which society voluntarily organises. They include trade unions; non-governmental organisations; gender, language, cultural and religious groups; charities; business associations; social and sports clubs; cooperatives and community development organisations; environ-mental groups; professional associa-tions; academic and policy institutions; and media outlets. Political parties are also included, although they straddle civil society and the state if they are represented in parliament."

The Management Development and Governance Division under the Bureau for Policy and Programme support of UNDP has brought out some excellent reports in recent years. It is expected that through these publications, a general consensus in the development literature and policy will emerge regarding the use of the term governance.

## ELEMENTS OF GOOD GOVERNANCE

Just as there are differences in the use of the term governance, there are various ways in which good governance is defined. The phrase 'Good governance' is epitomized by the World Bank in its recent literature as,

"Predictable, open, and enlightened policy making, a bureaucracy imbued with a professional ethos acting in furtherance of public good, the rule of the law, transparent processes, and a strong civil society participating in public affairs. Poor governance, on the other hand, is characterized by arbitrary policy making, unaccountable bureaucracies, unenforced or unjust legal systems, the abuse of executive power, a civil society unengaged in public life, and widespread corruption. Good governance fosters strong state capable of sustained economic and social development and institutional growth. Poor governance undermines all efforts to improve policymaking and to create durable institutions." *(World Bank, 1997, document available on the Internet).*

Habitat II preparatory discussions identified good governance as a commonly shared goal. It stated that, "Good governance requires **accounta-bility** by public officials; both elected political leaders and civil servants. Their public functions must serve the community at large. These include the allocation of public funds, providing for the safety and security of citizens, and the equitable pursuit of economic well being for society. Accountability reduces corruption and assures citizens that their Govern-ment's actions are guided by the needs of society.

Second, good governance requires **transparency** in public procedures, processes, investment decisions, contracts and appointments. It is not sufficient that information simply be available. It must also be reliable and presented in useful and understandable ways to facilitate accountability. It must be widely accessible so those individual citizens from all walks of life can participate in political and economic debate on a well- informed basis. Information helps to ensure a level playing field that encourages the effective participation of all social groups and partnerships between different sectors.

Third, good governance requires wide **participation** in making public choices, such as policies and regulations (and even in the operation of markets). The essence of democracy is that it is a process of careful deliberation and choice among diverse social groups and individuals. In most political systems, elected leaders and civil servants make most governmental decisions, (which is why accountability is important). Private firms and individuals make most private decisions, such as buying and selling of goods and services.

But the major public choices demand wide participation and debate involving not just governmental agencies but also diverse, representative and accountable non-governmental organizations. A main objective of good governance as it relates to participation is to encourage a political leadership that reflects and promotes ideals of good citizenship, such as informed participation, compassion and fairness. Transparency and openness facilitate well-informed and wider participation by citizens. Participation also helps to ensure greater accountability. Further, many studies show that wider participation also leads to public policies that match better the particular needs of citizens. Such policies are viewed as more legitimate and representative. They tend to be implemented more fully and thus more effectively than policies crafted through narrower, less inclusive debate.

Fourth, good governance is built on the **rule of law**. Modern societies, especially those in cities, are extremely complex. Those that remain organized and prosperous do so because rules and expectations closely correlate to how political procedures and markets function. Accountability, transparency and participation help to ensure that political and economic institutions make fair and legitimate rules. The rule of law aims to ensure that those rules are applied evenly, without prejudice, to all members of the society.

Fifth, public and private institutions, such as Government agencies and markets, must have some measure of predictability. The rule of law helps to protect against erratic and uneven enforcement and the whims of public officials. But the process of making and changing public rules and expectations must also be predictable. This need is most evident in economic transactions, especially decisions to make long-term investments. Investors orient them-selves most to the future when they are confident of fair treatment and stability. The most severe urban challenges, such as providing sewage treatment, safe water and other elements of infrastructure, all demand the long-term view." *(UNCHS, Back-ground documents of Habitat II)*

According to the UNCHS, these five elements outline a workable and fair mode of governance. They imply the need for fiscal responsibility and sound management of national and local resources. They require building and utilizing the capacity for analysis and formulation of sound social and economic policies. They describe governance as a partnership between the public and private sectors—between Government and private citizens, management and labour. The role of Government is partially to catalyze private-sector activities through the effective and efficient provision of vital public services while playing a smaller role in economic activities better handled by the private sector. These five principles describe a system that can provide fair and legitimate governance. The Urban Management Program (UMP) has a component on participatory urban governance that is built on this premise.

The UNDP states that much has been written about the characteristics of efficient government, successful businesses and effective civil society organisations, but the characteristics of good governance defined in societal terms remain elusive. According to the UNDP, "good governance is, among other things, participatory, transparent and accountable. It is also effective and equitable. And it promotes the rule of law. Good governance ensures that political, social and economic priorities are based on broad consensus in society and that the voices of the poorest and the most vulnerable are heard in decision-making over the allocation of development resources."

The key elements of good governance as defined by UNDP are listed below:

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***Participation*** - All men and women should have a voice in decision- making, either directly or through legitimate intermediate institutions that represent their interests. Such broad participation is built on freedom of association and speech, as well as capacities to participate constructively.

***Rule of law*** - Legal frameworks should be fair and enforced impartially, particularly the laws on human rights.

***Transparency –*** Transparency is built on the free flow of information. Processes, institutions and information are directly accessible to those concerned with them, and enough information is provided to understand and monitor them.

***Responsiveness*** – Institutions and processes try to serve all stakeholders.

***Consensus orientation*** - Good governance mediates differing interests to reach a broad consensus on what is in the best interests of the group and, where possible, on policies and procedures.

***Equity*** - All men and women have opportunities to improve or maintain their well being.

***Effectiveness and efficiency*** - Processes and institutions produce results that meet needs while making the best use of resources.

***Accountability*** - Decision-makers in government, the private sector and civil society organisations are accountable to the public, as well as to institutional stakeholders. This accountability differs depending on the organization and whether the decision is internal or external to an organization.

**Strategic vision** – Leaders and the public have a broad and long-term perspective on good governance and human development, along with a sense of what is needed for such development. There is also an understanding of the historical, cultural and social complexities in which that perspective is grounded."

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*(Governance For Sustainable Human Development, UNDP, 1997)*

This policy document of UNDP further states that, "It needs to be recognised that these core characteristics are mutually reinforcing and cannot stand alone. For example, accessible information means more transparency, broader participation and more effective decision-making. Broad participation contributes both to the exchange of information needed for effective decision-making and for the legitimacy of those decisions. Legitimacy, in turn, means effective implementation and encourages further participation. And responsive institutions must be transparent and function according to the rule of law if they are to be equitable." While there has been some general discussion of good governance in the international agencies' documents, few examples exist where these characteristics have been applied to the Urban Management Practices. In a very novel exercise, the Konrad Adenuer Stiftung attempted to identify better managed cities in Asia. The "Better Cities Network of East and South-East Asian Cities" used the following eight criteria for assessing the performance of urban local governments. (See KAS and LOGO DEF, 1997 for details.)

1. **Accountability** - Accountability flows from the concept of stewardship and rests on the consent of the governed. It also refers to adhering to an established set of criteria in measuring the performance of local government officials to estimate the economic and financial performance of local government.

2. **Responsiveness** - It is a measure of accountability wherein leaders and public servants address the needs of the public. It can be indicated "by a deliberate citizen and customer-orientation policy being consistently espoused by the local administration" or by "the presence of mechanisms and procedures for swift recourse on unfair practices and avenues for the community to articulate issues requiring local government assistance."

3. **Management Innovation** - This refers to reforms successfully implemented by local governance in various areas of local government administrations, e.g., administrative procedures, resource mobilization, political reforms, economic sustainability, environmental preservation, community participation, etc.

4. **Public-Private Partnership** - This suggests an active joint working arrangement between local government and the private sector in the programmes of local government.

5. **Local Government - Citizen Interaction** - This indicates open communication between the government, non-government organisations and the community as a whole.

6. **Decentralized Management** - This concerns the ability of the local management to delineate and delegate responsibilities to various responsibility centres and to ensure accurate reporting and monitoring of delegated responsibilities.

7. **Networking** - This refers to the ability of the local governments to forge cooperative relationships with other local governments and other entities to build infrastructural capacities.

8. **Human Resource Management** - This suggests the sustained implementation of a programme to recruit, train, motivate and develop a local work force to become more efficient, dedicated and effective members of the public service.

On the basis of the detailed indicators for each of the above eight criteria, (See Annex 1 for a list of these criteria), a County search committee established for the participating countries identified a better city in their own country. Based on their recomme-ndations, the Konrad Adenauer Stiftung (KAS) established a "Better Cities Network in east and South East Asia." The member cities of this network are Irosin (Philippines), Kuantan (Malaysia), Saensuk (Thai-land), Semarang (Indonesia), Kumi (South Korea) and Ha long (Vietnam). The city of Kumi was the recipient Gold Medal for the Konrad Adenauer Local Government Award (KALGA).

## INNOVATIVE URBAN GOVERNANCE EXPERIENCES

One of the most significant contributions of Habitat II to good governance was by identifying and promoting examples of "best practices". These include success stories on local efforts to tackle problems of human settlement development. By showcasing such models and using them to inform debates over the future and opportunities of cities, the Habitat II process has initiated significant changes in the traditional ways in which national and local governments have dealt with habitat related problems. The database has now grown to over 600 best practices and serves as a very potent information base for bringing about major changes in human settle-ment management practices. A sample of the Best Practices from Asia in the Habitat-II database is in Annex II.

Some observers of the global urbanisation process argue that the living conditions in world's cities are bad and will become worse even if the general economic situation improves. The global and national media also propagate such views. These observations are based on the apparent poor capacity of local governments to manage the present conditions. It must, however, be recognized that given the size of the urban population, the apathy of the national and sub-national government, and the limited capacities of the local governments, cities in Asia have been able to cope with their problems remarkably well. In recent years, a few cities have, in fact, demonstrated that they are able to manage the existing problem as indicated by the 'best-practices' database. The fact that the 'best- practice' database has continued to grow over the years, suggests that in all parts of the world, urban local governments and the other stakeholders have been actively involved in improving the living conditions in their cities.

In India there have been many studies in the past few years of innovative urban management approaches. These studies in India and other countries and the 'best practice' database of UNCHS have demonstrated that there are important lessons to be learnt from them.

Some further details about these cities and the innovations can be found in Pathak (1997) and VSE (1996) for Ahmedabad, Shah (1997) for Surat, Mehta M. (1997) for Pune, ILFS for Tirupur and Mehta D. (1997) for Jalgaon and Anand. The list of cities in Table 1 is indicative of the gradual transformation of urban management in India. One is certain that there are many more cities in India where similar innovative management practices are pursued. The list will grow as other cities begin to emulate these experie-nces.

## KEY CHARACTERISTICS OF INNOVATIVE PRACTICES

While recognising that each "best-practice" case is unique and is rooted in the local context, it is important to examine the

**Table 1: Innovative Urban Management Experiences in India**

| | |
|---|---|
| ***Ahmedabad*** (Pop. 3.5 million) | Financial revival through strict administrative measures Improvements in civic information<br>Public-private partnership for road improvement project<br>Slum networking through public, private and community partnership |
| ***Tirupur*** (Pop. 300,000) | Accessing capital market through Municipal Bonds Infrastructure improvement through private sector initiative<br>Partnership of state government, local govt., private industry and a financial institution for a major project |
| ***Surat*** (Pop 1.8 million) | Declared as the second cleanest city in 1996 only two years after plague outbreak<br>Administrative decentralization and daily monitoring of routine municipal functions.<br>Major investments in infrastructure through internal revenue surplus<br>Responsive administration to citizen complaints |
| ***Calcutta*** (Pop. 10 million) | Removal of encroachment that were made two decades ago<br>Improved solid waste management<br>Responsive civic administration<br>Improvements in civic facilities |
| ***Pune*** (Pop 2.5 million) | Consistently good financial performance and sufficient revenue surpluses to self finance most capital investments<br>Public private partnership for proposed water supply and sewerage project |
| ***Jalgaon*** (Pop 350,000) | Revenue generation from real estate development for most of city's capital needs<br>Improved civic infrastructure<br>Vision to become a major urban center in the country |
| ***Anand*** (Pop. 150,000) | Efficient municipal administration for over two decades<br>Resource generation from land. |

key characteristics of the successful innovative or good govern-ance practices. This is necessary to identify a strategy for improved urban governance. These successful innova-tive practices provide lessons for other local governments to improve their management practices. For the list of innovative practices described in Table 1, there are certain common character-istics that have been identified and listed below.

a) **Internal motivation:** Each of the innovative urban management experience was motivated from within the local government system. No external support agency was involved and no major plan of action was drawn up.

b) **Local leadership (change initiator):** In each case, it is possible to identify an individual who played a keynote in initiating the changes. This leadership is provided by the municipal commissioners in Ahmedabad, Surat, Pune and Calcutta and by the Mayor in Jalgaon and Anand. Only in Tirupur individuals who were not a part of the local government initiated the project.

c) **Institutional and Legal Context:** Another key feature is that there was no major change in the institutional and legal framework. All the efforts were directed towards improving the efficiency of the existing administration. This approach of 'making the system work', appears to be the first but an important step for improving urban management.

d) **Improved credibility of local government:** A major impact of these practices has been a tremendous boost to the credibility of the municipal government among the local residents. The change in people's perception from a corrupt and inefficient municipal government to the one that 'means business' has had several fall-outs. The morale of municipal staff is high, as they have gained respect of the local residents. With increased compliance in payment of local taxes and charges, municipal finances have improved. This is also partly due to the feeling of the local residents that the municipal resources are being used for the their welfare of the city. Access to capital market is also facilitated, as the credit rating of these cities for a potential municipal bond issue has been quite favorable.

The search for key characteristics of the successful best-practice examples continues. The UNCHS Best Practice database is being analyzed to identify the key characteristics of these success stories. A recently concluded Yale/UNDP Internet conference on public-private partnership for urban environmental management also discussed examples of successful and innovative partnerships.

The conference summarised the key features of successful public-private partner-ships from around the world. These are presented below. It will be seen that some of these characteristics are similar to the one enumerated from above for the Indian examples. It thus suggests that there are certain 'universal' characteristics of the successful partnerships around the world. It is therefore possible to develop a strategy for improved urban govern-ance based on these lessons from successful cases.

**KEY FEATURES OF SUCCESSFUL PUBLIC PRIVATE PARTNERSHIPS**

***Public-private partnerships start with either or both:***

1. **A widely acknowledged crisis**: Until there is a widely acknowledged crisis, seriouslyaffecting the individual needs of key stakeholders, and incapable of being solved byany one party, there are few incentives to develop collaborative solutions — unlessthere are

2. **Effective champions**: One or more individuals, with the credibility, stature,trustworthiness, drive and commitment to push through the partnership.

***To build the foundation for the partnership based on:***

3. **Complimentary goals**: Partnerships can only work to the extent that the goals of themajor stakeholders are both (a) mutually compatible (acceptable services foracceptable prices and levels of return) and (b) articulated, understood and respected —and

4. **An enabling environment**: The collaborative effort needs to occur in a legislative, administrative, political and social environment that is supportive of both the process ofdeveloping the partnership, as well as the achievement of its objectives over time.

***Using processes that generate arrangements that are durable over time, including:***

5. **Resource commitments**: The major parties to the parties must commit resources (financial, human, material) to give them a stake in ensuring its success.

6. **Participation and transparency**: The interests of all the major stakeholders must bereflected in project development. Special attention should be paid to meeting the needsof the poor. Broad participation in the collaborative process must be sought at strategicpoints to maximize the acceptability and sustainability of the solution developed.Transparency on the basic features of the project (framework, fees and ownership) isnecessary.

7. **Capacity building**: Projects requiring substantial institutional change or large capitalinvestments will require building the capacity of all stakeholders: (a) consumers on thenature of the service they are receiving and the costs associated with its provision; (b)providers, particularly local organizations, on entrepreneurial skills; and (c)governments on adopting the frameworks for and overseeing the provision of theservices.

8. **Patience:** In addition, projects requiring substantial institutional change or large capital investments require lots of time. Careful attention must be paid to the balance between responding rapidly to the most pressing crises and developing integratedsolutions that will last.

9. **Flexibility**: All partnerships are context-based and locally embedded. Draw fromexperience elsewhere, but be opportunistic about exploiting the comparativeadvantage of local resources. For long-term, capital intensive projects, changes ininvestment plans, technology choices and priority actions will be necessary inresponse to unforeseen circumstances. Including clear procedures for making suchchanges over the life of the project will reduce.

*Source: UNDP/Yale University Internet Conference on Public Private Partnerships for Urban Environmental Management*

## LESSONS FOR IMPROVED URBAN MANAGEMENT

The recent experience of a few cities provides some important lessons for improved Urban Governance. These lessons are:

a) Build credibility of local government through improved administration

b) Make initial efforts in a few critical areas that are 'visible' and affect daily lives of most residents

c) Changes have to come from within the system, not forced by state or national government

d) Demonstration effects are important and more cities will learn from the few success stories. Dissemination and networking of local governments is crucial

e) State and national governments may not always support the initiation of changes, but will yield only when citizen support is received.

f) Responsive administration for citizen grievances is essential.

The first important lesson is that local governments must build up their credibility with the residents. This can be done in a variety of ways. It may be done by improving finances of the city and by eliminating corrupt practices, recovering dues or taking up some popular schemes. All these efforts need to be undertaken without raising tax rates or user charges in the initial stage. It is also possible to build up credibility by ensuring that the city is kept clean and that the roads are without any potholes. This requires effective administration, which ensures that all municipal employees perform the duties that are assigned to them. Obtaining citizen support and participation of the private sector enterprise has become possible only when the perception of the local government is that of an effective organization.

A second important lesson is that the local governments need to make extra effort in a few critical areas that affect the daily lives of its residents. Efficient garbage removal, improved streetlights, resurfacing of major roads and normal removal of unauthorized and illegal construction are some of the activities that have sent a positive signal to the residents about the municipal governments. This also results in tremendous support from the general public and private sector to the municipal government, and has helped overpower many vested interests that used to profit from the inefficiencies of the local government.

A third important lesson is that in the initial phase, the changes have to come from within the system. In the past many donor agencies had attempted bring about improvements in city management through various conditions attached to their assistance package as well as some training programmes for municipal staff. These efforts did not lead to any perceptible charge in city management. Efforts of national governments and international agencies for general improvement in urban management in future are also unlikely to succeed unless they are directed to those municipalities that have demonstrated same explicit internal capacity and willingness to change.

The fourth lesson is to recognize the importance of 'demonstration effect'. After the first ever credit rating of a city in India for Ahmedabad and the issue of municipal bonds, twenty cities in India are being rated by credit rating agencies. The Surat experience of plague in 1994 to the second cleanest city in India in 1996 has been recognised in the Habitat best practice awards at Dubai in July 1998. These concerted efforts of Surat Municipal Corporation draws officials from other cities to learn about what they have done and replicate or adapt this experience to their own city. There is, thus, an urgent need to disseminate these experiences widely and promote networks of local governments to exchange these experiences. A large number of networks of cities exist. However, it is necessary to go beyond the annual meeting of these network members. A recent effort to establish the South Asia Cities Association (SACA), by the Urban Management Program in South Asia intends to provide a forum for exchange of experience sharing among South Asian cities.

A fifth important lesson relates to the role of the state and national governments. In most cases, the state government's role has been quite mixed. Under the existing municipal laws, the state government heavily regulates the municipalities and this leads to many conflicts. A few Municipalities have had to seek judicial intervention to counter the state government's refusal to grant permission for many of its activities. While the municipal corporations are relatively more independent, they also experience hindrances from the 'paternal' attitudes of the state govern-ments. In most cases, the support of the state government has come after the initial efforts of the local govern-ments towards improved management. Through these initial efforts, enough public support is built up and it becomes difficult for the state govern-ment to make adverse intervention. The important lesson for the state and national government is to intervene as little as possible and provide support for those cities that demonstrate improvements in urban management.

A sixth important lesson relates to the relationship of the administrative and legislative wings of the local government and the state government. At the local level, the elected members must support and work in unison with the administration. However, one should expect some resistance and conflicts in the initial stages of change. It is only the persistent efforts (often dubbed as rebellious efforts) of the leader that would result in some demonstrated improvements. The political fallout of these changes become imminent to the elected members and their support would be available. At the state level again, there are possibilities of conflict if the political leadership at the state is from a different political party. But eventually 'everybody likes a winner', and as long as there is an evidence of improvement and more importantly, a good local support, the political and administrative wings at the local and state will work together for urban improvements.

Responsiveness to citizen grievances is another important lesson. In each of cases, formal and informal response mechanisms have been established. Surat provides post cards to the citizens for complaints. These complaints are classified as those, which will be attended and rectified within 24 hours and 48 hours. A decentralized administrative system has been established to deal with the complaints.

Such a response mechanism has many advantages. At one level, the credibility of local government among the citizens has increased. Even if the complaint does not get notified within a specified time, the fact that a citizen is heard and that some action has begun is important for the people. For the municipal staff, it has been a great morale booster as they gain respect of the citizen after the complaint is attended. The elected members also feel involved and gain importance in the eyes of the people. This mutual reinforcement of faith of people in local politicians and bureaucracy provides a basis for partnerships. Many partnership initiatives in these cities are a result of such reposition of faith in local government by the people.

A final important lesson is that the local leadership's efforts are crucial. In fact, the changes are attributed to a particular individual. These individuals have made attempts towards institutionalization though delegation of decision-making powers and introducing citizen response or grievance redress systems. However, greater efforts will be needed to ensure that when these individuals will not be at the helm, their efforts will be sustained.

## STRATEGY FOR GOOD URBAN GOVERNANCE

Given the few successful experiences of improved urban governance and the lessons derived from these examples, it is necessary to examine possible strategies for inculcating good govern-ance in Asian cities. A tentative outline of such a strategy is presented below.

### Strategy of Enablement

While supportive and enabling national and state level policies will be required for urban development, the major responsibilities to increase efficiency of the urban areas and improve its productivity, will remain with the local government. Within the notion of the 'subsidiarity principle', the national and sub-national governments will have to empower the local governments. They will also have to provide a policy environment in which local governments can adopt and practice the participatory development process and pursue the key characteristics of good governance.

### Strategy of Participation

Participatory development process requires that the present alienation of the civil society to the urban local government be eliminated. The present corruption and inefficiency in local government have led to a loss of faith in the system of governance by the common citizens. The government is seen as pursuing only its self interests rather than larger societal interest. The local government, in addition to the crisis of institutional capacity, also suffers form a crisis of identity.

The partnership mode of governance requires that each stakeholder in the city has an adequate voice and that the partnership is built on the strengths and interests of each stakeholder – the local government, the private sector and the community. The present experience of such partnerships is limited but has provided many important lessons. (For details on privatization see *Mehta and Mehta, 1993*)

Innovative models of financing urban development are also recently being attempted in India and other Asian countries. Here also, the critical realization has been that the government can no longer continue to provide and create urban services at highly subsidized rates. The emerging financial market discipline suggests that the present financing based on directed credits, subsidized prices and budgetary support will soon become obsolete, as it is inefficient and uncompetitive.

Financing of urban development will have to be integrated within a larger financial market. This implies that all land development related activities and all urban infrastructure and services would have to be financed through market based borrowing from financial institutions or the capital market. The market discipline would require that the services be priced appropriately to recover the full cost of capital and operations:

**Strategy of Capacity Building**

Achieving good governance requires building capacity as well as applying these principles to existing institutions. New capacity may be needed to help assure the rule of law and open access to public information. But "capacity- building" is a broader concept as well. It includes the need to ensure that diverse social groups are able to get needed information and participate in the making of public policy. It includes the need for vibrant markets and a private sector that operates in partner-ship with Government, and for both to have sufficient stability and confidence that they make the investments needed for tomorrow's urban infrastructure.

Capacity building of local governments has traditionally been viewed as human resource development activity. It is, however, realized that efforts to train better urban managers are not suffic-ient without appropriate changes in the institutional environment. Capacity building is now referred to as impro-ving the ability of the institutions – government private and community based groups – and individuals within these institutions, to perform approp-riate tasks and fulfill their roles effectively, efficiently and sustainable. The dimensions of such capacity building exercise are human resource development, organizational develop-ment and the institutional and legal framework. (See *Peltenberg et-al 1996*)

Often the capacity of organizations is assessed on indicators of good governance. Grindle and Hildebrand (1994) provide a framework for building sustainable capacity of public sector organization. This approach is oriented in Table 2 below:

**Table 2: Good Governance Indicators based on Capacity**

| | Capacity | Good Governance Indicators |
|---|---|---|
| 1 | Institutional Capacity | Accountability<br>Transparency<br>Adaptability<br>Judicial independence |
| 2 | Technical Capacity | Perspective planning and projecting future investment needs<br>Management of services and infrastructure<br>Financial management and accounting practice |
| 3 | Administrative Capacity | Grievance redressal system<br>Personnel policy<br>Flexible and decentralized decision making<br>Performance evaluation |
| 4 | Political Capacity | Articulation of local needs in the context of organizational capacity<br>Mechanism for participation of stake holders<br>State-local relations in policy formulations and fiscal transfers. |

*Source: Adapted from Grindle and Hildebrand (1994) and Razon Abad (1997)*

## SUMMARY AND CONCLUSIONS

Governance is a term that has been used in development literature to describe various processes of participatory development. This broader meaning of the term largely stems from the fact that the governments, at all levels, have not been able to fulfil the goals of human development. In the context of the urban areas of the developing world, the inability of the local government to cope with the provision of basic services and infrastructure is starkly visible. With rapid growth of urban population, these challenges will become insurmountable. The mode of urban governance described as a participatory process of development in which all the stakeholders- the government, the private sector and the civil society—provides a mean to cope with the challenges of rapid urbanisation.

Urban governance has assumed increasing importance as the capacity of a nation to pursue its economic goals is contingent upon its ability to govern the cities. The contribution of urban centers to the national economy is quite high. These 'engines of economic growth' need an enabling environment within which the challenges and the opportunities of rapid urbanisation can be met. It is necessary that the national and sub- national governments provide adequate constitutional and legislative basis that is in congruence with the principle of subsidiarity.

The rapidly changing macro-economic environment and the return to democracy pose enormous challenges to the elected representatives and municipal officers. The traditional mode of governance has to pave way for a new mode that involves all the stakeholders of the city. Good governance implies Simplicity in rules and regulation, Managerial efficiency, Adaptiveness, Responsiveness and Transparency (SMART). These need to be followed in a participatory and consultative process of development.

The description of successful examples in this paper suggests that there are many local initiatives of innovative urban governance that would be qualified as good governance practices. From these experiences one can derive some important lessons. Some of the key characteristics of these successful experiences are enumerated to demonstrate that it is possible for most urban local governments to adopt good governance practices. A strategy for improved urban governance is enumerated. This includes strategies of enablement, strategies of participation, and strategy of capacity building. Various programmes of the UN system, including the global programme on Urban Management, have been promoting these strategies. It is expected that with the successful implementation of these strategies, good governance practice will become widespread and lead to an appreciable increase in the quality of life of urban residents.

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## Annexure I

### Criteria For Better Cities Network

| | |
|---|---|
| **1** | **Accountability**<br>**Indicators:** |
| a. | Regularity in the fiscal transactions and faithful compliance/adherence to legal requirements and administrative policies. |
| b. | Efficient and economical use of funds, property, manpower and other resources. |
| c. | Participatory and decentralized activities in the planning and implementation of programs/projects. |
| d. | Systems in place which ensure that goals are clearly communicated to the constituents.e. Mechanisms are installed to evaluate economic performance. |
| **2.** | **Responsiveness**<br>**Indicators:** |
| a. | Mechanisms are in place to determine that people's needs and wants, e.g. surveys, public forum, telephone hotline, etc. |
| b. | Mechanisms are installed to allow citizen participation in planning and implementation of plans, programs and projects, e.g. consultative council meetings, public hearings, etc. |

c. Existence of a system for monitoring to determine that goals and desirable social ends of the programs/projects are attained and delivered to targeted number of beneficiaries.

d. Presence of simple procedures to ensure fair and swift action on suggestions, grievances, etc. by the public.

e. Availability of information to the public to give feedback on how the local government's responds to demands articulated by the constituents.

**3. Management Innovations**

**Indicators:**

a. Bureaucratic structures and procedures have been improved to conform to service standards such as efficiency, effectiveness, timeliness and economy.

b. Presence of innovative or creative devices to deal with the public.

c. Introduction of innovations in generating resources and in instituting cost-saving measures.

d. Adoption of innovative concepts and practices that deal with local problems such as environmental degradation, land tenure, poverty incidence, etc.

e. Application of new management techniques adopted such as total quality management (TQM), information technology and computerization.

**4. Public Private Partnership**

**Indicators**:

a. Implementation of policies incentive scheme to encourage private sector to participate in development.

b. Presence of business sector initiatives to improve efficiency of local government bureaucracy, e.g. technology improvement, training, etc.

c. Joint involvement of public and private sector in planning, funding and implementation of programs/projects.

d. Privatization of local government services.

**5. Local Government – Citizen Interaction**

**Indicators:**

a. Presence and extent of cooperative efforts among local governments, non-governmental organizations.

b. Existence of mechanisms that allow consultation between the local government and the constituents on various local concerns.

c. Implementation and extent of projects as a result of LG/NGO/PVO collaboration.

**6. Decentralized Management**

**Indicators:**

a. Presence of clear-cut guidelines on delegation.

b. Presence of a monitoring system to provide feedback on the implementation of delegated tasks.

c. Existence and extent of decisions made by officials to which tasks are delegated.

d. Consistency between the organizational hierarchical structure and actual delegation of tasks.

**7. Networking**

**Indicators**:

a. Extent (number) of inter-local government networks.

b. Extent (number) of regional (intra-local) networks.

c. Extent of international network (local unit in one country with various local units in other countries).

d. Scope of resource complementation in the network/networks.

e. Extent of technology interchange/ collaboration.f. Promotion of common interest and agenda.g. Exchange of expertise and training.

**8. Human Resource Management**

**Indicators**:

a. Presence and extent of the coverage of policies designed to improve the different aspects of human resource management.

b. Existence of an adequate and sustained program of recruitment and selection based on merit and fitness.c. Presence of training programs to improve the capabilities of local government personnel.d. Installation of a workable and responsive Position Classification and Pay Plan based on the principle of "equal pay for comparatively equal work."

## Annexure II

### 1. Comprehensive Development of Urban Infrastructure, Foshan City People's Republic of China

The People's Government of Foshan City of China has implemented the compreh-ensive development strategy for urban infrastructure, which laid forerunner on infrastructure construction and emphasis on housing construction. By adjusting the management system for urban infrastructure construction, reforming the investment system and price system of urban construction, and giving active play to functions of the non-government organizations, it has made the urban construction and the environment of residential districts develop coordinately.

### 2. Kaantabay sa Kauswagan, an Urban Poor Program in Naga City Philippines

The Kaantabay sa Kauswagan (or Partners in Development) Program is a social amelioration program primarily designed to empower squatters and slum dwellers which comprise some 25 percent of the city population residing in 21 urban barangays of Naga City. So far, it has resettled 2,017 families to relocation sites with a combined area of 33 hectares; secured home-lots for 789 squatter families; and upgraded 27 urban poor communities, which host around 2,700 families. Anchored on the belief that the urban poor is a vital sector in Naga's quest for total development, the program addresses the sector's two main problems— (1) the absence of security of land tenure, and (2) the lack of basic infrastructure and facilities in their communities—primarily by adopting a "partner-beneficiary" perspective in dealing with clients. This approach sees the urban poor both as a program partner and beneficiary, and as such is compelled to actively participate in every step of problem resolution.

In response to these major problems, the Program focuses on two main components: (1) land acquisition which provides as sense of permanence to the urban poor's occupancy of a property, and (2) urban upgrading which provides decency, ease and comfort to daily life in the blighted areas. By institutionalizing a functional mechanism for permanently settling land tenurial problems between landowners and land occupants; elevating living conditions of the urban poor through on-site upgrading projects for blighted urban poor communities; establishing intra-city relocation sites for victims in extreme cases involving eviction and demolition; and providing them livelihood opportunities by introducing a livelihood component to the Program, the Kaantabay sa Kauswagan was able to shape new strategies in cushioning negative impacts of urbanisation. These strategies include accessing various modes of land acquisition—like direct purchase, land swapping, land sharing, community mortgage, and resettlement; institutionalizing a separate window catering specifically to urban poor clients of the lending arm of the local government; and evolving a financing scheme anchored on internally-generated resources of the beneficiaries.

**3. Partnerships for Poverty Alleviation in Cebu City, Philippines**

The City Government initiated the Cebu Urban Basic Services Programme in 1988 with the support of UNICEF; the Presidential Commission on the Urban Poor and the cooperation of several national government agencies programmes as well local and national NGOs. The programme was expanded to address land tenure and housing improvement by the development of the Community Mortgage Programme in 1990. The establishment of the Local Government Code in 1992 greatly increased the autonomy and authority of city government and lays the foundation for institutionalization and replication of the Cebu poverty alleviation policies and programmes in other cities.

**4. Khuda-Ki-Basti—Innovation and Success in Sheltering the Poor in Hyderabad, Sindh, Pakistan**

The former Director General of Hyderabad Development Authority (HDA) initiated this scheme in 1986. Restrictive governmental process such as allotment procedures, allocation of loan against land mortgages or land/property ownership provision for speculative purposes, were replaced with unconventional and innovative approaches. Some examples include: targeting needy households; simplification of bureaucratic procedures; optimizing choice of relocation; providing urban basic services incrementally through community involvement; providing housing credit facilities to every household; creating direct rapport with the communities; and periodically monitoring the development process. The first incremental housing scheme (KKB) was developed at Gulshan-e-Shahbaz near Hyderabad and has since been followed by four similar schemes in various parts of Sindh Province including Karachi. This innovative approach of incremental housing by HDA has proved itself to be a viable alternative to the public sector's attempts to provide housing for urban poor. It represents a change in the World Bank administered sites and services housing programmes by allocating the service provisions in increments according to the land holder's need and their ability to pay.

### 5. Effective Waste Reduction, Inchon, Korea

The port city of Inchon has experienced rapid growth and is now facing a serious problem of increased solid waste production. The Inchon Metropolitan government enforced a solid waste control programme employing a Volume-based Collection Fee System (VCFS). Before the enforcement, the total quantity of solid wastes produced was 2,272 tones per day but after enforcement, 1,598 tonnes — a 30% decrease. The revenue from waste collection increased 195% from some 4 million U.S. dollars to 11.6 million in 1995. Other supportive measures were also employed.

### 6. Community Participation for Clean Surroundings – EXNORA, India

EXNORA International is a broad-based voluntary, civic awareness by promoting community/street directly involved in a voluntary effort in waste collection, removal, recycling and keeping their environment clean and green. The local units of EXNORA have made innovations to this scheme by adopting different methods of disposal, recycling, reuse and composting of waste, which reflects initiative and a conscious decision making process. The residents of each street/community manage the entire scheme. This sense of involvement in community work gives great satisfaction to all the participants.

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# 3

## Market Models for Reforming Government

B. GUY PETERS

If there is a single alternative to the traditional model of public administration favored by contemp-orary politicians, academics, and probably the public it must be the market model. Instances in which this model has been applied, or claims made that it has been applied, are perhaps too numerous to list here.[1] The funda - mental point is that the current Zeitgeist of reform in government is to use the market and to accept the assumption that private-sector methods for manag-ing activities (regardless of what they are) are almost inherently superior to the methods of the traditional public sector. Whether administrative change is being consid-ered in the most affluent country of Western Europe or the poorest country of Africa,[2] the operative assumption appears to be that the best or even the only way to obtain better results from public-sector organizations is to adopt some sort of a market-based mecha-nism to replace the traditional bureaucracy.

In the market view, the principal problem with traditional bureaucracies is that they do not provide sufficient incentive for individuals working within them to perform their jobs as efficiently as they might. Given this dearth of motivation, individuals will usually attempt to maximize other qualities in their job. One such quality might be "on-the-job leisure" (Peacock 1983), resulting in the familiar im-age of the -slothful, indolent bureaucrat. A second view is that bureaucrats fre-quently maximize the size of their agency budgets as a means of enhancing their own personal power and income (Niskanen 1971; McGuire 1981). This argument raises the specter of the activist, megalomaniac bureaucrat—certainly the antithesis of sloth—and assumes further that administrators can gain personally from a larger budget.

A third concept is that bureaucrats and their organizations are sometimes overzealous, not about personal rewards but about the exercise of public policy, especially public policies that are alleged to damage industry and impose "inter-nalities" on the society as a whole (Wolff 1988; Booker and North 1994). Once created and granted a mandate to regulate a certain area of policy, an organiza-tion may become difficult to control. Bureaucratic drift may occur (Shepsle 1992), in which the organization tends to move increasingly further from original legislative intentions and toward its own definition of good policy. This regula-tory activity is usually conducted with good intentions, but for the regulated in-dustries, such activism is generally unwelcome.

The market model is assumed to be able to cure this set of complaints con-cerning traditional public administration. The problem is, however, that these di-agnoses are based on rather different, indeed contradictory, perceptions of the failings of the old model of administration, yet this single type of reform is ex-pected to be capable of correcting them. The characterization of internal contra-diction is perhaps somewhat unfair, given that the market model itself is to some degree significantly differentiated and comprises several components. Still, this observation does expose the strong element of ideology in almost all efforts to improve the public sector, and extreme thoroughness is necessary in evaluating any claims being advanced. Enthusiasts for the various models have not always worked through all the empirical implications of their ideas, a critique true not only of the market model but also of the other approaches to reforming the pub-lic sector (R. Moe 1993; 1994), including the ideological argument used by some advocates of the traditional model (Goodsell 1995).

## THE IDEAS OF THE MARKET MODEL

There really is no single market model, only the basic belief in the virtues of com-petition and an idealized pattern of exchange and incentives (King 1987; LeGrand 1989). The market model as it has been applied to public administration has sev-eral intellectual roots. Just as there is an internal variation in the thinking about government, so too have the programs for change derived from these strands of thought been diverse. Therefore the explicit and implicit ideas involved in market-based changes must be extracted from both the academic literature and from prac-tice. Those ideas can then be related to the administrative changes being imposed in the real world of government. In some instances the linkage between ideas and action is clear (or at least meant to be so). Margaret Thatcher once advised her ministers to read William Niskanen's work on bureaucracy and then to follow its advice (Hennessy 1989). Yet in the Reagan administration and the Mulroney government, for example, any relationship of actions to ideas was probably accidental (Savoie 1994a).[3] As Peter Self wrote, the ideas of Reagan and his principal advisers appeared "too shallow to be debited to any respectable theorist" (1993, 71).

### The Efficiency of Markets

The fundamental intellectual root of the market approach to changing the public sector is the belief in the efficiency of markets as the mechanism for allocating resources within a society. Advocates of the market model, basing their ideas on neoclassical economics, believe that other forms of allocation, i.e., through bu-reaucracies or law more generally, are distortions of outcomes that would be pro-duced by a free market. Therefore, society would on average be better off (at least in economic terms) if the market or analogous competitive institutions were al-lowed to rule. This assumption tends to beg questions about the distribution of those resources among individuals (LeGrand 1991a)—that is one of the prob-lems that public intervention commonly is designed to remedy. The advocates of the market also assume that there are no significant costs of production (pollu-tion is the classic example) that are not included in the price of the product—the familiar externalities problem (Coasc I960)—that would cause social cost and market cost to diverge.

Any number of critiques have been written about the assumptions contained within the neoclassical economic model.[4] The approach here, however, is to con-sider what the adoption of this model as the standard for efficient social alloca-tion does for the role of public bureaucracy as it has been developed in most in-dustrialized democracies. The quick answer is that the acceptance of the market tends to require advocates of any deviations from distributions produced by com-petition to justify those positions. Justifications have been made through the rec-ognition of externalities, the recognition of the social desirability for some redistribution of income (Commission on Social Justice 1994), and the existence of public goods that cannot, by definition, be allocated efficiently through markets because of their nonexcludability characteristic (Atkinson and Stiglitz 1980). Other analysts, however, want to use market mechanisms to solve externality problems such as pollution.

Even when the deficiencies of the market as a mechanism for social alloca- tion are recognized, bureaucracies and formalized legal instruments may not necessarily be the best, or even the better, means of government interv-ention. The advocates of the market lend to assume that the closer that instruments of pub- / lie intervention come to the market, the better the collective outcomes will be. Therefore, the traditional direct mechanisms for intervention will often be char- acterized as an inefficient "tool" for the public sector to use (Hood 1986; Linder and Peters 1989). Rather, more market-based mechanisms such as contracts, in-centives, and tax expenditures emerge as preferable instruments under those as-sumptions (Hula 1990; K. Walsh 1995). For example, many policy analysts prefer market-based incentives for pollution abatement over the command-and-control mechanisms usually used (Schultze 1977; Oates 1995).[5]

**Bureaucratic Monopolies**

The second intellectual root of market-based reforms stems from the analysis of the failings of conventional bureaucracies by scholars such as Niskanen (1971), Tullock (1965), T. Moe (1984; 1989), Ostrom (19S6), and a host of other advocates of public-choice analysis (Bendor 1990; Meliean 1987). These scholars have argued that because of the self-interest of the members of the organizations, espe-cially bureau chiefs at the apex, public bureaucracies tend to expand at an un-justifiable rate and to charge their sponsors (read legislatures) too much for the services produced for the public. The permanence of bureaucrats, and especially their monopoly on information, it has been argued (Banks and Weingast 1992), places them at a competitive advantage in dealing with the legislature. The basic cause of the failings in the public sector, when visualized from this perspective, is the self-interest of bureaucrats.[6]

Interestingly, another school of economic analysis argues that bureaucracies undersupply certain goods and services (Breton 1974) because of the self-interest of the bureau chiefs. The claim here is that bureaucracies have the choice of cre-ating public or private goods through their budgets. Given the indivisibility and nonexcludability of public goods, they are not usually perceived as conferring any particular benefits on individual members of society. Private goods, on the other hand, do benefit particular individuals and thus have a much higher political pay-off for the bureaucracy and for their political masters. Therefore, bureaucracies (assuming they have the available latitude) will undersupply public goods and oversupply private goods to their clients. Using similar logic, Anthony Downs once argued that the public budget would tend to be too small in a democracy (1960), a conclusion that today appears startling if not heretical.

Other scholars (Dunleavy 1985; 1991) have argued for a "bureau-shaping" approach to understanding the maximizing behavior of public bureaucrats,[7] Not all expenditures are equally valuable to the personally ambitious bureaucrats; transfer money that simply passes through the bureau to grant recipients outside, for example, generates work but produces few appropriable benefits for the bu-reau chief. Therefore, rational bureaucrats will attempt to maximize the "core budget" of the bureau, i.e., that portion of their budget that funds their own staff and operations, rather than attempt to expand the total budget. The rational bu-reaucrat would expand the core budget at the expense of other forms of expendi-ture, perhaps even total expenditures. In this view of behavior, bureaucrats will attempt to develop methods of maximizing their nonpecuniary rewards of office, given that their salaries and benefits tend to have been determined by fixed scales. With the shift to performance-pay and differential-pay policies for public em-ployees (see 34-36; Eisenberg and Ingraham 1993), however, it now makes more sense for civil servants to be concerned with their personal salaries.

These perspectives on the public bureaucracy in the economics literature are clearly views in which the individual bureaucrats are personally ambitious, or at least self-indulgent, and attempt to use the monopoly powers of their bureaus to maximize their own personal self-interest (Egeberg 1995). These officials are able to exercise this power in- the budgeting process partly because they have better access to information, especially about the true cost of production of the service, than docs their sponsor. If there were effective, bureaucratic competition to pro-vide the same service, so the argument goes, the bureaus would have an incentive to hold down their production costs in order to drive their competitor out of busi-ness. This is the same competitive mechanism presumed to work in the private sector, and it supposedly would result in minimizing the costs of delivering the services.[8] Even if overt competition did not work, in the instance of multiple agencies, the sponsor might be able to play one agency off against another, having them reveal their true production costs (A. Downs 1967) and then using that in-formation to control public spending.

The problem with this analysis is that one of the canons of public-sector management (and even in the private sector within a single firm) is that there should be minimal redundancy of functions (but see Bendor 1985; Landau 1969), thus preventing any effective competition among agencies.[9] The need to mini-mize redundancy is certainly true in the regulatory arena, where citizens and cor-porations complain about multiple and conflicting requirements (Duncan and Hobson 1995; Mastracco and Comparato 1994). Even that regulatory redundancy, however, might be efficient from the perspective of a sponsor seeking to gain in-formation both about the performance of the bureaus and of the regulated or-ganizations.[10]

Even in service provision, however, there are many demands for one-stop shopping for social benefits (Jennings and Krane 1994), The integration of ser-vices is presumed to provide for greater efficiency, both for the client and govern-ment. Yet it may conflict with an emerging emphasis on providing customer satisfaction with government services. People do not want to have to go to several locations to receive their services, but they also want to have their case considered by a knowledgeable civil servant who can make a decision. Too much emphasis on one-stop shopping and on cross-training employees can create as much dissatisfaction as too much (organizational or geographical) division of services.

Moreover, competition does not appear to be an effective solution for the problem of the undersupply of public goods through the bureaucracy. The spon-sors would have many of the same incentives as the bureaucracy to attempt to please their own particular clients and to spend less on public goods in order to be able to provide more private goods. In the case of a mixed bureau providing both public and private goods, budget-shaping of a different sort might permit managers and sponsors to shift resources from public to private goods. Indeed, the incentives for the sponsor to provide private goods may be higher, given the need for reelection (Fiorina 1989; G. Miller and Moe 1983).

The strength of these incentives for the sponsor will vary somewhat, depend-ing upon the structure of the legislature. Legislative structures such as that of the United States, with numerous committees responsible for oversight of adminis-trative agencies and with the members of those committees having a pronounced political interest in the activities of the bureau, will be particularly susceptible to the oversupply of private goods and the undersupply of public goods. Propor-tional representation systems that limit the direct connections between individ-ual legislators and particular constituencies (geographical if not always functional) would appear to reduce these incentives for bureau-shaping by legislative sponsors.

Several other difficulties arise from the assumption that monopoly powers of bureaucratic agencies generate inefficiencies. First, some of the services deliv-ered by government may be delivered more efficiently as monopolies rather than through competition. Williamson (1985) specifies some of the conditions for mo-nopoly (whether public or private), including the conventional criterion of natu-ral monopoly. This efficiency is almost certainly the case for publicly owned utili-ties, such as gas and electricity in Europe. Even if privatized, these services tend to retain their monopoly status and must be regulated by government (Wiltshire 1988; Richardson 1984).[11] And many public services already have substantial competition from the private sector, e.g., private education, private health care even in government-dominated systems, and the numerous private courier com-panies competing with postal services. Very few public services continue to en-joy a monopoly of provision; thus there is already a great deal of effective com-petition, with little capacity for government agencies to escape the pressures (B. Peters 1995c, 35). Moreover, government provision or regulation or both may be justified when the social risks involved are too large and too difficult for rea-sonable private contracts to be negotiated (Perrow 1984).

There is already a good degree of competition over the allocation of re-sources in government through the conventional budgetary process. Even if an agency is not directly competing with another public agency delivering the same type of service, they are competing with all other agencies for resources at budget time. This competition plays a crucial role in the survival of an agency and is in-deed very competitive. In addition, the budgetary process is used to elicit a good deal of information from the agencies for the "sponsor" (Savoie 1990; Wildavsky 1992), especially when the sponsor is well structured to exercise such oversight through budgeting (Schick 1990). Indeed, sponsors tend to be quite effective in gaining information through the budgetary process and in using it to gauge the success of public management and to punish the less effective.

The market-oriented view of government and its bureaucracy supposes a good deal of autonomy for agencies within the public sector. In this view agencies are capable of engaging in a variety of ploys that mask their activities from their sponsor's effective scrutiny. The problem with this analysis is that such a de-gree of agency autonomy exists in very few governments, and even in those few cases there are numerous mechanisms designed to restrain autonomy. In essence the Niskanen model of government is patterned after structures existing in the United States, with a highly fragmented government and consequent difficulties in exercising effective control (B. Peters 1992; Goodin 1982). Other countries such as Sweden and Norway (Christensen 1994; Petersson and Soderlind 1992) also permit their agencies a great deal of autonomy, albeit within the constraints of a well-articulated legal and budgetary framework that produces adequate coordi-nation without direct control.

Most of the world of government, however, does not permit such great auton-omy for its agencies or for the civil servants within them. Either through minis-terial structures with stronger internal controls, through the strength of central agencies, or both (C. Campbell 1983; Savoie 1995b), agencies are forced to con-form more to the wishes of their political and administrative masters. Interest-ingly, however, some of the market-based reforms now being implemented (see 31-33) are creating just the type of agency autonomy that Niskanen assumes to be one cause of much of the difficulty. The change is now being implemented in the name of "entrepreneurship" and "efficiency", but the results may be similar to the effects that occurred when autonomy was granted to enhance the policy-making powers of the agency—if indeed that was ever a conscious choice to en-hance agency autonomy in the United States—or to provide Congress greater control over policy.

In this public-choice view, bureaus also derive some of their power through their influence over the agendas of government (Altfeld and Miller 1984). This power is dependent partly upon the relative level of information enjoyed by the bureaucracy. Perhaps the strongest agenda power for an agency is negative: the capacity to prevent an issue from being considered. This "second face of power" (Bachrach and Baratz 1962) derives from the close contacts of most agencies with their policies as they are being implemented and their knowledge of problems emerging in an existing program. If this information is suppressed, then the ca-pacity of either the minister in charge or the legislature to intervene to correct the problem is limited.

Public bureaucracies have substantial control over one aspect of the policy agenda, the issuing of secondary legislation, or "regulations" in American politi-cal parlance. When legislatures pass any major piece of legislation, they tend to leave a great deal of the elaboration of specifics to the bureaucracy. Legislatures cannot specify all the particulars that may arise and so delegate substantial authority to their bureaucracies (Schoenbrod 1993). The agencies then have the power to pick and choose among the options and thereby shape policy.

Given the amount of legislation in force in developed democracies, agencies have substantial capacity to determine their own agenda and to initiate regula-tory action. This action can provoke their sponsors to respond since bureaucra-cies sometimes issue regulations not anticipated by the legislature. Some legisla-tures have sought to control secondary legislation through devices such as the legislative veto (Foreman 1988) or through committees that scrutinize secondary legislation (Byrne 1976). In other cases the executive also attempts to control perceived bureaucratic aggressiveness through mechanisms for "regulatory re-view" (McGarrity 1991) or the examination of the costs and benefits of regula-tions issued and the rejection of the more costly one. Nevertheless, bureaucracies often can set the terms of the conflict between institutions and therefore deter-mine at least part of the agenda of government.

Bureaucracies are also agenda-setters in other, less obvious, ways. The public-choice literature on bureaucracy and its role in policy has focused attention on the capacity of an agency to make policy proposals that establish the terms of debate in other institutions (Tscbelis 1994; Altfield and Miller 1984). Analyses also have explored a set of presumptions about the unit costs of providing public services (Bendor, Taylor, and Van Gaalen 1985) as a part of the agenda-setting process. Although rational-choice analysts discuss this behavior in terms of the ability of agencies to manipulate their sponsor, this power could simply be a func-tion of their command of the details of relevant policy issues. Their technical ex-pertise and associated organizational perceptions enable them to force particu-lar definitions of the policy problems onto the rest of government.

**Generic Management**

The third intellectual root of the market approach to governance is found in generic management and its ally, the "new public management" (NPM) (Pollitt 1990; Hood 1991; Massey 1993). This corpus of analysis is founded upon the as-sumption that management is management, no matter where it takes place In such a view the creation of a separate discipline of public administration with a distinctive ethos would be seen as mistaken.[12] Proponents of this approach argue that the instruments used to organize and motivate personnel are as applicable in the public sector as they are in the private (Linden 1994). Advocates of the approach then deny the relevance of most aspects of the traditional model of ad-ministration.

In its most aggressive form, NPM literature argues that much of the infra-structure that has been created around public management was a means of justi-fying the inefficiencies and the privileges inherent in that system. Part of the goal of the managerialist reforms is to "deprivilege" the civil service (Hood 1995) and to open up a traditionally internal labor market to greater external competition. By using the techniques and motivational devices from the private sector, advo-cates argue that good managers can produce (in the optimistic language of the Gore Report in the United States) "better government for less money." Govern-ment can be made to work better if only the managers are allowed to manage and are not caught up in the rules, regulations, and other constraints on management that have typified the civil service.

The views of the new public management become most evident when con-fronted with issues of accountability and the special obligations of the public sec-tor. As Ranson and Siewart argue:

By overemphasizing the individual to the exclusion of the needs of the public as a whole, consumerism has neglected the inescapable duality of the public domain which defines its unique management task, that is, the requirement of achieving public purpose (1994,5).

Rather than deploring the absence of a sense of the public interest as a guide for policy action-as the public-choice literature often appears to do-the generic management approach to the public sector assumes the lack of meaningful dif-ferences between the two sectors. In this view, if the incentives are structured properly, private and public interest can be made to coincide. Further, in the NPM concept on of government, values that tend to dominate the private sec-tor-efficiency most notably-should become more important in the public sec-tor, and the *shift* toward a managerial perspective will be essential in producing a public sector that will truly serve the public interest. It may be that in this view the conception of the public interest is so radically different from the traditional one that it appears to be absent to people accustomed to the older view.

On a relatively higher intellectual plane the recommendations of this variant of managerialist thinking can be based upon the ubiquity of principal-agent re-lationships in public policy (T. Moe 1984; Shepsle 1989) and the application of transaction-cost analysis in organizations, whether public or private (Williamson 1975; Cahsta 1989; Alexander 1992). At a lower level of academic development, generic management is often the accepted doctrine of outsiders who want to ex-port their favourite management techniques-strategic planning. Management by Objectives (MBO), Total Quality Management (TQM), and so forth-to the public sector.[13] At both levels of conceptualization the generic approach has been criticized by insiders (scholars and practitioners alike) who consider manage-ment m the public sector as a distinctive undertaking rather than simply as run-ning another organization.

Another implicit, and sometimes explicit, consequence of the new managerialism is that the role of public servants becomes denned in terms of their mana-gerial tasks. These are certainly important, and in the past at times have been ignored or at least given only secondary emphasis. The role of senior civil ser-vants has been denned largely as policy advisers to their ministers (Plowden 1994). Now managers must manage, and politicians arc attempting to take over principal responsibility for making policy decisions. Taking the policy reins once in office is sometimes more difficult for politicians than they had realized, and advice from the public service remains crucial to making good policy in most areas (Rose 1974; Kato 1994). The ideological shift to managerial however has reiterated the familiar politics-administration dichotomy (C. Campbell and Peters 1988) and made the involvement of civil servants in policy appear even less legitimate than it had been.

How do these various intellectual arguments about the place of the market in governing work in practice, and what practical solutions have been derived from the ideas? The connections between ideas and practice may be vague at best, but the reformers believe that their actions are derived from a coherent set of concepts and principles. In particular, reformers working from the market per-spective believe that their methods emulate so far as possible the workings of private markets within the public sector. In their view, using the market as a model provides a moral claim for the reforms as well as the more practical claim that government will work better. Thus it is important to remember that the reformers often do believe that they are working in the public interest, even if their critics generally perceive them to be philistines desecrating the public temple.

**STRUCTURE**

Advocates of the market approach assume

that the principal problem with the traditional structure of the public sector is its reliance on large, monopolistic de-partments that respond ineffectively to signals from the environment. Indeed, most of the critiques argue not so much that these organizations have difficulty in responding but that they do not want to respond. The departments are concep-tualized as being self-guiding and concerned with the personal advancement of participants, particularly that of their leaders, rather than as serving the public at large or their political masters. Self-aggrandizement is a familiar stereotype of public bureaucracies, but public-choice theorists have been able to put some ana-lytic flesh on the ideological and anecdotal bones of that perception.

Students of the public-choice approach see the size and complexity of gov-ernment organizations, combined with their delivery of unpriced goods and ser-vices, as the root of much perceived government inefficiency and ineffectiveness. In the absence of signals and constraints coming from the market, hierarchy has been used to control organizations. The structural difficulties are accentuated by the emphasis on formal rules and authority as guidelines for action within public organizations. In the view of the critics, formalized rules insu-late decision makers from the need to make choices, result in too many prepro-grammed decisions, and limit the entrepreneurial possibilities for managers. Rules further exacerbate the tendency of large organizations to respond slowly and cautiously to environmental changes and may make error detection difficult.

Even if a smaller public organization emerging from reform cannot be sub-jected to direct competition, it is argued that some advantages exist simply from being smaller and concerned with delivering a single product. In his analysis of the presumed inefficiencies of the public sector, Niskanen (1994,106-12) argues that the multiservice bureau is less efficient and more costly than several single-purpose organizations delivering the individual services would be. Therefore, splitting large organizations into as many smaller ones as there are product lines would reduce costs even in the absence of effective market signals for the pricing of their products. Further, if single products were provided by an organization, it should enhance the capacity of the legislative sponsor to monitor the organiza-tion's behavior.

These ideas about the structure of government departments are mirrored in much contemporary thinking about the organizations in the private sector (Weir 1995). Business firms in the 1960s and 1970s tended to create huge conglomerates that were engaged seemingly in any and all economic activities, but the tendency in the 1980s and into the 1990s was to differentiate product lines within large firms and to disaggregate some of the conglomerates. Some of this thinking about the structure of the firm revolves around the need to serve the customer better, who becomes extremely difficult to identify within large conglomerate organiza-tions. Therefore, even when businesses remain large and diversified, their struc-tures tend toward the M form (Lament, Williams, and Hoffman 1994), with more autonomous subunits acting almost as firms within the firm.

The structural prescriptions for this diagnosis of the problems in public or-ganizations should thus be clear. One central element of the reforms is decen-tralization of policymaking and implementation. The most fundamental way to break down large government monopolies is to use private or quasi-private or-ganizations to deliver public services. Privatization has been practiced widely in Western European countries and in the Antipodes, which previously had signifi-cant levels of public ownership (Wright 1994). However, this structural shift to-ward privatization has frequently produced the need for regulation to control in-herent problems of natural monopolies. For many European countries, imposing regulations on economic monopolies was an unfamiliar policy, so that at least in the short run substantial inefficiencies in the delivery and pricing of products re-sulted (Foster 1992).

Decentralization also has been achieved through splitting up large depart-ments into smaller agencies or through assigning functions to lower levels of gov-ernment. This method is particularly applicable when the goods or services in question are in principle marketable. In extreme versions of this approach, gov-ernment would create multiple, competitive organizations to supply goods and services, with the expectation that the competitive mechanisms presumed to work in the private sector would also work for the public sector. In the more probable case government would create a number of smaller organizations, each with a particular service to deliver, these agencies replacing the traditional mul-tipurpose ministries.

The practice of dividing large departments into smaller segments has been accepted in a number of developed democracies such as the United Kingdom, New Zealand, and the Netherlands (Davies and Willman 1992; Boston 1991; Kickerl 1994) and has been established in the Scandinavian countries for de-cades. Beginning in the late 1980s, New Zealand, for example, corporatized its former ministries into a large number of autonomous or semiautonomous orga-nizations to supply public services. The policy functions remain in a number of much smaller ministries, with the entire policymaking system continuing to be dominated by the Treasury and the activists who initiated the changes (Boston 1991,255; State Services Commission 1994).

A similar structural change has been undertaken in the United Kingdom under the rubric Next Steps (Hogwood 1993). This reform represented a major departure from the conventional wisdom in British government, which had favored the large ministerial department linking policy and administration. Since the Ibbs Report appeared (HMSO1988) almost 100 executive agencies have been created. Agencies range from small organizations, such as the Wilton Park Con-ference Center (thirty employees), to the Benefits Agency, which employs ap-proximately 70,000 people and is responsible for delivery of most social service benefits in Britain (Greer 1994,32-44). These agencies tend to be single-purpose and are more responsive to market forces and other direct means of perfor-mance assessment than were the ministerial departments. Their leadership has been drawn from within the civil service and from the private sector, and they are meant to be managed like private sector, or at least quasi-private, organizations rather than like strictly public organizations. Executives, for example, tend to be on performance contracts, with possibilities of dismissal for poor performance.

New Zealand and the United Kingdom are the most extreme examples of movement toward the model of decentralized service delivery except for the Scandinavians, from whom the system was largely copied (Petersson and Soderlind 1994).[14] There are, however, other experiments under way in implementing such structures. The

Netherlands has launched an effort to create a number of agencies (Kickert 1994; 1995). Canada also has begun to experiment with Special Operating Agencies to deliver some services (Canada 1991; Wex 1990; I. Clark 1991), although the long-standing instrument of the Crown Corporation in Ca-nadian government has some of the same features as agencies (Laux and Malot 1988). These various structural experiments serve as compelling examples of at-tempts to address the familiar problem of government inefficiency and ineffec-tiveness.

Implementing such a system of market-oriented organizations assumes a ca-pacity to monitor effectively and measure adequately the performance of the de-centralized bodies created. Thus, this organizational pattern appears applicable to the "machine" functions of government (Mintzburg 1979) but probably less so to the complex social and developmental asks that governments must also per-form (but see Romzek and Dubnick 1994). Administrative reform needs to be matched carefully to the needs of a society and to the characteristics of the tasks being reformed, not routinely applied in a simplistic and mechanical fashion. The unwise adoption of market-based reforms in some cases has brought those at-tempts into some disrepute.

The penchant for breaking up larger organizations and making the resultant ones more entrepreneurial is a case in point against applying the market model slavishly. Arguably, the Next Steps initiative and similar structural changes have gone further to create the world that Niskanen was decrying than any other ad-ministrative changes before or since. First, the breaking up of the departmental structure, if anything, has tightened the grip of each organization on its policy area. Second, the entrepreneurial element and the loss of civil service rules mean that growth in the budget of the agency (admittedly now often more earned revenues along with income from the budget process) is more directly linked to the perquisites of office than ever before.

The market approach to reform has some structural recommendations at the microlevel within organizations as well as at the macrolevel of entire depart-ments. The emphasis on entrepreneurial activity and individual responsibility pushes toward relatively flat organizations with little of the layering that tradi-tional public organizations tended to consider essential for control and consis-tency in decisions. Advocates of the approach presume that organizational lead-ership, as well as the bottom line resulting from the organization's dealings with the external environment, will be more effective than hierarchy in producing appropriate decisions (but see Jaques 1990), an observation that points to the importance of integrated and consistent, as opposed to piecemeal, reforms. The structural changes without associated changes in management behavior are un-likely to produce the benefits presumed theoretically.

Finally, decentralization sometimes also means territorial decentralization and giving local governments more power over policies. Especially in unitary gov-ernments there has been a tendency for central governments to dictate policies to subnational ones. Even in federal regimes the financial resources of central governments have sometimes produced a "priority inversion" in which local pri-orities are squeezed out by central concerns (Levine and Posner 1981). The logic of geographical decentralization is similar to that of creating agencies. First, it reduces hierarchy and places control over organizations somewhat closer to the public. Second, it reduces the monopoly that single organizations may have had over services so that experimentation or "voting with one's feet" or both can pro-duce different types of controls over organizations.[15]

## MANAGEMENT

The managerial implications of the market model should now be clear. If public-sector employees are considered to be much the same as private-sector workers, then the same managerial techniques should work in government as elsewhere. This assumption also would imply that some cherished traditions of personnel and financial management within government would have to be modified. To ge-neric-management advocates such changes would be long overdue, assuming that the public sector has been able to maintain its rather arcane system of civil, ser-vice management for too long already. The generic-management gurus would tend to argue, as would the public-choice proponents, that the distinct public-sec-tor management system has been used primarily to shield people in government from the real world and to enable them to extract excessive personal benefits.[16]

Among the clearest manifestations of the ideology of introducing private-sector management into the public sector were exercises such as the Grace Com-mission (United States) and the Nielsen Commission (Canada). These two pro grams brought a large number of private-sector managers to the two national capitals and assigned them the task of finding mismanagement (B. Peters and Savoie 1994a). The results were reports with thousands of recommendations for managerial change. Especially in the case of the Grace Commission, many of the recommendations were totally out of touch with the realities of the public sector (Kelman 1985; B. Peters 1985), partly because the executives who came to Wash-ington apparently did not take the career public servants seriously. The Canadian report fared somewhat better (S. Wilson 1988); it had at least some representation from the public service. The simple (or simplistic) assumption that guided these exercises was that public and private management were really the same.

In addition to some of the general managerial trends occurring as a result of the implementation of market-based ideas, I will discuss more specific changes in several areas of public management—personnel and finance in particular—and attempt to identify their probable impact on government. These reforms are themselves not exceptionally coherent, and some of the changes appear to be at cross-purposes with other transformations already implemented as a part of the market-reform process.

### Personnel

The market-oriented reforms are already under way in a number of areas of pub-lic personnel management, most obviously in the reward provided public officials for their participation in government (Hood and Peters 1994), One tradition of public personnel systems has been that individuals in the same grade of the civil service are paid the same, with any differentiations based largely upon seniority. In this traditional personnel system merit and ability to perform the tasks were proved prior to entry and constituted the basis for promotion. The assumption was that all people in each grade within a uniform system were equally meritori-ous and therefore should be paid almost exactly the same.

Although there was some attempt at least to link movements of public-sector pay to wage movements in the wider economy, the market level of wages was only an indirect indicator of what pay in government should be.[17] In Germany, for ex-ample, pay for working for the state was governed by the principle that someone in that significant social position should be paid well enough to live accordingly (Derlien 1994). For Anglo-American societies, working for government was ex-pected to provide other tangible and intangible benefits—including some genu-ine financial perquisites such as early retirement—so that salaries could be less than comparable positions in the market would command. Given that some of the benefits of government employment, such as tenure, are being jeopardized by other reforms, pay becomes a more important factor in public employment.

This rather rigid payment scheme is being replaced with a merit principle based on the argument that people should be paid salaries comparable to those they could earn in the market and that better performance should be rewarded with better pay, regardless of differences that might emerge among employees. The triplication is that the traditionally uniform civil service system should be replaced. Although there certainly have been some economic motivations among the members of the system, there were also strong commitments to the service as an organization and to public service as an ideal (B. Peters 1995b; Schorr 1987). These amorphous, yet real, values and incentives are being replaced with mone-tary reward as the principal means of recruitment and motivation.

The emphasis on differential rewards for differential performance is espe-cially important at top-management levels of government. One of the earliest schemes for differential rewards, for example, was the bonus system for members of the Senior Executive Service (SES) in the United States (Ban and Ingraham 1984). By law, SES members would have been eligible for bonuses of up to 20 percent of their annual salaries. The same legislation that established the SES (the Civil Service Reform Act of 1978) also called for extending merit pay, whether through bonuses or differentiating base pay, to middle managers in the federal government. Ultimately, the failure of Congress to fund these bonuses adequately and the difficulties in developing the measures to judge meritorious performance have rendered the merit-pay system only a hollow echo of its origi-nal intent.

Merit pay, or pay for performance, is now being spread across a range of po-litical systems (Eisenberg and Ingraham 1993). It is most common in small, rela-tively autonomous agencies created as a part of the market approach to gover-nance. In several reward schemes already implemented, managers are hired under contracts that contain specific performance standards. If the agency manager and the organization achieve those standards, the manager is eligible for full pay and perhaps bonuses. If the organization does not reach these goals, then the man-ager may lose pay or be fired.[18] In this model, managers are individual entrepre-neurs responsible for what happens within their agencies and are rewarded ac-cordingly. Lower echelons within these organizations may be rewarded under similar contractual arrangements based on performance standards.

These schemes for differential rewards depend upon the capacity of govern-ment to measure the performance of employees and their organizations. Any number of studies have demonstrated the severe difficulties encountered in at-tempts to perform the seemingly simple managerial task of measuring individual contributions to the performance of large, complex organizations and policy-de-livery systems (Boston 1992;Sjolund 1994a). The problem is especially difficult if performance is to be measured at the output or impact level rather than merely at the activity level (Carter, Day, and Klein 1992). This dilemma means that either performance contracts and effective managerialism will be limited to the rela-tively few agencies providing marketable and otherwise directly measurable services or that the scheme must depend upon inadequate or even specious measures of performance. In either case the capacity to implement this aspect of the market vision of the public sector appears at least a little suspect. The suspicion grows when there is a political element involved in the evaluation of employees.

These managerialist trends are not neutral in their effects on the role as-signed to the public service. Measuring performance is substantially easier for the managerial and service delivery functions of the civil service even though it is not without difficulties. It is much harder to measure for the policy-advice func-tions. As a result, adoption of managerialist pay schemes tends to contain some implicit bias toward a managerial role over a policy role for civil servants. This result may occur because of changes in the signals coming from evaluators and because of decisions by the evaluated that they can maximize their own rewards by playing the managerial game.

Performance-based management and reward techniques run counter to many other ideas motivating reform in the public sector. In particular, one of the increasingly popular means of motivating workers is to allow them greater self-determination on their jobs. These participatory ideas arc becoming even more important through the empowerment approach to reform (see 63-64). If, how-ever, performance measures are being used to judge individual contributions to organizational goals, then participation and team-building will be difficult to achieve (Behn 1993b). Team concepts and individual foci of management are still difficult to reconcile empirically or normatively. Thus, promoting reform must be done carefully, and all the good (and not so good) ideas floating around cannot be implemented at once.

### Financial Management

As a part of the drive to introduce generic management, financial management is being reconsidered and changed drastically. These reforms have been going on for some time in countries such as Britain (Pliatzky 1989) and Australia (Depart-ment of Finance 1987; C. Campbell and Halligan 1992) and show little sign of abating. The new ideas are also being spread to a number of other countries. Financial-management reforms have ranged from simple changes, such as better cash management and tighter controls over public loans, to some fundamental rethinking of the manner in which the public-sector budgets and considers the costs of providing public services. As with personnel management, some of the reforms have been well conceived and implemented, but others appear virtually to have missed the point of government's purpose and methods.

One of the several market principles underlying the financial reforms of the public sector is the separation of purchasers and providers and the creation of internal markets (OECD 1993). In traditional public administration such a re-form was irrelevant, or perhaps even inconceivable, given that the old model was one of hierarchy and unitary services. In contemporary systems, however, this re-form is an important mechanism for ensuring that market principles pervade the public sector. For example, in the National Health Service in Britain the pur-chasers and providers had been managed *as* part of one corporate entity. That unified structure has now been replaced with a quasi market in which Area Health Authorities purchase services for their customers (citizens) from pro-viders (hospitals and so on). Likewise, budget-holding general practitioners will begin to negotiate with specialists for their services on behalf of patients. In this management system the separation of the two functions is intended to reduce costs and increase efficiency (Ranade 1995), although there has been substan-tial public and academic criticism about the real consequences of the changes (Harrison, Small, and Baker 1994).

The government of New Zealand has undertaken a similar separation of purchasers and providers throughout the entire government. Under the Public Finance Act (1989) the purchaser-provider dichotomy is intended to pervade a good part of the public sector (Pallet 1991). In this system, government, through its central agencies, in essence becomes the purchaser of the output of the depart-ments actually producing the services (Boston 1993). Those services are meant to be costed fully, including factors such as interest, taxes, and capital depreciation that frequently have been excluded from the internal pricing of goods and ser-vices in public-sector budgets. In this approach to public finance, virtually all pub-lic-service providers essentially become public corporations with even more stringent financial controls than usually have been applied to public corporation's. Even the Swedish government, long the model of the welfare state and of skepticism about the market, has begun to think about introducing market re-forms into government. A plan for separating purchasers from providers in the health service, similar to the system in the United Kingdom, has been imple-mented by the counties, and a greater choice of physicians for citizens has been introduced (Burkitt and Whyman 1994; Forsberg and Calltorp 1993). Given that the health-delivery service tends to be concentrated at the county level and the purchasing through insurance is quasi-public at the national level, the institutional structure for separation was to some degree already established. Similar market-based management schemes are being considered and implemented in a number of other publicly controlled health care systems (Jerome-Forget, White, and Wiener 1995).

The Financial Management Initiative (FMI) in the United Kingdom (A. Gray and Jenkins 1991) and the Financial Management Improvement Pro-gramme (FMIP) in Australia (Keating and Holmes 1990) are two of the princi-pal programs designed to change financial management in central governments. These two reforms have some common elements. The most important is the it-tempt to identify within government the "cost centers" associated with the deliv-ery of services and to allocate total costs of each service more accurately than in the past. For example, the overhead costs of government—central manage-ment functions, information technology, and so on—are sometimes difficult to attribute to particular programs so that the programs that consume a great deal of these overhead services tend to be subsidized by those programs that do not.[19] With the financial management improvements that have been implemented (here has been an attempt to assign true costs more fairly to each program, which re-sults in better judgment of the relative efficiency of programs.

Following from these attempts the British government has undertaken a number of other efforts to change the manner in which funds are allocated to programs. There are now active proposals to implement "resource accounting and budgeting" in government (HMSO 1994b). The idea behind these reforms is to account for public money not just in current costs but also in terms of the op-portunity costs of the uses of the resources (Mellett and Marriott 1995). This re-form is designed to reflect more accurately the real impact of the public sector on the economy. Australia meanwhile has resumed the practice of program budget-ing so popular during the 1960s. This return to rationality also reflects an attempt to capture better alternative uses of resources within the public sector.[20]

Interestingly, these changes, which are largely rationalistic in their motiva-tions, are being implemented during a period of attempts to reduce overall pub-lic spending more radically. This trend is perhaps most evident in the United States—witness the proposed balanced budget amendment and the radical changes in the budgetary process, such as the Budget Enforcement Act of 1990 (LeLoup and Taylor 1994). In virtually all countries, however, the same desires to reduce public expenditure and to balance public budgets have required cutting exercises that tend to be carried out across the board or by some other less than fully rational method (Tarschys 1981; 1986). The simple economic motives of the market advocates thus at times appear to conflict directly with their own attempts to create greater economic rationality within government.

Finally, the increasing stress on financial management in industrialized de-mocracies has produced an increased emphasis on auditing, though not of the old-fashioned financial sort (yet certainly the search for "fraud, waste, and abuse" continues in all these regimes). Auditing is now directed more toward the three E's: economy, efficiency, and effectiveness—in addition to financial probity. Some government auditors, such as the General Accounting Office in the United States (Mosher 1979), have a history of performance and effectiveness, but the doctrine has been spreading around the world. Auditors have now been transformed from their green eyeshade image to being integral parts of the reform and account-ability process in many contemporary governments.

**Market-testing**

In addition to the series of structural changes already outlined, the reform of central government departments in the United Kingdom has proceeded to an-other round, this time focusing more on management. The principal component of this attempt at marketizing government is "contracting out" (Ascher 1987), or more recently, "market testing" (Oughton 1994). The idea of this reform is that virtually all functions performed within government should be subjected to some form of competitive bidding to determine whether the private sector is able to perform the task better, more cheaply, or both. This requirement was imposed on local authorities earlier (1986), under the terminology "compulsory competitive tendering" (J. Painter 1991). The concept more recently has been extended to the central government as well through a White Paper, "Competing for Quality" (HMSO 1991). It has been followed by the closely linked idea of "fundamental reviews", which is a test of whether the public sector should be in any way in-volved in a policy.[21]

The United Kingdom is far from alone in attempting to impose this form of market discipline on its public-sector organizations.

Indeed, requirements for competitive bidding for government work have been around for some time in a number of governments. In the United States, Office of Management and Budget (OMB) Circular A-76 in the mid-1970s required at least 10 percent of all work performed by an agency to be subjected to bidding from outside contractors, with consideration of how much additional work could be performed outside more efficiently. More recently the General Services Administration (GSA), which once had a monopoly for providing services such as office space and automobiles to federal agencies, now must compete with private vendors for over 90 percent of its business (interview, 16 October 1994; GSA 1993). In Australia and New Zealand requirements for subjecting government programs to external bidding have been established for a number of years (Keating and Holmes 1990). In all these cases the government agency can establish the conditions of the bidding, and to some extent therefore it gains an inside track in the competition. There have been some good-faith attempts to determine just how money might be saved, however, and whether the usual criticisms about inefficiency within the public sector are correct.[22]

At least in the United Kingdom, critics argue that this change has under-mined the reforms undertaken in the earlier program, Next Steps (Jordan 1994; Richards and Rodrigues 1993). Although supporters of Next Steps apparently ar-gue that if the structure is changed then efficiency will follow, market testing re-quires that assumption to be proven. Almost before most of the agencies have had any opportunity to settle into a working pattern, they are being forced to develop bidding processes and then prepare their own bids. The employees of the agencies believed they had paid the price for keeping some functions public but now find that they are again required to justify their existence within the public sector. Although some management analysts argue that constant change is a function of organizations, the people who are living through it do not find it so beneficial.

Perhaps more fundamentally, the competitive tendering process and the documents that have established it seemingly lack any definite sense of which ac-tivities are clearly public functions and therefore not potentially subject to con-tracting out. One important case is policy advice: should it be contracted out or should it be contracted out or shout it remain an internal governmental activity (Boston, 1992b; Australia 1992)? Of course, a certain amount of policy advice has been contracted out in almost all political systems, with consultants, interest groups, political parties, and even academics providing reports and recommendations too voluminous to cata-log. Still, governments have retained a dominant in-house capacity to sift through the outside advice and then generate directions to ministers. Should that func-tion he contracted out to the private sector, or is it sufficiently vested with the public interest that it should remain a governmental activity?

As befits an approach attempting to make government more like the private sec-tor, the market perspective on governing places a great deal of emphasis on "im-proving" management (I use quotation marks because there is less than universal agreement that the changes being implemented are indeed positive). For many people committed to the traditional civil service style of running the public sec-tor, proponents of these changes have misread the nature and purpose of govern-ment. The assumptions behind generic management, for example, seem to under-value seriously public administration and its distinctiveness. Yet clearly there can be no return to the (presumably) glorious past of civil service government, so some accommodation between the traditions and the innovations will emerge if government is to move forward.

## POLICYMAKING

The third aspect of the marketized vision of the state is the conceptualization of how public policy should be made and, in particular, the appropriate role of the career public service in making it. A fundamental contradiction appears to reside at the heart of the role that this vision of governing assigns to the bureaucracy. On the one hand, the market approach advocates decentralizing bureaucratic functions to multiple, "entreprene-urial" agencies that would be authorized to make autonomous decisions, which presumably would be based upon either sig-nals received from the market or simply the judgment of the organizational lead-ership. Breaking the (supposedly) stultifying bonds of bureaucracy is meant to liberate decision making and to produce greater, risk-taking and more innovative programs in the public sector.[23]

On the other hand, the practitioners who have advocated this approach have expected these quasi-autonomous organizations to comply with the policy and ideological directives coming from above. One consistent observation concerning the Reagan, Thatcher, and Mulroney governments and other similarly purposive regimes is that they have attempted to impose their own views on the civil service (Savoie 1994a). Bureaucrats were seen as too committed to the growth of their own organizations and to serving their narrow clientele instead of the public in-terest. They and their organizations therefore should be made to follow the directives of their political masters (as embodiments of the volante generale) rather than their own interests.

To many people in government the pressure to conform to prevailing policy doctrines was an attempt to politicize the public service and policymaking. Such efforts are by no means new but appear to have become more overt during the 19SOs (Meyer 1985). Politicization has been seen by defenders of the traditional view of government as the erosion of one of the most important features of merit systems and the civil service. In some ways, however, these demands for confor-mity merely reaffirm the traditional view (at least in Anglo-Saxon regimes) that civil servants should be "on tap but not on top" and that political leaders should be responsible for policy. Whether it is part of the traditional conceptual-ization or not, there is an inconsistency, and civil servants are faced with a set of perhaps irreconcilable demands and expectations.

Even if the inconsistency could be resolved, additional problems for policy-making would arise from the market approach. One of the most important is the difficulty in coordination and control that decentralization presents. As one com-mentator has said, "The ship of state has become a flotilla", and the creation of many small organizations presents significant problems if government hopes to speak with a single voice. The radical decentral-ization of policymaking to more autonomous organizations provides relatively little opportunity for either senior bureaucrats or political leaders to coordinate policy effectively (Boston 1992b; Jordan 1994, 96-136).

In applying some of the market advocates' economic logic to examine their own recommendations for reform, several interesting questions arise. For exam-ple, one of the justifications of the large firm in the private sector is the reduc-tion of transaction costs (Williamson 1975), or the costs imposed by the need to interact with other parties. Much the same should be true for the large executive department in the public sector. If a number of smaller organizations are operat-ing with substantial autonomy, then (all else being equal) there will be substan-tial transaction costs when they must cooperate to deliver a set of services to the same clients (Calista 1989). Indeed, the transaction costs may be borne by clients rather than within government itself, given that the services may not be rendered in an integrated and coordinated fashion. The clients would be forced to go from agency to agency seeking the full range of services they need.

Another point is that decentralization is to some degree centralizing. Con-ferring decision-making autonomy onto a number of independent organizations that previously had been coordinated through a ministry does not diminish the need for coordination. The only remaining locus for the coordination is at the top of government, whether that is through central agencies or through cabinet and prime minister. Thus, as Wildavsky once argued about program budgeting (1969), once individual organizations are forced to set priorities, then some superordinate organization will be forced to choose among the priorities.

One critique of the traditional approach to governance has been that the in dependence of the bureaucracy actually thwarted consistency across policies and often produced destructive competition among organizations over budgets and policy (Allard 1990; Smith, Marsh, and Richards 1993). The market approach ap-pears to exalt that competition and its potential inconsistency—so long as the actions taken correspond to the ideology of the current political leaders and do not require additional public spending. It is perhaps too much to believe that leadership of autonomous agencies would be content to be managers of these organizations and would not become concerned with the policies being imple-mented by their organizations (T. Rhodes 1995). The inconsistency and redun-dancy produced by applying the market model are bad enough in wealthy socie-ties but may be particularly undesirable when the model is exported to less affluent developing countries, as it so often is by management consultants and international organizations.

At a more conceptual level, there is the problem of the changing role of the citizen. The market model tends to categorize the recipients of govern-ment pro-grams, and the public more generally, as consumers or customers (Pierre 1995a; Behn 1993a). This definition is simultaneously empow-ering and demeaning for the public. Seen as a beneficial change, this definition of citizenship is intended to provide citizens with the same expectations of quality services that they have when dealing with a private-sector firm.[24] Although usually considered to be components of particip-atory reforms, change—such as the Citizens' Charter in Britain and PS 2000 in Canada contain many of the elements of consumerism (Lovell 1992). Just as earlier consumer movements attempted to rectify the bal-ance between private-sector organizations and their customers, this movement seeks to redress that balance between public organizations and their clients.

Yet citizens have been made into little more than consumers, and their role as the holders of rights and legal status vis-a-vis the state appears diminished (Pierre 1995a; Lewis 1994). Government may be concerned with more than buy-ing and selling and almost certainly should be. If governing is reduced to the level of mere economic action, then citizens become less significant figures in political theory than they should be. Moreover, this shift in conceptualization of the pub-lic is important because it conflicts with other movements in contemporary politi-cal life. Most significant of these is the trend to think of politics as being about rights (and even obligations) rather than merely about money.

Although the public's shift to "post-materialist values" (Inglehart 1990; Inglehart and Abramson 1994) may have been overstated, there have been changes in people's expectations of government and in the values they want to see maximized through public action. One of these values is participation; another is the special claims of groups such as ethnic minorities and women. This transformation has been under way even longer than the shift to-ward an acceptance of an enhanced role for market mechanisms in public life. Thus, although ideological forces are driving toward an economic rationale for policy making, forces are also resisting that change and driving forward policies determined by much "softer", humanitarian values. The market and economic values appear to be in ascendance at the moment, but the triumph may be only temporary.

## THE PUBLIC INTEREST

The final component of the market vision of governance is its definition of the public interest. Although generally not clearly articulated, the market vision defi-nitely does contain such an idea. The primary element of the definition is that government should be judged on the basis of how cheaply it delivers public ser-vices. Fundamentally, the market model asks which services should be public. Much of the market model's indictment of government claims that it is overly expensive and inefficient. To achieve the goal of lower costs, government may have to undertake its activities in rather unconventional ways, for example, through creating multiple competing service providers; but in the long run the public—-in their role as taxpayers—is better served by government acting in this more busi-nesslike manner.

A second component of this definition of the public interest is that govern-ment should respond to market signals, so that accountability—a fundamen-tal component of the public interest in any democratic system (Day and Klein 1987)—is more difficult to identify than in the traditional system. Rather than being defined as progressing upward through ministers to parliament and then to the people, accountability is defined increasingly in market terms. In this emerg-ing definition, instruments such as parliamentary oversight and judicial reviews become less important than the financial bottom line. Indeed, along with rules and hierarchy, these formalized mechanisms are often indicted as the means through which government organizations have avoided meaningful account-ability.

In the market model, accountability would depend upon output measures to replace the process measures used in the traditional model. As with several other aspects of the market model of governing, this version of accountability appears to beg a number of questions, the most important being the measurement issue. Can we measure the performance of public organizations, even in their marketized format, sufficiently well to be able to use nonprocedural devices for defining accountability effectively (Glynn, Gray, and Jenkins 1992)? Even if analysts could make those measurements effectively, could they attribute differences (whether across time or across organizations) to the management of those or-ganizations? What level of performance is "good enough"? The "new evaluative state" (Henkel 1991) runs the risk of attempting to fire its analytic cannons be-fore they are fully loaded.

The third component of the market visit of the public interest is that citizens should be conceptualized as consumer as well as taxpayers (Lewis 1994). Therefore, in addition to providing guidance for policymaking, the public interest can be served by allowing citizens to exercise freer choice in a market for public services. This autonomy would replace the system of forcing citizens to consume a package of services determined by the legislature, the bureaucracy, or both. The enhanced choice for "consumers" can be created either by breaking up the mo-nopolies that traditionally have provided most public services or through increas-ing the wherewithal of citizens to exercise freer choices among service options.

The options for citizens exercising their choices can be expanded through several means. One is to permit private firms to enter into competition with ser-vices that traditionally have been public monopolies, has already happened in the case of postal services, for example, where private courier services have taken over a large share of the most profitable end of the market. Private providers have also been able to compete in most countries in the field of education for a num-ber of years. Services that were thought to be the peculiar concerns of govern-ment, such as managing prisons (Black 1993; Goodman and Lovcman 1991) or providing personal social services (Llewellyn 1994), are now considered appropri-ate targets for private-sector providers.

Choice can also be created by providing vouchers for services such as education and perhaps housing (J. Chubb and Moe 1990; Adler, Patch, and Tweedie 1990). If the argument is correct that one of the principal reasons for the per-ceived failings of education in many countries—especially Anglo-American countries—is that the state holds a monopoly over education, then the creation of competition through vouchers may be a useful mechanism both for improving education and leveraging private resources for it.[25] The limits to voucher plans for social and educational programs are not yet entirely clear, however. The Conser-vative government in Britain, for example, has considered a plan to convert vir-tually all primary and secondary education in the country to fee-paying systems supplemented by vouchers. Nor is it clear what role public education should play in a democratic society, especially in the United States, which has relied on public education as a major component of the system for enculturating immigrants.

The choices available to the public may also be increased simply by provid-ing information to citizens about the service options that are obtainable. One feature of bureaucracies, especially those that also have a professional compo-nent, is that they tend to deny autonomous choices to clients. Such denial is in the perceived best interest of the client, who is assumed to be incapable of making informed choices about complex legal or technical matters or both, in medicine, for example. Proponents of both the market and the participatory models of re-form argue for greater openness and more real choice for the public. No matter how individual choice is to be enhanced, the idea of creating a genuine market for the goods and services that have been provided through monopolies (whether bureaucratic or professional) is the central clement in the market model's pre-scription.

The market vision has become the most popular alternative conceptualization of the state and government. This view perceives traditional public bureaucracies more as instruments of personal aggrandizement by civil servants than as instru-ments for unselfish service delivery to the public. Its proponents also believe that public-sector agencies face the same managerial and service-delivery tasks as do organizations in the private sector and, therefore, are as amenable to the same techniques for managing those tasks. Advocates of the market argue that an ac-ceptance of the models of traditional public administration is little more than a means of protecting bureaucrats against control and accountability. Market-ori-ented analysts assume that if the rule-based authority structure usually associ-ated with public bureaucracy is removed, or at least de-emphasized, then a flower-ing of the creative and administrative talent of individuals working in the public sector can occur.

Although usually associated with the political right, some devotees of the market approach believe that its successful implementation would result in a more effective and efficient public sector, whether delivering defense or social services. Indeed, one of the strongest test cases for this approach has been the ex-periment in New Zealand by the Labour party (P. Walsh 1991). Moreover, several elements of a market approach have been introduced into Scandinavia by govern-ments of the political left (J. Olsen 1991). There appears to be a Zeitgeist that pervades contemporary thinking about government and that has pushed many governments in the direction of reducing public-sector controls on the private sector and toward using more market-based instruments within the public sector.

Although the market perspective is extremely popular with politicians and with many people in the mass public, the questions of how well it describes the failings of the old system and what possible avenues of positive change it offers must be asked. Doubts about the market are not simply a knee-jerk reaction against change in government but represent an attempt to understand better just what possibilities exist for improving the performance of government. Such re-flection may lead to recognition that the old system was not entirely bad and indeed did some things rather well.

Moreover, most proposals for movement away from the old system will be far from costless. All the reform proposals have substantive as well as transitional costs for government, which employees within public bureaucracies will certainly bear, and the clients of programs may also pay. Some programs may be elimi-nated entirely, and others may be reduced and their delivery streamlined in ways that many clients may find undesirable. Therefore, in deciding to make the move to new forms of government, those costs and the losses of positive features of the older administrative system must be understood and weighed against the poten-tial benefits of the reformed system.

The market model—despite its emphasis on exercising choice through vouchers—tends to provide little real choice for citizens about whether to search out new levels or varieties of service provision (Scott-Clark 1995). In this view of the "policy marketplace", the dynamic element seems to be lacking, and imper-sonal forces rather than human agencies appear to make the policy selections. Fur-ther, the choices offered in the policy market are often about implementation rather than about the existence of a program itself. This more basic choice is ap-parently within the province of the participatory model of change, to be exam-ined next.

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**Notes**

[1] For good reviews, see Wright (1994)

[2] In these cases the market model is generally not adopted autonomously but is imposed by granting agencies, such as the World Bank and the International Monetary Fund, seeking to ensure that their money is used effectively.

[3] This is not to say that some members of the administration, such as David Stockman, were not willing to press those ideas but only at the top there was more of a vague ideology rather than a real set of intellectual principles (Stockman 1986, 9), Regan appeared to practice the "politics of impulse" rather than the politics of ideas.

[4] Some of these critiques pertain specifically to the model's application to the public sector, others to its applicability for private sector organizations.

[5] This group includes some analysis who would not normally be associated with the political right.

[6] The self-interest of bureaucrats does not differentiate them from other individuals. The problem is the assumption, inherent in the traditional model, that members of the public service will necessarily act in the public interest.

[7] This discussion runs counter to H.Simon's (1947) famous argument that administrators will be satisfiers rather than maximizes. That is, they will seek solutions that are "good enough" rather than those that are optimal.

[8] Firms may, however, compete over quality rather than just price. No two products or services are exactly identical; thus the customer may choose according to price, quality or other attributes.

[9] In practice, governments have established redundant organizations and allowed them to compete. For example, Franklin Roosevelt's New Delhi had a number of organizations performing approximately the same duties.

[10] For the regulated, redundancy may enable them to play one agency off against the other. For example, both the Federal Trade Commission and the Antitrust Division of the Department of Justice enforce antitrust laws in the United States, with some leeway for firms to "choose" one over the other (see B. Peters 1996).

[11] Britain has attempted to create some competition among its water and electricity companies, but even these are segmented regionally so that no effective competition exists.

[12] This artificial creation, in the view of the New Public Management, could be used to enable civil servants to enhance their own position. Thus, this approach to the role of the market in public affairs is not entirely distinct from the first one discussed.

[13] They usually want to export these techniques at a profit

[14] The United States also has a tradition of autonomous agencies within the cabinet departments, although that autonomy is derived as much from political realities as from institutional design (Seidman and Gilmour 1986).

[15] Devolving services to lower levels of government is sometimes seen as a solution to many problems, but often may be simply substituting one hierarchy and one bureaucracy for another.

[16] Apparently, large corporations in the private sector had an equal, or greater, pro-pensity to reward middle managers with corporate welfare, and, like the public sector, are being forced to change (see Sampson 199S).

[17] Pay in the public sector has tended to be somewhat more egalitarian than in the market, with lower echelons paid better than the going market rates and senior managers being paid substantially less than people with equal responsibilities in the private sector (a Smith 1977; Sjolund 1989).

[18] Actually, in the private sector there appears to be an inverse relationship between performance of businesses and the rewards of top managers, as noted in the Economist, "Failure-Related Pay," 2 September 1994,22.

[19] In the Department of Social Services in the United Kingdom, for example, over-head services such as information technology are devolved to a separate organization, which then charges other agencies for its services.

[20] The United States has been a visible laggard in this regard but is considering mod-ernization of its budgetary processes (see Paul L. Posner, Budget Structure: Providing an Investment Focus in the Federal Budget, Testimony to House Committee on Government Reform and Oversight, 29 June 1995).

[21] In Canada the same types of reviews are being undertaken by the Chretien govern-ment, more at the initiation of the government itself than through the Treasury as in Brit-ain. In the United States the Department of Defense has been engaging in a review of its spending from the bottom up.

[22] Private-sector contractors appear to do well when bidding for routine functions such as janitorial services, managing food services, and so on, but they do much less well for more policy-focused activities or for delivering more complex services.

[23] That entrepreneurship would probably be frowned upon if the creativity cost more money. Further, this is risky behavior that may ultimately cost money even when attempts are made to "make" or save money. The risk element of the market model is sometimes ignored when its proponents advocate moving to market like provision of services.

[24] Those of us who deal regularly with airlines and Blue Cross-Blue Shield may con-sider being treated like the customer of a private concern to be a threat

[25] It is interesting, however, that some of the countries most satisfied with their educational systems are virtual state monopolies, e.g. France and Japan. Perhaps some other variable is to blame for the perceived poor performance of American and British education.

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# 4

# A Public Management for all Seasons?

CHRISTOPHER HOOD

This article discusses: the doctrinal content of the group of ideas known as 'new public management' (NPM); the intellectual provenance of those ideas; explanations for their apparent persuasiveness in the 1980s; and criticisms which have been made of the new doctrines. Particular attention is paid to the claim that NPM offers an all-purpose key to better provision of public services. This article argues that NPM has been most commonly criticized pa terms of a claimed contradiction between 'equity' and 'efficiency' values, but that any critique which is to survive NPM's claim to 'infinite reprogrammability' must be couched in Items of possible conflicts between *administrative* values. The conclusion is that the ESRC's 'Management in Government' research initiative has been more valuable in helping to identify leather than to definitively answer, the key conceptual questions raised by NPM.

*The Rise of New Public Management (NPM)*

The rise of 'new public management' (hereafter NPM) over the past 15 years is one of the most striking international trends in public administration. Though the research reported in the other papers in this issue refers mainly to UK experience, NPM is emphatically not a uniquely British development. NPM's rise seems to be Indeed with four other administrative 'megatrends', namely:

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(i) attempts to *slow down or reverse government growth* in terms of overt public spending and staffing (Dunsire and Hood 1989);

(ii) the shift toward *privatization and quasi-privatization* and away from core government institutions, with renewed emphasis on 'subsidiarity' in service provision (cf. Hood and Schuppert 1988; Dunleavy 1989).

(iii) the development of *automation,* particularly in information technology, in the production and distribution of public services; and

(iv) the development of a more *international* agenda, increasingly focused on general issues of public management, policy design, decision styles and inter-governmental cooperation, on top of the older tradition of individual country specialisms in public administration.

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(These trends are discussed further in Hood 1990b).

NPM, like most administrative labels, is a loose term. Its usefulness lies in its convenience as a shorthand name for the set of broadly similar administrative doctrines which dominated the bureaucratic reform agenda in many of the OECD group of countries from the late 1970s (see Aucoin 1990; Hood 1990b; Pollitt 1990B

Although ill-defined, NPM aroused strong and varied emotions among bureaucrats. At one extreme were those who held that NPM was the only way to correct for the irretrievable failures and even moral bankruptcy in the 'old' public management (d Keating 1989). At the other were those who dismissed much of the thrust of NPM at a gratuitous and philistine destruction of more than a century's work in developing a distinctive public service ethic and culture (cf. Martin 1988; Nethercote 1989b).

NPM's rise also sparked off debate as to how the movement was to be labeled interpreted and explained. What exactly was the public management Emperor now wearing? Where did the design come from, and did its novelty lie mainly in presentation or in content? Why did it find favour? Was it an all-purpose and all-weather garment? This article attempts to discuss these questions, with particular attention to the last one.

## What the Emperor was Wearing: the Doctrines of NPM

Different commentators and advocates of NPM have stressed different aspects of doctrine. But the seven overlapping precepts summarized in table 1 below appeal in most discussions of NPM. Over the last decade, a 'typical' public sector policy delivery unit in the UK, Australia, New *Zealand* and many other OECD countries would be likely to have had some exposure to most of these doctrines. But not all of the seven elements were equally present in all cases; nor are they necessarily fully consistent, partly because they do not have a single intellectual provenance.

## Where the Design Came from: NPM as a Marriage of Opposites

One way of interpreting NPM's origins is as a marriage of two different streams of ideas. One partner was the 'new institutional economies'. It was built on the Blow very familiar story of the post-World War II development of public choice, transactions cost theory and principal-agent theory - from the early work of Black (I958) and Arrow (1963) to Niskanen's (1971) landmark theory of bureaucracy and the spate of later work which built on it.

The new institutional economics movement helped to generate a set of administrative reform doctrines built on ideas of *contestability, user choice, transparency* and close concentration on *incentive structures.* Such doctrines were very different from traditional military-bureaucratic ideas of good administration', with their emphasis on orderly hierarchies and elimination of duplication or overlap (cf. Ostrom 1974).

The other partner in the 'marriage' was the latest of a set of successive waves of business-type 'managerialisrn' in the public sector, in the tradition of the international scientific management movement (Merkle 1980; Hume 1981; Pollitt 1990). This movement helped to generate a set of administrative reform doctrines based on the ideas of *'professional management'* expertise as *portable* (Martin 1983), *paramount* over technical expertise, requiring high *discretionary power* to achieve results ('free to manage') and *central* and *indispensable* to better organizational performance, through the development of appropriate cultures (Peters and Waterman

**Table 1: Doctrinal components of new public management**

| *No.* | *Doctrine* | *Meaning* | *Typical justification* |
|---|---|---|---|
| 1 | *'Hands-on professional management'* in the public sector | Active, visible, discretionary control of organizations from named persons at the top, 'free to manage' | Accountability required clear assignment of responsibility for action not diffusion of power |
| 2 | *Explicit standards and measures of performance* | Definition of goals, targets, indicators of success, preferably expressed in quantitative terms, especially for professional services (cf. Day and Klein 1987; Carter 1989) | Accountability required clear statement of goal efficiency requires hard look at objectives |
| 3 | Greater emphasis on *output controls* | Resource allocation and rewards linked in measured performance breakup of centralized bureaucracy-wide personnel management | Need to stress results rather than procedure |
| 4 | Shift in *disaggregation* of units in the public sector | Break up of formerly 'monolithic' units, unbundling of U-form management systems into corporatized units around products, operating on decentralized 'one-line' budgets and dealing with one another on an 'arms-length' basis | Need to create 'manageable' units, separate provision and production interests, gain efficiency advantages of use of contract or franchise arrangements inside as well as outside the public sector |
| 5 | Shift to greater *competition* in public sector | Move to term contracts and public tendering procedures | Rivalry as the key to lower costs and better standards |
| 6 | *Stress on private sector styles of management practice* | Move away from military-style 'public service ethic', greater flexibility in hiring and rewards; greater use of PR techniques | Need to use 'proven' private sector management tools in the public sector |
| 7 | Stress on greater *discipline* and *parsimony* in resource use | Cutting direct costs, raising labor discipline, resisting union demands, limiting compliance costs to business | Need to check resource demands of public sector and 'do more with less' |

1982) and the active measurement and adjustment of organizational outputs.

Whether the partners in this union were fully compatible remains to be seen. Tree to manage' is a rather different slogan from 'free to choose'. The two can conflict, particularly where the NPM revolution is led from above (as it was in; the UK) rather than from below. The relative dominance of the two partners varied in different countries even within the 'Westminster model' tradition (cf. Hoods 1990c). For example, in the unique circumstances of New Zealand, the synthesis: of public choice, transactions cost theory and principal-agent theory was predominant, producing an analytically driven NPM movement of unusual coherence. But in the UK and Australia business-type managerialism was much more salient, producing a more pragmatic and less intellectually elegant strain of NPM or 'neo-Taylorism' (Pollitt 1990, p. 56). Potential frictions between these partners were not resolved by any single coherent or definitive exposition of the joint philosophy. Indeed, the New *Zealand* Treasury's *Government Management* (1987) comes closest 1 to a coherent NPM 'manifesto', given that much of the academic literature on the subject either lacks full-scale elaboration or enthusiastic commitment to NPM.

**Why NPM Found Favour: the Acceptance Factor**

There is no single accepted explanation or interpretation of why NPM coalesced and why it 'caught on' (cf. Hood 1990b; Hood and Jackson 1991 forthcoming, ch. 8). Many academic commentators associate it with the political rise of the 'New Right'. But that on its own does not explain why these particular doctrines found favour, nor why NPM was so strongly endorsed by Labour governments ostensibly opposed to the 'New Right', notably in Australia and New Zealand. Among the possible explanations are the following four.

First, for those who take a sceptical view of administrative reform as a seriesj of evanescent fads and fashions, NPM's rise might be interpreted as a sudden and unpredictable product of 'loquocentric' success (Minogue 1986). (Spann (1981) offers a classic statement of the 'fashion' interpretation of administrative reform.) 'Cheap superficial and popular', like the industrial 'rationalization' doctrines of the 1930s (Hannah 1976, p. .38, fn. p. 34), NPM had many of the necessary qualities for a period of pop management stardom. A 'whim of fashion' interpretation has some attractions, and can cope with the cycles and reversals that took place within *NPMM* - for instance, the radical shift in the UK, from the 'Heseltine creed' of *Ministersm* as the hands-on public managers to the 'Next Steps' corporatization creed of professional managers at the top, with ministers in a strictly 'hands-off' role (cf. also Sturgess 1989). But equally, the weakness of a simple 'whim of fashion' explanation is that it does not account for the relative *endurance* of many of the seven precepts identified in table 1 over more than a decade.

An equally sceptical explanation, but one which better accommodates the recurring or enduring features of many aspects of NPM, is the view of NPM as a 'cargo cult' phenomenon - the endless rebirth, in spite of repeated failures, of the idea that substantive success ('cargo') can be gained by the practice of particular kinds of (managerial) ritual. Downs and Larkey (1986) describe a recurring cycle of euphoria and disillusion in the promulgation of simplistic and stereotyped recipes for better public management in the USA, which shows striking similarities with the well-documented cargo cults of Melanesia (Lawrence 1964; Worsley 1968). However, this explanation cannot tell us why the NPM variant of the recurring public management 'cargo cult' appeared at the time that it did, rather than at any other.

A third, less sceptical, approach might be to view the rise of NPM through Hegelian spectacles and interpret it as an epoch-making attraction of opposites. The opposites in this case are two historically distinct approaches to public administration which are in a sense fused in NPM. One is the German tradition if of state-led economic development *(Volksioirtschaft)* by professional public managers, with its roots in cameralism (Small 1909). The other is the Anglo-Saxon tradition of liberal economics, allied with a concern for matching self-interest with duty in administration, that has its roots in utilitarianism (Hume 1981). But, like the 'cargo cult' interpretation, the 'synthesis of opposites' interpretation on its own does not help us to understand why those two distinct public administration traditions should have united *at this particular time* rather than at any other.

A fourth and perhaps more promising interpretation of the emergence of NPM is as a response to a set of special social conditions developing in the long peace in the developed countries since World War II, and the unique period of economic growth which accompanied it (see Hood 1990b and 1991 forthcoming). Conditions which may have helped to precipitate NPM include:

— changes in income level and distribution serving to weaken the Tocqueville coalition' for government growth in the electorate, and laying the conditions for a new tax-conscious winning electoral coalition (Tocqueville 1946, p. 152; Peacock 1979; Meltzer and Richard 1981);

— changes in the socio-technical system associated with the development of the lead technologies of the late twentieth-century Kondratiev cycle ('post industrialism', 'post-Fordism'), serving to remove the traditional barriers between 'public sector work' and 'private sector work' (cf. Bell 1973; Piore and Sabel K1984; Jessop 1988).

— shift towards 'new machine polities', the advent of a new campaign technology geared towards making public policy by intensive opinion polling of key groups in the electorate, such that professional party strategists have greater clout in policy-making relative to the voice of experience from the bureaucracy (cf. Mills 1986; Hood 1990c, p. 206).

— a shift to a more white-collar, socially heterogeneous population less tolerant of 'statist' and uniform approaches in public policy (cf. Hood and Schuppert 1988, p. 250-2).

The fourth explanation is somewhat 'overdetermined', but it seems more promising than the other three in that it has the power to explain what none of the others can do, namely why NPM should have emerged in the particular time and place that it did and under a variety of different auspices.

**An All-Purpose Garment? NPM's Claim to Universality**

Like many previous administrative philosophies, NPM was presented as a framework of general applicability, a 'public management for all seasons'. The claim to universality was laid in two main ways.

*Portability and diffusion.* First, much the same set of received doctrines was advanced as the means to solve 'management ills' in many different contexts - different organizations, policy fields, levels of government, countries. From Denmark to New Zealand, from education to health care, from central to local government and quangos, from rich North to poor South, similar remedies were prescribed along the lines of the seven themes sketched out in table 1. Universalism was not complete in practice; for instance, NPM seems to have had much less impact on international bureaucracies than on national ones, and less on controlling departments than on front-line delivery units. Moreover, much was made of the need for local variation in management styles - so long as such variations did not challenge the basic framework of NPM (Pollitt 1990, pp. 55-6). For critics, however, much of the 'freedom to manage' under NPM was that brand of freedom in which whatever is not forbidden tends to be compulsory (Larsen 1980, p. 54); and the tendencies to uniformity and 'cloning' under FMI points to possible reasons for the decline of FMI and its supersession by the corporatization creed of 'Next Steps'.

*Political neutrality*. Second, NPM was claimed to be an 'apolitical' framework within which many different values could be pursued effectively. The claim was that different political priorities and circumstances could be accommodated by altering the 'settings' of the management system, without the need to rewrite the basic programme of NPM. That framework was not, according to NPM's advocates machine exclusively tunable to respond to the demands of the New Right to any one political party or programme (see, for example, Scott Bushnell Sallee 1990, p. 162; Treasury and Civil Service Committee 1990, pp. ix, 22, 61). In this respect, NPM followed the claims to universality of traditional Public Administration, which also purported to offer a neutral and all-purpose instrument for realizing whatever goals elected representatives might set (Ostrom 1974; Thoma 1978; Hood 1987).

**Counter-Claims: Critics of NPM**

If NPM has lacked a single definitive 'manifesto', the ideas of its critics are equally scattered among a variety of often ephemeral sources. Most of the criticisms of NPM have come in terms of four main counter-claims, none of which have been definitively tested, in spite of the ESRC's Management in Government' initiative.

The first is the assertion that NPM is like the Emperor's New Clothes in the well-known Hans Andersen story - all hype and no substance, and in that sense a true product of the style-conscious 1980s. From this viewpoint, the advent of new managerialism has changed little, apart from the language in which senior public 'managers' speak in public. Underneath, all the old problems and weaknesses remain. Implicitly, from this viewpoint, the remedy lies in giving NPM some real substance in order to move from 'smoke and mirrors' to reality - for example, in making output contracts between ministers and chief executives legally binding or in breaking up the public service employment structure, as has happened in New Zealand (cf. Hood and Jones in Treasury and Civil Service Committee 1989-90).

The second is the assertion that NPM has damaged the public service while being ineffective in its ability to deliver on its central claim to lower costs per (constant) unit of service. Critics of this type suggest that the main result of NPM in many cases has been an 'aggrandizement of management' (Martin 1983) and a rapid middle-level bureaucratization of new reporting systems (as in the remarkable growth of the 'performance indicator industry'). Budgetary and control framework changes such as 'top-slicing' and 'creative accounting' serve to destabilize the bureaucracy and to weaken or destroy elementary but essential competences at the front line (see, for instance, Nethercote 1989b, p. 17; Nethercote 1989c). From ; this viewpoint, the remedy lies in applying to the NPM *system* the disciplines that it urges upon service-delivery bureaucracies but so signally fails to impose on itself - particularly in strict resource control and the imposition of a battery of published and measurable performance indicators to determine the overall costs and benefits of the system.

The third common criticism is the assertion that NPM, in spite of its professed claims to promote the 'public good' (of cheaper and better public services for all), is actually a vehicle for *particularistic* advantage. The claim is that NPM is a self-serving movement designed to promote the career interests of an elite group of new managerialists' (top managers and officials in central controlling departments, management consultants and business schools) rather than the mass of public service customers or low-level staff (Dunleavy 1985; Yeatman 1987; Kefleher 1988; Pollitt 1990, pp. 134-7). Implicitly, the remedy suggested by these criticisms is to have ^disproportionate cutbacks on 'managerial' rather than on 'operational' staff (cf. Martin 1983), and measures to 'empower' consumers, for instance by new systems of direct democracy (cf. Pollitt 1990, pp. 183-4).

The fourth line of criticism, to which most attention will be paid in the remainder pf this paper, is directed towards NPM's claim of *universality.* Contrary to NPM's claim to be a public management for all seasons, these critics argue that different administrative values have different implications for fundamental aspects of Administrative design - implications which go beyond altering the 'settings' of the systems.

In order for their counter-claim to have any significance, it must be able to survive objections. First, it must be able to show that the objection is more than antic quibble about where the line comes between a different programme and a change of 'settings'. For that, it must be able to show that the incompatibility problem lies in NPM's 'hard core' research programme rather than in its 'elaborative belts' (Lakatos 1970). Second, it must be able to show that it is more than a trivial and obvious proposition. In order to survive this objection, it needs to show that there are different management-system implications of different *mainstream,* relatively orthodox values, without reference to values at the extremes of the orthodox belief spectrum (since it needs no elaborate treatise to show that different 'fundamentalist' values have different implications for public management). Third, the 'incompatibility' argument needs to rest on a plausible case that an 'all-purpose culture' either does not exist or cannot be engineered into existence. Unless it can do so, it risks being dismissed for mechanically assuming that there is a particular set of administrative design-characteristics which goes with the ability to achieve a particular set of values. Finally, it needs to show that the debate relates to *administrative* values - values that relate to conventional and relatively narrow

ideas about 'good administration' rather than to broader ideas about the proper role of the state in society. Unless the critique of the 'all seasons' quality of NPM relates to administrative values in this sense, it risks being dismissed simply as an undercover way of advocating different *political values* from those currently held by elected governments. A case built on such a basis would not essentially be an administrative design argument, and would neither demonstrate that NPM is incapable of being adapted to promote alternative political values nor that NPM is a false recipe for achieving the narrow 'efficiency' values of the current orthodox agenda.

Most of the orthodox criticisms of NPM in this vein are vulnerable to counter-attack from this last objection. Most academic attacks on NPM have questioned NPM's universality by focusing on the equity costs of a preoccupation with cost-cutting and a focus on 'bottom line ethics' (Jackson 1989, p. 173). For instance, a focus on outputs allied with heavy 'hands-on' demands on managers is often claimed to downgrade equity considerations, particularly in its implications for the ability of female managers to reach top positions in the public service (cf. Bryson 1987; Pollitt 1990, pp. 141-2). A focus on disaggregation and a private-sector PR style is likewise often claimed to reduce the accessibility of public services by increasing the complexity and opacity of government (Nethercote 1990c), and increasing the scope for buck-passing and denial of responsibility, especially for disadvantaged consumers. However, any simple dichotomy between 'efficiency' and 'equity' can be countered by NPM's advocates on the grounds that 'efficiency' can be conceived in ways which do not fundamentally conflict with equity (cf. Wilenski 1986), and that equity values could perfectly well be programmed in to the target-setting and performance indication process, if there was strong enough political pressure to do so.

## Three Clusters of Administrative Values

In administrative argument in the narrow sense, the rival values in play typically do not fall into a neat dichotomy. At least three different 'families' of values commonly appear in debates about administrative design, and these are summarized in table 2 below (cf. Hood and Jackson 1991 forthcoming). Broadly, the 'sigma' family of values relates to *economy* and *parsimony,* the 'theta' family relates to *honesty* and *fairness,* and the lambda' family relates to *security* and *resilience*.

The trio corresponds roughly to the management values used by Susan Strange (1988, pp. 1-6) in her account of the evolution of different regimes in the international sphere; and at least two of the three correspond to the groups of values given by Harmon and Mayer (1986, pp. 34-53) in their well-known account of the normative context of public sector organization. It cannot be claimed that these values are esoteric or extreme, or that they are not 'administrative' values.

*Sigma-type values: match resources to defined tasks*. In the 'sigma' family come administrative values connected with the matching of resources to narrowly defined tasks and circumstances in a competent and sparing fashion. Such values are central, mainstream and traditional in public management. From this viewpoint, frugality of resource use in relation to given goals is the criterion of success, while failure is counted in terms of instances of avoidable waste and incompetence. If sigma-type values are emphasized, the central concern is to 'trim fat' and avoid 'slack'. Classic expressions of sigma-type values include:

(i) 'just-in-time' inventory control systems (which avoid tying up resources in storing what is not currently needed, pushing the onus of accessible storage and rapid delivery on to suppliers);

(ii) payment-by-results reward systems (which avoid paying for what is not being delivered); and

(iii) administrative 'cost engineering' (using resources sparingly to provide public services of no greater cost, durability or quality than is

**Table 2: Three sets of core values in public management**

| | *Sigma-type values* KEEP IT LEAN AND PURPOSEFUL | *Theta-type values* KEEP IT HONEST AND FAIR | *Lambda-type values* KEEP IT ROBUST AND RESILIENT |
|---|---|---|---|
| STANDARD OF SUCCESS | Frugality (matching of resources to tasks for given goals) | Rectitude (achievement of fairness, mutuality, the proper discharge of duties) | Resillience (achievement of reliability, adaptivity, robustness) |
| STANDARD OF FAILURE | Waste (muddle, confusion, inefficiency) | Malversation (unfairness, bias, abuse of office) | Catastrophe (risk, breakdown, collapse) |
| CURRENCY OF SUCCESS AND FAILURE | Money and time(resource costs of producers and consumers) | Trust and entitlements (consent, legitimacy, due process, political entitlements) | Security and survival (confidence, life and limb) |
| CONTROL EMPHASIS | Output | Process | Input/Process |
| SLACK | Low | Medium | High |
| GOALS | Fixed/Single | Incompatible 'Double bind' | Emergent/Multiple |
| INFORMATION | Costed, segmented (commercial assets) | Structured | Rich exchange, collective asset |
| COUPLING | Tight | Medium | Loose |

absolutely necessary for a defined task, without excessive concern for 'externalities').

The principal 'coin' in which success or failure to realize sigma-type values is measured is time and money, in resource costs of consumers and producers.

It can be argued that an orthodox design for realizing sigma-type values would closely parallel the 'mechanistic' structures which have frequently been identified in contingency theory as applicable to defined and stable environmental conditions (cf. Burns and Stalker 1961; Lawrence and Lorsch 1967). Since the 'sigma' group of values stresses the matching of resources to defined objectives, the setting of fixed and 'checkable' goals must be central to any design for realizing such values.

The fewer incompatible objectives are included, the more readily can unnecessary fat be identified and removed. Equally, the more that the control emphasis is on output rather than on process or input, the more unambiguous the waste-finding process can be. To make output control a reality, two features are necessary. One is a heavy emphasis on output databases. Such an emphasis in turn requires a technological infrastructure of reporting which will tend to make each managerial unit 'tightly coupled' in informational terms. The other is the sharp definition of responsibilities, involving separation of 'thinking' and 'executing' activities and the breakup of organizations into separate, non-overlapping parts, to come as close as possible to the ideal of single-objective, trackable and manageable units. It follows a that information in such a control system will be highly segmented and valuable, so that it will be guarded with extreme care and traded rather than given away. These design characteristics map closely on to the recipes offered by the corporate management strain of NPM.

*Theta-type values: honesty, fairness, mutuality.* 'Theta-type' connotes values broadly relating to the pursuit of honesty, fairness and mutuality through the prevention of distortion, inequity, bias, and abuse of office. Such values are also central and traditional in public management, and they are institutionalized in appeal mechanisms, public reporting requirements, adversary bureaucracies, independent scrutiny systems, attempts to socialize public servants in something more than 'bottom line ethics' or a high 'grovel count' (Self 1989). From this viewpoint, success is counted in terms of 'rectitude', the proper discharge of duties in procedural and substantive terms, while failure is measured in terms of 'malversation' in a formal or substantive sense. If theta-type values are placed at centre stage, the central concern is to ensure honesty, prevent 'capture' of public bodies by unrepresentative groups, and avoid all arbitrary proceedings.

Classic expressions of theta-type values include:

(i) recall systems for removing public officials from office by popular vote;

(ii) 'notice and comment' and 'hard look' requirements in administrative law H (Birkinshaw, Harden and Lewis 1990, p. 260);

(iii) independent anti-corruption investigatory bodies such as the 1987-9 Fitzgerald Inquiry which effectively brought down the Queensland government in 1989 (cf. Prasser, Wear and Nethercote 1990).

The 'coin' in which success or failure is measured according to theta-type values may be partly related to 'balance sheet' items (insofar as dishonesty and abuse of office is often linked with palpable waste of resources), but also involves less If tangible stakes, notably public trust and confidence and the ability to exercise citizenship effectively.

Putting theta-type values at .the centre of the stage has implications for organizational design which are different from an emphasis on 'sigma-type' values. Where honesty and fairness is a primary goal, the design-focus is likely to be on process controls rather than output controls. Goals, too, are less likely to be single in nature. Getting the job done' in terms of aggregate quantities is likely to be supplemented by concerns about *how* the job is done (cf. March and Olsen 1989, pp. 47-52). pp Hence 'double bind' elements (Hennestad 1990) may be central to goal setting, with line management under complex cross-pressures and with control operating ^through a shifting-balances style (Dunsire 1978). The cross pressures and 'double bind' process may operate through the activities of independent adversary bureaucracies, rather than with corporate objectives settled in a single place - for example, in the Hong Kong style of independent anti-corruption bodies. Similarly, concern with process may cause the emphasis to go on the achievement of maximum *transparency* in public operations - for example, extensive public reporting requirements, 'angels' advocates' (the practice of incorporating represen-tatives of public interest' groups on corporate boards), freedom of inform-ation laws, 'notice fend comment' procedures, rather than simple 'bottom line ethics'.

Indeed, the logical conclusion of putting theta-type values first in designing public management would be to minimize the ability of those in high office to sell or distort public decisions as a result of 'capture' by particular groups - for example, by the entren-chment of adversarial processes within the bureaucracy or by greater use of direct democracy in public decision-making (Walker 1986; Pollitt 1990, |pp. 183-4).

*Lambda-type values: reliability, robustness, adaptivity*. 'Lambda-type' values relate flip resilience, endurance, robustness, survival and adaptivity - the capacity to withstand and learn from the blows of fate, to avoid 'competency traps' in adaptation processes (Levitt and March 1988; Liebowitz and Margolis 1990), to keep operating even in adverse 'worst case' conditions and to adapt rapidly in a crisis.

Expectations of security and reliability are central to traditional public administration values, and have often been associated with the choice of public rather than private organization for the provision of a hazard-related task.

From the viewpoint of lambda-type values, success is counted in terms of resilience and reliability, while failure is measured in terms of catastrophe, breakdown and learning failure. If lambda-type values are placed at centre stage, the central concern is to avoid system failure, 'down time', paralysis in the face of threat or challenge.

Classic expressions of lambda type values include:

*(i)* *redundancy,* the maintenance of back-up systems to duplicate normal capacity;

*(ii)* *diversity,* the maintenance of quite separate, self-standing units (to avoid 'common mode failure', whether in technical terms or in terms of 'groupthink'); and

*(iii)* *robustness,* use of greater amounts of materials than would ordinarily be necessary for the job (cf. Health and Safety Executive 1988, p. 11).

The 'coin' in which success or failure is measured in lambda-type values includes security, survival and the robustness of basic assumptions about social defence mechanisms.

Orthodox discussions of learning problems and catastrophes tend to focus on specific failings of individuals rather than systemic or structural factors in organizational design (Turner *et al*. 1989, p. 3). But some tentative pointers to the administrative design implications of putting lambda-type values at centre stage can be gleaned from three closely related literatures: 'contingency theory' ideas about structural factors related to highly uncertain environments (cf. Lawrence and Lorsch 1967); the literature on the organization of socially created disasters (Dixon 1976; Turner 1976 and 1978; Perrow 1984); and the developing and related literature on 'safety culture' (Westrum 1987; Turner *et al*. 1989).

Some of the ideas to be found in this literature about the engineering of adaptivity and error-avoidance are contradictory. A case in point is the debate about 'anticipation' versus 'resilience' (Wildavsky 1988). Moreover, Perrow (1984) claims that for some technologies, administrative design for error-avoidance is impossible even if safety is highly valued. However, much of this literature tends to related error-generation, capacity for resilience and learning failures to three elements of institutional structure

(i) degree of *integration* - the extent to which interdependent parts of the system are linked in decision and information terms rather than isolated into separate compartments, each trying to insulate itself independently against system failure;

(ii) degree of *openness* in the culture or management system, avoiding authoritarian barriers to lateral or systemic thinking and feedback or learning processes; and

(iii) the extent to which there are systemic pressures for *misinformation,* rather than sharing of information, built in to the organizational process.

From the perspective of this literature, an organizational design which maximized lambda-type values would need to involve: multiple-objective rather than single-objective organi-zation (van Gunsteren 1976, p. 61); a relatively high degree of 'slack' provide spare capacity for learning or deploy-ment in crisis; a control framework which focused on input or process rather than measured output in order to avoid building up pressures for misi-nformation; a personnel manage-ment structure which promoted cohesion without punishing unort-hodox ideas; a task division structure organized for systemic thinking rather than narrow compartmentalization; and respons-ibility structure which made mistakes and errors admissible. Relatively loose coupling and an emphasis on inform-ation as a collective asset within the organization would be features of such a design structure.

*Compatibility*. From this discussion, as summarized in table 2, one fundamental implication is that these three sets of mainstream administrative values overlap over some of their range, like intersecting circles in a Venn diagram. For example, dishonesty frequently creates waste and sometimes leads to catastrophe. Frugality, rectitude and resilience may all be satisfied by a particular set of institutional arrange-ments in some contexts.

However, the discussion also suggests the hypothesis that any two out of the three broad value sets may often be satisfied by the same organizing principle for set of basic administrative design dimensions; but that it is hard to satisfy *a*ll three value sets equally for any of those dimensions, and probably impossible to *do* so for all of them. Put simply, a central concern with *honesty* and the avoidance of policy distortion in public administration may have different design implications from a central concern with *frugality;* and a central concern with *resilience* also have different design implications. If NPM is a design for putting frugality at centre stage, it may at the limit be less capable of ensuring honesty and resilience public administration.

## Implications for New Public Management

The work of the ESRC's Management in Government Initiative has helped us to identify the specific forms that NPM took in the UK and to trace its history. But, many research initiatives, it has perhaps been more successful in prompting the critical questions rather than in answering them definitively. Two key questions particular seem to deserve more examination, in order to 'put NPM in its place' intellectually.

First, NPM can be understood as primarily an expression of sigma-type values. Its claims have lain mainly in the direction of cutting costs and doing more for less as a result of better-quality management and different structural design. Accordingly, one of the key tests of NPM's 'success' is whether and how it has delivered on that claim, in addition to succeeding in terms of rhetorical acceptance. We still have remarkably little independent evidence on this point, and work by Dunsire *et al.* (1988) has some path-breaking qualities in that it is a serious attempt to develop indicators of organizational structure and control systems in a way that helps us to understand how privatization and corporatization works. It offers tentative evidence for the proposition that a shift in management structures towards decreased command-orientation and increased 'results-orientation' is associated with improvements in productivity. But the results obtained so far are only indicative the study does not test fully for Hawthorne effects' or secular trends, and it has no control groups. We need much more work in this vein.

However, the critics' questioning of NPM's universality also offers a way of putting NPM in its place and involves crucial claims that need proper testing. Even if further research established that NPM was clearly associated with the pursuit of frugality, it remains to be fully investigated whether such successes are bought at the expense of guarantees of honesty and fair dealing and of security and resilience.

Broadly, NPM assumes a culture of public service honesty as given. Its recipes to some degree removed devices instituted to ensure honesty and neutrality in the public service in the past (fixed salaries, rules of procedure, permanence of tenure, restraints on the power of line management, clear lines of division between public and private sectors). The extent to which NPM is likely to induce corrosion in terms of such traditional values remains to be tested. The effects of NPM 'clones' diffused by public management 'consultocrats' and others into contexts where there is little 'capital base' of ingrained public service culture (as in many Third World countries and perhaps in Eastern Europe too) will be particularly interesting to observe. The consequences for 'theta-type' values are likely to be most visible, since the effects are likely to be quicker and more dramatic there than in countries like Australia and the UK which are still living off 'public service ethic' capital.[1] Equally, the extent to which NPM's precepts are compatible with 'safety engineering' in terms of 'safety cultures' deserves more analysis. NPM broadly assumes that public services can be divided into self-contained 'products', and that good public management requires de-emphasis of overarching externalities and emphasis on running services within given parameters. Whether the emphasis on cost-cutting contracting-out, compartment-alizing and top-slicing is compatible with safety culture at the front line needs to be tested. The new breed of organizationally create disasters over the past fifteen years or so, of which some dramatic examples have occurred in the UK, suggest that the issue at least needs investigation.

Only when we can test the limits of NPM in terms of relatively narrow *administrative* values can we start to establish its proper scope and put it in historical place.

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## Note

[1]I owe this idea to a suggestion by Dr. John Baker of John Baker and Associates.

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# 5

# The New Public Management Approach and Crisis States

George A. Larbi

**SUMMARY**

New public management (NPM), management techniques and practices drawn mainly from the private sector, is increasingly seen as a global phenomenon. NPM reforms shift the emphasis from traditional public administration to public management. Key elements include various forms of decentralizing management within public services (e.g., the creation of autonomous agencies and devolution of budgets and financial control), increasing use of markets and competition in the provision of public services (e.g., contracting out and other market-type mechanisms), and increasing emphasis on performance, outputs and customer orientation.

NPM reforms have been driven by a combination of economic, social, political and technological factors. A common feature of countries going down the NPM route has been the experience of economic and fiscal crises, which triggered the quest for efficiency and for ways to cut the cost of delivering public services. The crisis of the welfare state led to questions about the role and institutional character of the state. In the case of most developing countries, reforms in public administration and management have been driven more by external pressures and have taken place in the context of structural adjustment programmes. Other drivers of NPM-type reforms include the ascendancy of neoliberal ideas from the late 1970s, the development of information technology, and the growth and use of international management consultants as advisors on reforms. Additional factors, in the case of developing countries, include lending conditionalities and the increasing emphasis on good governance.

Until recently, NPM was largely seen as a developed country, particularly Anglo-Saxon, phenomenon. The 1990s have, however, seen applications of variants of NPM techniques and practices in some developing and transitional economies. Elements discussed in this paper include management decentralization within public services, downsizing, performance contracting, contracting out and user charges. These are being applied in crisis states, but not in a very comprehensive and consistent manner.

Downsizing and user fees have been most widely introduced, especially in Africa, and have been closely associated with structural adjustment programmes. Autonomous agencies within the public sector are being created in some countries. Examples include autonomous hospitals in Ghana, Zimbabwe and Sri Lanka, as well as the hiving-off of the customs and excise, and internal revenue departments to form executive agencies in Ghana and Uganda.

Performance contracting and contracting out have become common policy options in

a number of crisis states. The latter has been adopted as an instrument to reform state-owned enterprises (SOEs), granting SOE managers more operational freedom while holding them accountable for the performance of the enterprises through a system of rewards and sanctions. Performance contracts are used across a number of sectors including utilities, transport, telecommunications and agriculture (e.g., in Ghana, Bolivia, Senegal and India). Contracting out is increasingly being adopted in the delivery of public services including urban services (e.g., solid waste management), ancillary health services such as cleaning, laundry and catering (e.g., in Zimbabwe), and road maintenance.

While the adoption of these NPM practices seems to have been beneficial in some cases (e.g., cost savings in contracting out road maintenance in some African countries and in Brazil), there are both potential for and real limitations to applying some elements in crisis states. The limited experience of NPM in such states suggests that there are institutional and other problems whose persistence may be binding constraints on implementation. The capacity concerns include the ability to manage a network of contracts, the development of monitoring and reporting systems, and the difficult governance and institutional environment which may constrain implementation capacity.

While the new public management approach may not be a panacea for the problems of the public sector in crisis states, a careful and selective adaptation of some elements to selected sectors may be beneficial.

## 1. INTRODUCTION

For over two decades a wave of public sector management reforms has swept through developed, transitional and developing countries. The role and institutional character of the state and of the public sector have been under pressure to be more market-oriented and private sector-oriented, initially in developed countries and later in some developing countries in the context of International Monetary Fund/World Bank-supported structural adjustment programmes (SAPs). This has been a product of a number of factors, including the economic and fiscal crises of the state that called the post-war consensus on the active role of the state in the economy into serious question. In developed economies such as the United Kingdom, Canada and Australia, the crisis in the Keynesian welfare state led to the search for alternative ways of organizing and managing public services and redefining the role of the state to give more prominence to markets and competition, and to the private and voluntary sectors. In a similar vein, the economic and fiscal crisis that engulfed most developing countries in the 1970s and 1980s led to a rethinking of state-led development which had increased the size, functions and power of the state and its bureaucracy.

A survey by the Organisation for Economic Co-operation and Development concluded that new management techniques and practices involving market-type mechanisms associated with the private for-profit sector are being used to bring about changes in the management of public services in countries that have widely varying governance, economic and institutional environments (OECD, 1993a). These practices and techniques have conventionally been labelled the new public management (NPM) or the new managerialism (Hood, 1991; Dunleavy and Hood, 1994; Pollitt, 1993; Ferlie et al., 1996).

The components of NPM have evolved over the years. However, as Moore et al. (1994:13) point out, "The central feature of NPM is the attempt to introduce or simulate, within those sections of the public service that are not privatized, the performance incentives and the disciplines that exist in a market environment." The assumption is that there are benefits in terms of efficiency and effectiveness in exposing public sector activities to market pressures and in using markets to serve public purposes, and that government can learn from the private sector despite contextual differences (Metcalfe and Richards, 1990:155). Some observers have argued that there are convergent trends (Kickert and Beck Jørgensen, 1995:501) or "diffusion of reforms" (Halligan, 1997) or a "globalization" of public sector management (Flynn, 1997) as an increasing number of crisis and non-crisis states in Africa, Asia and Latin America are also embracing elements of the new public management approach. A noticeable trend in public sector reforms, in the context of economic crisis and structural adjustment, is that a wider range of administrative functions and the delivery of public services are being subjected to the approach (Bienefeld, 1990; Mukandala, 1992).

This paper will provide an overview of the evolution of NPM, its potential and limitations. The paper is structured as follows: section 2 reviews the combination of factors driving NPM reforms, drawing insights from both developed and developing countries. The third section outlines the key components of new public manage-ment, while section 4 discusses in detail selected new public management practices, highlighting issues of institutional constraints and capacity in their application. Section 5 outlines the limitations of the new public manage-ment approach, leading to a revival of interest in a capable state.

## 2. FACTORS DRIVING NEW PUBLIC MANAGEMENT REFORMS

In reviewing the factors driving NPM reforms, there is need to look beyond crisis states in developing countries to developed market economies where the "new public management revolution" started. This will provide useful insights and enable us to understand better the pressures for, and influences on, public sector management reform in crisis-ridden and adjusting economies. Public sector management reforms in crisis states cannot be disassociated from the international context and influences, particularly the involvement of international financial institutions, donor agencies and international manage-ment consultants and technical advisors.

*Insights from Developed Market Economies*

The large and growing literature on public sector management reforms in Western countries (e.g., Australia, Canada, New Zealand and the United Kingdom) has emphasized that changes in the economic, social, political, technological and administrative environments combined to prompt and drive radical changes in public administration and management systems (Zifcak, 1994; Greer, 1994; Mascarenhas, 1993; Lane, 1997; Kettl, 1997). The central objective of change was improvement in the ways in which government is managed and services delivered, with emphasis on efficiency, economy and effectiveness (Metcalfe and Richards, 1990). These factors will now be discussed briefly in turn.

*Economic and fiscal crises of the state*

One common feature of countries going down the NPM route is their concern about balance of payments, the size of public expenditure and the cost of providing public services (Greer, 1994; Zifcak, 1994; Mascarenhas, 1993; Walsh, 1995). The fiscal crisis in the United Kingdom, for example, led to an IMF intervention in the 1970s with a demand for financial reforms and some of the blame placed on the "unreformed" Whitehall (the civil service) (Caiden, 1991:19).

As the indicators of economic weakness became more significant and governments' fiscal crisis deepened, the active role of the state in the management of the economy and in the direct provision of services was seriously called into question in most Western countries (Zifcak, 1994; Boudiguel and Rouban, 1988; Dunsire and Hood, 1989). The Keynesian paradigm was confounded with stagflation, and this led to the ascendancy of the monetarist alternative. This paradigmatic shift[1] meant that the market economy was best left to correct itself without active governmental intervention.

Faced with fiscal crisis, and buttressed by a "counter-revolution in economic thinking" (Fry, 1985:5), most Western governments initiated measures not only to cut, but also to control public spending. As illustrated in the cases of the United Kingdom (Dunsire and Hood, 1989; Marsh and Rhodes, 1992; Greer, 1994; Stewart and Walsh, 1992; Clark and Newman, 1997), and Australia and New Zealand (Mascarenhas, 1993; Zifcak, 1994; Halligan, 1997), the fiscal crisis and the quest for efficiency and effectiveness were elaborated into a general crusade to reorganize and modernize public bureaucracies and thus moved public sector management reforms to the top of the political agenda.

*The influence of neoliberal ideas and criticisms of the old public administration*

By the late 1970s there was increasing criticism by the New Right/neoliberals of the size, cost and the role of government, and doubts about the capacity of governments to rectify economic problems. The Keynesian welfare state was seen as a monopoly provider of services and as fundamentally inefficient. There was also little regard for customers and results (Bereton, 1994). According to the neoliberal view it is only through market competition that economic efficiency can be achieved and the public offered free market choice (Bereton, 1994:14). In extolling the virtues of the market, Lindblom (1977), for example, argues that the market is an effective allocator of resources, an efficient co-ordinating mechanism, a rational decision-making process and, in addition, encourages resourcefulness and enterprise.

There is some consensus among writers on public sector management reforms (e.g., Flynn, 1993; Ferlie et al., 1996; Walsh, 1995; Pollitt, 1993), that the New Right critique of the welfare state, and of the public management based on it, was strongly influenced by the ideas of economic liberals such as Hayek (1973), and by public choice theorists such as Niskanen (1971), Buchanan (1975) and Mueller (1979).

According to Jordan (1995) public choice theory is one of the New Right's most effective weapons. The central criticism of public choice is that the reward system in the public sector does not promote effective performance and that politicians and bureaucrats have no incentives to control costs (Chapman, 1979). This often leads to waste of resources and an in-built tendency for expenditure to grow and for delivery to take precedence over productivity. In the absence of any automatic disciplining mechanism (i.e., market forces) government agencies oversupply collective goods because of budget maximization behaviour (Niskanen, 1971; 1973; Downs, 1967). This also permits rent-seeking behaviour (Tullock and Eller, 1994) by bureaucrats, their clients and politicians. There is concern about what Dixon et al. call ... 'opportunism' in traditional public administration. This refers to the 'self-serving' (rent-seeking), even deceitful and dishonest, behaviour by bureaucrats, their clients and politicians created either because environmental uncertainty makes contracts incomplete or because 'principals' cannot effectively monitor the behaviour of their 'agents', who do not have identical interests and who have information that is not accessible to them (Dixon et al., 1998:165).

A related problem is that in pursuing their own self-interest, bureaucrats promote the growth and expansion of governmental functions that then become oversupplied and over-extended. This then creates an ever-expanding bureaucracy that requires a hierarchical authority structure based on rational rules (Hayek, 1960). Over time, however, the capacity for top-down control diminishes as bureau-cratic expansion gets to a point where it becomes impossible to fully control or even co-ordinate large organizations, leading inevitably to bureaucratic failure (Downs, 1967; Breton and Wintrobe, 1975). According to Perl-man, the usual response to bureaucratic failure is "to create another bureau to oversee those who have lapsed into sin. Bureaux are piled on bureau and the bureaucracy grows on" (cited in Dixon et al., 1998:165-166).

Confronted with bureaucratic failures of old public administration, politicians (as principals) face the task of creating organizational arrange-ments (incentives, sanctions and monitoring) that minimize the costs of the undesirable behaviour of agents and of the activity undertaken to control it (Weimer and Vining, 1991:132). In addition, bureaucracy has harmful restraints that need to be removed in order to improve performance and encourage innovation (Chubb and Moe, 1990). There are too many rules limiting initiative, with the result that good people are trapped in bad systems (Osborne and Gaebler, 1992).

In the quest for efficiency and effectiveness in government, not only reforms were necessary: the adoption of private sector management techniques and practices was also advocated to deal with the problems of the old public administration, i.e., private sector solutions were sought for public sector problems. The anti-bureaucratic view of public choice theorists found an audience in the political leadership of Western countries looking for alternatives to resolve the crisis in the active and welfare state. As Flynn points out: ... ideas that questioned state intervention and reasserted the importance of market forces were clearly going to have a sympathetic hearing among politicians who were looking for reasons for curbing state intervention (1993:9).

Until the mid-1970s, these ideas had remained on the fringes of debate about the role of government and outside the mainstream of policy making. By the 1980s they moved to the centre stage of government thinking and collectively provided "a framework within which privatization, expenditure controls and the introduction of markets all hang together" (Flynn, 1993:12).

*Changes in political context*

Changes in the political and ideological context were powerful factors for reforms in some Western countries. For example, the New Right ideas found audience in the Conservative government that came to power in the United Kingdom in 1979, and in the three subsequent Conservative governments (Farnham and Horton, 1996; Greer, 1994). In analysing the United States case, Pollitt (1993) notes that Reagan's election in 1978 provided some impetus for market-oriented reforms in the public sector, which was already under pressure to reform. Similar changes in the political context took place in Australia (Zifcak, 1994; Marsh, 1994) and New Zealand, which both brought in pro-reform governments. However, in the case of New Zealand, it was a Labour government that embraced new management reforms in response to the pressures on the state to cut back expenditure and for public services to be more efficient.

Caiden (1991:4) notes that strategies to cut the size of the public sector were buttressed by "an ideological campaign to reverse the growing reliance on the administrative state and to get government off people's backs". Thus, the assertion of New Right ideology, political change and party programmes partly provided impetus for change in public sector management (Marsh and Rhodes, 1992). Development of information technology

The literature on public management reforms also points to the development and availability of information technology as providing the necessary tools and structures to make workable managerial reforms in the public sector (Greer, 1994). For example, refined information systems are pivotal to the principle of management decentral-ization through the creation of executive agencies. In order to decentralize and, at the same time, have greater accountability, it is important to have confidence in reported perfor-mance information (Greer, 1994).

*Growth and role of management consultants*
NPM reforms have also been "globalized" by change agents. These include large international management consultants, accountancy firms and international financial institutions, all of which have been instrumental in the increasing "importation" of new management techniques from the private into the public sector. They have played an important role in packaging, selling and implementing NPM techniques (Greer, 1994), as state agencies contemplating institutional change or strengthening often enlist the services of expert consultants to clarify available options—and recommend courses of action (Bevan, 1997).

From the above review one can conclude that a combination of factors coincided to produce a seemingly irresistible pressure for management reforms in the public services in developed market economies. Changes in the political context, buttressed by New Right ideas, and the search for efficiency and effectiveness in public services were key driving forces for change toward more market-oriented policies. If markets were to function well then there was the need to renew organizational and administrative rules and to modernize structures so that public administration institutions could assist the economy to be competitive.

In what follows it will be argued that this paradigmatic shift in the Western countries from the late 1970s was superimposed on crisis states in developing regions, particularly in countries that embarked on IMF/World Bank-supported structural adjustment programmes. This was necessitated by the severe economic and fiscal crises in these countries, and worsened by political and policy instability.

**Insights from Crisis and Adjusting Economies**

*Economic and fiscal crises*
As right-wing, Conservative govern-ments came to power in the United Kingdom and

the United States in the late 1970s, emphasis and strategy within the IMF and the World Bank shifted toward a more market-oriented philosophy. Both the Conservatives in the United Kingdom and the Republicans in the United States were seen as anti-public sector and pro-market (Christensen, 1988). There is little empirical evidence of the extent to which the shift in policy in the World Bank and the IMF was influenced by Western governments. However, the concurrent shift was to have a profound influence on the package of reforms that developing countries in crisis were to undertake in the 1980s and 1990s under the auspices of the two multilateral lending institutions.

The literature provides evidence that in many, if not the majority of, developing countries, economic crisis has been by far the most important factor driving the introduction of ambitious reforms in the public sector since the early 1980s (World Bank, 1997:151). In sub-Saharan Africa (SSA) economic and fiscal crises preceded economic reforms, which also triggered public sector management reforms. Many African and Latin American countries suffered from unsustainable external and domestic debts, deteriorating real terms of trade, increasing real interest rates on international financial markets, high inflation, low levels of savings and investment, and shortages of basic consumer goods (Cassen, 1994; World Bank, 1989; Krueger, 1993; Loxley, 1987). More recently, the economic and fiscal crises in the Asian "tiger economies" have promoted major reforms in the public sectors of countries such as Indonesia, Malaysia and South Korea. Most countries, especially in Africa, had debilitating underlying problems — severe institutional weaknesses, fiscal indiscipline and weak external competitiveness (Teriba, 1996).

In the above circumstances, many countries had been pushed to crisis by sudden outside disturbance, such as a deterioration in terms of trade (Schadler, 1996:14). By comparison with the context for change in developed market economies, many developing countries found themselves in much deeper and crippling economic and fiscal crises over which they had little or no control and for which governments were unable to come up with viable solutions of their own. In some countries in Africa (e.g., Uganda, Sierra Leone, Sudan, Somalia and Mozambique), the economic and fiscal crises were worsened by political and ethnic conflicts. With dwindling aid flows, mounting debts and rising interest rates, a number of countries turned to the IMF and the World Bank as lenders of last resort.

*Structural adjustment and conditionality*

Going first to the IMF and then to the World Bank meant accepting stabilization and structural adjustment packages with their accompanying conditionalities in order to obtain credits and debt rescheduling from creditor banks and multilateral lending institutions.[2] Policy-based lending by multilateral institutions was used as an instrument to encourage crisis states to embark on reforms that were pro-market and pro-private sector.[3] IMF and World Bank-supported stabilization and structural adjustment programmes, which were responses to the crises, provided both the context and the imperative for change in public sector management in most developing countries (Nunberg, 1990; Engberg-Pedersen et al., 1996; Havnevik, 1987), in transitional economies in eastern Europe and the former Soviet Union and, recently, in the newly industrialized countries (NICs) of Asia.

The commitment of SAPs to efficiency and growth was limited to a reduction of public deficits and re-orientation toward a "minimal state" by cutting down the size, expense and responsibilities of public sectors (Grindle, 1997:4). In line with neoliberal arguments, the roles of governments—their direct interven-tions in the economy and the performance of the state-owned enterprise (SOE) sector, plus the quality of economic management and policy making—were seen as the key sources of the problem. This view is in sharp contrast to the interventionist-modernizing perceptions of the role of the state in the 1950s and 1960s.

Reducing the size and role of government by allowing the private sector a greater share of economic activity was hailed as a new solution during the 1980s (Cassen, 1994; Engberg-Pedersen at al., 1996). It was judged that the private sector and its participation in the economy could not be expected to recover while key public sector institutions such as the civil service, state banks and SOEs remained unreformed (Harvey, 1996:130).

*Public administration and management context*

In crisis and adjusting economies, the failure of public administration institutions is believed to have triggered the crises of the late 1970s and early 1980s. Their reform was therefore widely thought to be critical to recovery and adjustment (Bienefeld, 1990; World Bank, 1989). Besides, administrative failure or incapacity was seen as a threat to the success and sustainability of adjustment.

Internally, policy deficiencies, bad and excessive management of the economy, large-scale institutionalized corruption, weak and demoralized public services, low productivity and political instability, all contributed to a worsening of the crises. Loss-making SOEs contributed significantly to budget deficits and thus to the fiscal crisis (World Bank, 1995; Adam, 1994). To illustrate, in the case of Ghana, there were 235 SOEs at the beginning of the Economic Recovery Programme (ERP) in 1983, most of which piled up considerable losses and hence made little contribution to state revenue. Government subventions to the SOE sector increased considerably from 1.1 billion cedis in 1982 to 7.35 billion in 1986 (Hutchful, 1996:182). By June 1987 18 key SOEs owed 40 billion cedis (about US$ 227.2 million) to the Ghanaian government and 5.2 billion cedis (about US$ 29.5 million) to each other (Boachie-Danquah, 1990:90).

The implementation of SAPs put pressure on most states in crisis to embark on complementary public administration and management reforms. There are three principal reasons for linking SAPs and public administration and management reforms. First, in the view of the World Bank and IMF the apparatus of government in many crisis states is far too extensive, intrusive, expensive and inefficient. There was a problem of "too much state" (Grindle, 1997). In particular, the size of public sector employment and the wage bill were considered too large; the wage bill constituted an increasingly high share of government expenditure at the expense of critical operating expenditure. With this as the basic assumption, the improvement of management in the public sector has given primary attention to reducing public deficits through reduction in the size of employment and the wage bill (ILO, 1995; Nunberg and Nellis, 1995; Adamolekun, l991; Lindauer and Nunberg, 1996). In practice, reducing budget deficits has meant reforming the tax system and the civil service, abolishing subsidies, and reforming or privatizing public enterprises.

The second reason for SAP-related public administration and management reforms has to do with the weak capacity of government and its administrative apparatus. This was reflected in "weak policy making, pervasive delays ... the deterioration of public infrastructure, the poor quality of public services, high transaction costs, and widespread corruption" (ILO, 1995:10; see also De Merode, 1991; De Merode and Thomas, 1996).

In other words, many countries were faced with the dilemma of having "too much state" and "too little state" at the same time, and "the reality that these large and intrusive public sectors often showed little effective capacity to formulate policy, implement it, and perform routine administrative functions" (Grindle, 1997:3). Reforms were necessary to restore capacity and promote effectiveness and efficiency (Bienefeld, 1990; Nunberg, 1990; Paul, 1990), and to search for ways in which public administration systems could be made adequate to the task of recovery and adjustment (Wamalwa, 1991; Balogun and Mutahaba, 1991).

While the earlier wave of reforms in the 1980s responded to the problems created by "too much state", they paid little attention to the problems of "too little state". As Grindle has noted: Only after a decade of experimentation with reducing government did economic reformers become explicit about the importance of strengthening government by infusing it with the capacity to be efficient, effective, and responsive, and with the capacity not only to manage macroeconomic policy, but also to regulate some forms of market behaviour (1997:4). From the late 1980s, public sector management reforms became integral parts of structural adjustment loans (SALs), often with companion technical assistance loans (TALs) to provide institutional support (Nunberg, 1990).

The third reason for linking SAPs to public administration and management reforms is the fact that most public economic and social services were poorly managed and their infrastructure had suffered serious decay due to years of neglect and lack of funds for maintenance. As a result of these deficiencies, there was inefficient delivery of a wide range of social (e.g., education and health) and economic (e.g., water and electricity) services which were heavily subsidized by the state. In addition there was resistance to applying commercial and financial discipline to a large number of SOEs. The reform of these public services therefore became imperative under SAPs in order to improve their performance (Shirley and Xu, 1997) and to apply cost recovery measures.

Thus, economic and fiscal crisis and the subsequent adoption of SAPs called for a radical rethinking of the role of the state in the economy and how to restructure policy, planning and implementation institutions. Although the objectives of SAP- related public administration and management reforms are not entirely new, what is new is "the urgency with which reforms are being addressed" and the increased belief among multilateral and bilateral agencies that effectiveness ". . . must — and can — be primarily achieved by allowing an ever wider range of administrative functions to be subjected to competitive market pressures, either directly or by proxy in some way" (Bienefeld, 1990:19).

The underlying philosophy is similar to that of developed market economies. Just as the economy must open itself up to competition, public service organizations must also lend themselves to the discipline of the market.

*The political context for reforms*

Unlike the context in developed countries, the political environment in some developing countries (especially in Africa) in the 1970s and 1980s was marked by political instability and policy inaction. In countries such as Ghana, Malawi, Zambia and Zimbabwe, the orientation of the political leadership was not particularly pro-market or pro-private sector; in some cases it was directly the opposite. This partly explains why needed economic reforms were delayed until things got out of hand. Once the economic situation reached a crisis point and there were no immediate alternative solutions, some political leaders (e.g., in Ghana) were ready to take the risk of reform along lines prescribed by multilateral lending institutions. Thus for most crisis states, the political environment did not enable the leadership to take independent initiatives for market-oriented public sector management reforms. As Corkery et al. (1995) have noted in the case of Africa, even when reforms were introduced it was the externally driven and supported SAPs which were the main catalyst for the introduction of public sector management reforms. This partly explains he lack of public ownership of adjustment and weak government commitment to reforms.

*Good Governance and Public Sector Management Reforms*

From the late 1980s[4] the debate on good governance and its requirements also provided an impetus for new approaches to public sector management reforms. Good public management and administration with emphasis on accountability and responsiveness to customer needs has been seen as an aspect of good governance by donor agencies (e.g., United Kingdom's ODA and USAID) supporting reforms in developing countries (Turner and Hulme, 1997; Polidano and Hulme, 1997:1-2; Lamb, 1994; Bangura and Gibbon, 1992). To the World Bank, good governance consists of a public service that is efficient, a judicial system that is reliable, and an administration that is accountable to the public (World Bank, 1989; see also Stowe, 1992). The Bank argues that "underlying the litany of Africa's development problems is a crisis of governance" (World Bank, 1989:60). In a later formulation, the World Bank (1992) elaborates on four elements of good governance:

- public sector management emphasizing the need for effective financial and human resource management through improved budgeting, accounting and reporting, and rooting out inefficiency particularly in public enterprises;
- accountability in public services, including effective accounting, auditing and decentralization, and generally making public officials responsible for their actions and responsive to consumers;
- a predictable legal framework with rules known in advance; a reliable and independent judiciary and law enforcement mechanisms; and
- availability of information and transparency in order to enhance policy analysis, promote public debate and reduce the risk of corruption.

It is apparent from the above conception of "good governance" that there is some emphasis on improving public sector management systems. "Good governance" and "new managerialism" are presented as twin outcomes (Minogue et al., 1997). Variants of NPM prescriptions come in handy for donors keen to promote efficiency and accountability and improve performance in public services in crisis states. Good governance, it is argued, cannot be achieved without efficient and effective public administration and management systems and, equally, public administration and management systems may be ineffective and inefficient in an environment of poor governance characterized by lack of basic freedoms, lack of respect for rule of law, and autocratic, idiosyncratic and unpredictable leadership (Hopkinson, 1992:20-21; Gillies, 1996). Good governance requirements include not only accountability to the public, but also creating an enabling environment for private enterprise and efficient SOEs (Chalker, 1993).

In the late 1980s major Western donors began to link good governance to their aid policies. To illustrate, the former United Kingdom Foreign Secretary, Douglas Hurd, stated that: ... countries tending towards pluralism, public accountability, respect for the rule of law, human rights and market principles should be encouraged. Governments which persist with repressive policies, corrupt management and with wasteful and discredited economic systems should not expect us to support their folly with scarce aid resources which could better be used elsewhere (cited in Hopkinson, 1992:34).

Thus, in the good governance prescriptions one finds public management reform as a key component (Stoker, 1996; Lamb, 1994).

*The influence of international experiences*

The wind of change toward market reforms and political pluralism that was sweeping across most of the Western world in the 1980s, and the collapse of communism, sent important messages to most developing countries in crisis that they should also reform. The radical market-oriented reform of the Thatcher era in the United Kingdom had not gone unnoticed in other countries and, as Kickert and Verhaak (1995) have noted, had become an "export article". For most adjusting economies, the process of "learning" from the developed countries' experiences was facilitated by the use of international management consultants under donor- sponsored technical assistance loans.[5] As noted above, these management consultants have been partly responsible for packaging and selling variants of the NPM in crisis states. Thus the language of the new public management such as "value for money", "doing more with less" and the "consumer as customer", has begun to have influence on public sector management reforms in crisis states.

Table 1 summarizes the preceding section in a comparative perspective, highlighting the different incentives for change in both developed and developing countries. It is apparent that economic and fiscal crises were common driving forces for reform in both developed and developing countries, but the depth and nature of crises differed in the context of adjusting economies. For most adjusting economies, reforms were driven more by external pressure and less by internal political leadership and ideology. The factors driving reforms were, in particular, structural adjustment lending conditions, which pointed toward market and private sector approaches to public sector management under the guise of new public management. The next section outlines the key components of NPM.

## 3. RESPONDING TO PRESSURES: NEW PUBLIC MANAGEMENT TRENDS

The key finding of a report on how governments throughout the Common-wealth have responded to environ-mental pressures and crisis affecting the public

**Table 1: Summary of incentives for public management reforms in developed and developing countries**

| Developed market economies | Crisis and adjusting economies |
|---|---|
| Economic and fiscal crises in the 70s and 80s | Economic and fiscal crises of greater magnitude, plus increasing debt burden in the 70s and 80s |
| Quest for efficiency and effectiveness in public services | IMF/World Bank-supported structural adjustment lending conditions; efforts to reduce public deficits and redress balance of payments problems |
| Ascendancy of "New Right"/neoliberal ideas in policy making in the 70s and 80s; belief in markets and competition and minimal role for the state | Structural adjustment and economic liberalization policies in the 80s and 90s; efforts to reduce size and role of government |
| Change in political context — coming into power of Conservative governments, e.g., in the United Kingdom and United States in the late 70s through the 80s | Political and policy instability; failure of public administration institutions and the need to reform them and build their capacity; collapse of communism and central planning Good governance requirements and its link to public administration and management reform; donor pressures |
| Development of information technology to facilitate and support change | Learning from the experiences of developed countries; the demonstration effects of reforms in the United Kingdom and other developed market economies; policy transfer |
| Growth and role of a network of international management consultants who believe in the tenets of NPM | Technical assistance and the influence of international management consultants as advisors on reforms |

*Source: Larbi, 1998a*

sector notes that: ... despite the diversity of the Commonwealth countries there was a common pattern in their responses. So strong is this common pattern that it could be labelled a new paradigm in public administration (Borins,1994:3).

Three OECD countries—the United Kingdom, Australia and New Zealand — have become leaders in implementing this new paradigm, starting with different political perspectives and responding in their turn to crises. The new paradigm is referred to in the literature as new public management and this terminology is maintained in this paper.

*Conceptualizing the Ne w Public Management*
New public management has become convenient shorthand for a set of broadly similar administrative doctrines which dominated the public administration reform agenda of most OECD countries from the late 1970s (Hood, 1991; Pollitt, 1993; Ridley, 1996). It captures most of the structural, organizational and managerial changes taking place in the public services of these countries. To quote Pollitt, NPM has variously been defined "as a vision, an ideology or (more prosaically) a bundle of particular management approaches and techniques (many of them borrowed from the private for-profit sector)" (1994:1). NPM is thus seen as a body of managerial thought (Ferlie et al., 1996:9) or as an ideological thought system based on ideas generated in the private sector and imported into the public sector (Hood, 1991, 1995).

NPM shifts the emphasis from traditional public administration to public management (Lane, 1994). As the title of Clarke and Newman's (1997) book, The Managerial State, reflects, NPM is pushing the state toward managerialism. The traditional model of organization and delivery of public services, based on the principles of bureaucratic hierarchy, planning, centralization, direct control and self-sufficiency, is apparently being replaced by a market-based public service management (Stewart and Walsh, 1992; Walsh, 1995; Flynn, 1993), or "enterprise culture" (Mascarenhas, 1993).

A review of the literature suggests that NPM is not a homogenous whole but rather has several, sometimes overlapping, elements representing trends in public management reforms in OECD countries. Its components and features have been identified by a number of writers, including Hood (1991, 1995), Dunleavy and Hood (1994), Ferlie et al. (1996), Flynn (1993); Pollitt (1993, 1994); Pollitt and Summa (1997) and Borins (1994). As noted above, the doctrinal components of NPM have been expanded upon and have evolved over the past decade. For example, the core ideas of the United Kingdom's Citizens Charter initiative, launched in 1991, added a consumerist dimension to public management (Talbot, 1994). Moreover, different aspects of NPM have been stressed by different commentators.

Table 2 summarizes the conceptions of NPM held by some of the key writers on the subject. It is apparent that there are several parallels and overlaps, but also important differences in the way NPM is perceived. It is worth noting, for example, that Hood's original conception of NPM did not explicitly feature the issue of consumers' rights. The Citizen's Charter brought the issue of consumers to prominence and has since become a key feature of most NPM discussions. Osborne and Gaebler's approach also contains some important differences in emphasis from the general NPM approach, and especially from the more ideological politics associated with it. Unlike the ideologically driven NPM underpinned by the "public bad — private good" ethos in the United Kingdom (Talbot, 1994:11), Osborne and Gaebler assert their belief in government. They also assert that privatization is not the only, or often the most appropriate, solution and that in some cases, bureaucracies work better (e.g., in social security). Beyond these differences, there is much in common with the different views on NPM.

Table 3 draws together what may be regarded as the key components of NPM. A look at the components suggests that the ideas and themes may be put in two broad strands.

**Table 2: Conceptions of new public management by different authors**

| Conceptions of new public management by different authors | | | | |
|---|---|---|---|---|
| **Hood, 1991; Dunleavy and Hood, 1994** | **Pollitt, 1993 and 1994** | **Ferlie et al., 1996** | **Borins, 1994; Commonwealth 1996** | **Osborne and Gaebler, 1992** |
| hands-on professional management | decentralizing management authority *within* public services | decentralization; organizational unbundling; new forms of corporate governance; move to board of directors mode | increased autonomy, particularly from central agency controls | decentralized government: promoting more flexible, less layered forms of organization |
| shift to disaggregation of units into quasi-contractual or quasi-market forms | breaking up traditional monolithic bureaucracies into separate agencies | split between strategic core and large operational periphery | | catalytic government: steering not rowing |
| shift to greater competition and mixed provision, contracting relationship in the public sector; opening up provider roles to competition | introducing market and quasi-market type mechanisms to foster competition | elaborate and develop quasi- markets as mechanisms for allocating resources within the public sector | receptiveness to competition and an openminded attitude about which public activities should be performed by the public sector as opposed to the private sector | competition within public services: may be intra-public or with a variety of alternative providers |
| stress on private sector styles of management practice | clearer separation between purchaser and provider function | split between public funding and independent service provision | creating synergy between the public and private sectors | driven by mission not rules |
| greater emphasis on output controls | stress on quality, responsiveness to customers | stress on provider responsiveness to consumers; major concern with service quality | providing high-quality services that citizens value; service users as customers | customer-driven |
| explicit standards and measures of performance | performance targets for managers | more transparent methods to review performance | organizations and individuals measured and rewarded on the performance targets met | result-oriented government: funding outputs not inputs |
| stress on greater discipline and parsimony in resource use; reworking budgets to be transparent in accounting terms | Capping / fixed budgets | strong concern with value-for- money and efficiency gains | provision of human and technological resources that managers need to meet their performance targets | enterprising government: earning not spending |
| | changing employment relations | downsizing | | market- oriented government: leveraging change through the market |
| | | deregulation of the labour market | | anticipatory government: prevention rather than cure |

*Source: Larbi, 1998a.*

## Table 3: Key components of new public management

| Key components of new public management | | | |
|---|---|---|---|
| **Emphasis** | **NPM component** | **Meaning** | **Typical justification** |
| Managerialism | hands-on professional manage-ment in the public sector | active, visible, discretionary control of organizations from named persons at the top,"free to manage" | accountability requires the clear assignment of responsibility foraction, not diffusion of power |
| Managerialism | explicit standards and measures of performance | definition of goals, targets, indicators of success, preferably expressed in quantitative terms and to which managers would be required to work | accountability requires clear statement of goals; efficiency requires "hard look at objectives" |
| Managerialism | capping or hard budgets | make budgets more transparent in accounting terms with costs attributed to outputs rather than inputs — output-oriented budgeting | making managers more aware not merely of the current costs of operations but also the cost of capital employed (e.g., by means of accrual accounting) |
| Managerialism | greater emphasis on *output controls* | resource allocation and rewards linked to measured performance; break up of centralized bureaucracy- wide personnel management; performance agreements | need to stress results rather than procedures |
| Managerialism | emphasis on greater discipline and parsi-mony in resource use | cut direct costs, raise labour discipline, resist union demands, limit "compliance costs" to business, downsize | need to check resource demands of the public sector and do "more with less" |
| Managerialism | new forms of corporate governance | move to board of directors model; shift power to the strategic apex of the organization | empowerment of management, reduces influence of elected representatives and trade unions |
| Managerialism | shift to disaggregation of units in the public sector | break up formerly "monolithic" traditional bureaucracies into corporatized units or separate agencies operating on decentralized "on-line" budgets and relating with one another and with the centre on an "arms'-length" basis | need to create"manageable" units, separate policy core from operation units |
| Managerialism | decentralizing management authority | replace traditional "tall hierarchies" with flatter structures formed and reformed around specific processes (e.g., issuing licenses) rather than traditional functions (e.g., personnel, finance) | need more quickly responding and flexible structures closer to point of service delivery; freedomto manage |
| Managerialism | organizational development and learning; explicit attempt to secure cultural change | radical decentralization with performance judged by results; explicit attempts to manage cultural change combining top-down and bottom-up processes, use of mission statements and more assertive and strategic human resource function | need for excellence in government |
| managerialism/ markets and competition | purchaser/ provider split | clear separation (organizational and financial) between defining the need for and paying for public services, and actually providing those services | concern for a much smaller public service; gain efficiency advantages of the use of contract or franchise |

| | | | |
|---|---|---|---|
| markets and competition | shift to greater competition in the public sector — market and quasi-market type mechanisms | move to contracting and public tendering procedures to stimulate competition between service-providing agencies | arrangements inside as well as outside the public sector |
| markets and competition | stress on private sector styles of management practice | move away from military style "public service ethic", greater flexibility in hiring and rewards; greater use of public relations techniques | rivalry as the key to promote cost savings, efficiency, user-responsiveness and better standards |
| markets and competition | customer orientation; emphasis on quality | make public services more responsive to the wishes of their users | need to use "proven" private sector management tools in the public sector increasing customer"voice" and accountability in service provision |
| markets and competition | changing employment relations | put increasing number of public service staff on contracts that are term-limited (not permanent), performance-related and locally rather than nationally determined | need to improve performance while reducing the burden of large public sector wage bill; making employment more competitive |

*Source: Larbi 1998a*

On the one hand are ideas and themes that emphasize managerial improvement and organizational restructuring, i.e., managerialism in the public sector — these clusters of ideas tend to emphasize management devolution or decentralization within public services. On the other hand are ideas and themes that emphasize markets and competition. It should be pointed out, however, that these categories overlap in practice. They should therefore be seen as a continuum ranging from more managerialism at one end (e.g., decentralization and hands-on professional management) to more marketization and competition at the other (e.g., contracting out).

As Hood (1991) has noted, the two broad orientations of NPM are explained by the marriage of two different streams of ideas (see also Mellon, 1993). The first stresses business-type "managerialism" in the public sector and freedom to manage, and comes from the tradition of the scientific management movement (Hood, 1991:6-7; Ferlie et al., 1996:11). This neo-Taylorist movement (Pollitt, 1993) was driven by the search for efficiency and, according to Hood: ... generated a set of administrative doctrines based on the ideas of professional management expertise as portable, ... paramount over technical expertise, requiring high discretionary power to achieve results ... and central and indispensable to better organizational performance, through the development of appropriate cultures . . and the active measurement and adjustment of organizational outputs (1991:6).

As Dixon et al. (1998:170) argue: "the managerialists seek to shift public agencies from an allegiance to the bureaucratic (hierarchy and control) paradigm to an acceptance of a post-bureaucratic (innovation and support) paradigm" (see also Barzealay, 1992; Odom et al., 1990).

The second strand of NPM derives from the "new institutional economics" movement, which has its theoretical foundation in public choice, transaction cost and principal-agent theories. These generated public sector reform themes based on ideas of market, competition, contracting, transparency and emphasis on incentive structures (cf. Williamson, 1975 and 1985) as a way of giving more "choice" and "voice" to service users and promoting efficiency in public service delivery.

As was pointed out in the previous section, the proponents of NPM see the Weberian bureaucratic model as rigid, rule-bound, slow moving bureaucracies that are costly, inefficient and unresponsive to their users. Public services were provider-dominated, especially in the case of profession-alized provision (e.g., education and health care) where powerful, autonomous professions defended vested interests and could not be held to account (Pollitt, 1994; Day and Klein, 1987). In contrast, NPM was presented as providing a future for smaller, fast- moving service delivery organizations that would be kept lean by the pressures of competition and that would need to be user-responsive and outcome-oriented in order to survive.

These organizations would be expected to develop flatter internal structures (i.e., fewer layers) and devolve operational authority to front-line managers. With a downsized staff, many on performance-related rolling contracts, many services would be contracted out instead of assuming that in-house provision is best. Professional dominance and demarcation in staffing would be minimized to allow for the substitution of more cost-effective mixes of staff.

In short, NPM advocates argue that the dividing line between public and private sectors will diminish or be blurred and the same good management practices will be found in both sectors. As Turner and Hulme (1997:232) have pointed out, the proponents of the NPM paradigm have been successful in marketing its key features and "persuading potential patients of its curative powers", some-times backing up their claims with empirical evidence of substantial savings in public expenditure and improved services (see, e.g., Miranda, 1994a, 1994b). As noted earlier, for adjusting and crisis states the NPM prescriptions have tended to be applied through powerful international donor agencies and the World Bank. What has been the experience of NPM in practice? The next section explores this question, using selected NPM practices that represent the managerialist and marketization trends in the new public management approach to reforms. These include management decentrali-zation, contracting and user fees/charges.

## 4. NEW PUBLIC MANAGEMENT: SELECTED APPLICATIONS

*Decentralizing Management*

Decentralizing management, disaggregating and downsizing of public services are strands of NPM derived from "managerialism" (Mellon, 1993; Hood, 1991; Ferlie et al., 1996). The trend toward decentralized manage-ment in public services is part of the effort to "debureaucratize" the public services (Ingraham, 1996:255) as well as "delayer" the hierarchies within them. The key concern here is "whether managers are free to manage their units in order to achieve the most efficient output" (Mellon, 1993:26; see also Hood, 1991:5-6). This aspect of NPM has taken several forms, which are outlined here.

*Breaking up monolithic bureaucracies into agencies*

There are several related elements of management decentralization which one can distil from the NPM literature. The first and the key trend is that traditionally huge and monolithic public bureaucracies are downsizing, contracting out functions and breaking up internally into more autonomous business units or executive agencies (Pollitt, 1994; Pollitt and Summa, 1997; Kanter, 1989). This involves a split between a small strategic policy core and large operational arms of government with increased managerial autonomy (Phippard, 1994; Greer, 1994). Agencies are then required to conduct their relations with each other and with the central departments on a contractual basis rather than through the traditional hierarchy, i.e., they relate on an arms'-length basis. In practice, executive agencies have meant structural changes in the organization of government. In principle, these agencies have greater managerial flexibility in allocation of human resources in return for greater accountability for results. As Jervis and Richards have argued, the executive agency idea was born out of: ... the desire to remove the framework of governance for public services from the arena of contested democratic politics. Placing public services at arms' length from politicians was intended to give managers sufficient space to get on with management, within the broad framework laid for the public service (1995:10-11).

Among OECD countries, the United Kingdom, Australia and New Zealand provide some of the best examples of executive agencies. In the United Kingdom, for example, the total number of civil servants working in agencies amounted to about 66 per cent in 108 agencies (including executive units of Customs and Excise and of the Inland Revenue) in 1995 and are expected to increase to about 90 per cent (Priestley, 1996). In New Zealand activities that are considered economic or commercial are being separated from administrative or regulatory ones in large multipurpose ministries to form public enterprises (OECD, 1993b). These agencies are headed by managers on fixed-term contracts with considerable autonomy, including the right to hire and fire (World Bank, 1997:87). Jamaica has recently selected 11 pilot agencies for conversion into executive agencies. In Ghana and Uganda, the Customs and Excise, and Internal Revenue Departments were hived- off from the civil service to form separate agencies in the 1980s. The rationale, like that of executive agencies elsewhere, was to separate executive functions from policy making, free them from civil service rules and conditions and offer them better incentives linked to performance (Larbi, 1995).

A common trend in health sector reforms in a number of developing countries is the decentralization of service provision to arms' length or semi-autonomous hospitals as in Sri Lanka (Russell and Attanayake, 1997) and Ghana (Larbi, 1998b, 1998c). Werna (1996) reports similar trends in Venezuela. The introduction of autonomous hospitals is usually accompanied by the creation of independent hospital management boards (Bennett et al., 1995; World Bank, 1993). According to Barnum and Kutzin (1993) the principal reasons for targeting large hospitals for reform are that they consume a high proportion of the national health budget and are often the inefficient parts of the public health system. More specifically, as McPake (cited in Bennett et al., 1995) notes, the trend toward autonomous hospitals is driven, *inter alia*, by the following policy objectives:

- improve efficiency by separating the purchaser (Ministry of Health) role from the provider (the hospital) role, thereby freeing the provider from the traditional bureaucratic and hierarchical structures based on command and control;

- improve responsiveness to users' needs and preferences through market- based incentives (e.g., user fees) and increasing accountability and participation at middle and lower levels, by removing decision making from the central bureaucracy to front-line managers and by including public representatives on independent management boards;

- reduce *the financial and managerial burden of big hospitals*, which are expected to develop alternative sources of finance to reduce the burden they impose on the budget of the Ministry of Health.

The development of executive agencies has been logically accompanied by *delegation of authority to senior management* in public agencies — giving top management freedom to manage with clear responsibility and accountability, and reducing the management role of the centre.

*Devolving budgets and financial control*
This is the second element of decentralized management and an important complement to the creation of executive agencies. This may take the form of creating budget centres or spending units. Devolving budgets and financial control involves giving managers increased control over budgets for which they are held responsible (Kaul, 1997; Walsh, 1995). This usually goes with the setting of explicit targets for decentralized units. For example, according to Flynn (1993:111), the British public expenditure planning process, in 1993, incorporated 2,500 performance and output measures in addition to the traditional approach of deciding how much money should be allocated to each function. Singapore has recently started a process of devolution of financial management as a prelude to creating autonomous agencies. From 1996, ministries and departments were assigned operating budgets based on target outputs, where outputs are quantifiable and measurable (Guan, 1997). Ghana has recently embarked on a public financial management programme that involves elements of financial decentralization (Larbi, 1998a).

*Organizational unbundling*
This is the third element of management decentralization. It involves delayering of vertically integrated organizations, i.e., replacing traditional "tall hierarchies" with flatter and more responsive structures formed around specific processes, such as paying of benefits as in the United Kingdom (Ferlie et al., 1996; Pollitt, 1994).

*Downsizing*
The fourth element of decentralized management is downsizing, i.e., rationalizing and trimming the public sector in order to achieve "leaner" (smaller or compact) and "meaner" (cost-effective) public service. This has taken different forms, such as hiving-off operational arms of government to form autonomous agencies and sub-contracting government activities to private providers. However, in crisis states, the most dominant form of downsizing has been retrenchment of staff in state agencies.

Downsizing arises from the concern for the size and cost of public sector employment. There was rapid expansion of civil service employment in the period up to the early 1980s in developing countries (about 10 per cent a year in some African countries). This was a reflection of the high degree of government intervention in the economy, as well as practices such as guaranteeing employment to new graduates, and the use of employment for political patronage. The consequent overburdening wage bill not only contributed to the growing fiscal crisis and budget deficits, but also depressed real wages and maintenance and capital budgets.

Like in the private sector, governments around the world have responded to crisis by putting explicit limits on the size and cost of the public sector. A number of crisis states (e.g., Uganda and Ghana in Africa, and Thailand and Bangladesh in Asia) have had to retrench surplus numbers of civil servants over the past decade (Nunberg and Nellis, 1995). In practice, this has involved drastic reduction in staff size at both higher and lower tiers of public organizations to make them more affordable and to bring them into line with a new, scaled-down role for government in economic activities. In many crisis states in Africa, retrenchment of staff has been the main tool for downsizing. Uganda and Ghana, for example, have experienced massive cuts in the size of their civil services, in the case of the former by almost half, and the latter by almost 40 per cent since 1987. The Zimbabwe civil service has also been cut by about 12 per cent (23,000 out of 192,000) since the commencement of its civil service reform in 1991 (Makumbe, 1997:21), and the size of the Gambia civil service has also been cut (De Merode and Thomas, 1996). Over 30 sub-Saharan African countries have managed to reduce their average nominal wage bill from over 7 per cent of GDP in 1986 to just under 6 per cent in 1996, following massive downsizing.

Downsizing the public services in crisis states has not, however, led to expected budget savings which could be used to improve the salary and incentives of those who remain. This was because of the high cost of compensating those retrenched. It must be added that delays in paying compensation and the poor management of retraining and redeployment programmes created enormous hardships for those retrenched, most of whom joined the ranks of the unemployed (Larbi, 1995). Furthermore, quantitative reductions in employment did not lead to qualitative improvement in services. This is because the initial wave of reforms did not pay much attention to staff morale, capacity building and other efficiency and productivity improvement measures.

*Separating production and provision functions*

The fifth dimension of decentralized management is the divorce of provision from production of public services. This separation of provision from production implies making a clearer distinction (organizational and financial) between defining the need for and paying for public services (the indirect provider role) and actually producing those services (the direct provider role). This is clearly seen in the reform of the United Kingdom National Health Service (NHS) where autonomous hospitals (NHS Trusts) "produce" services for which the District Health Authorities provide finance by "purchasing" the services (Lacey, 1997).

*New forms of corporate governance and the board of directors model*

The sixth and final dimension of management decentralization is the adoption of new forms of corporate governance and a move to a board of directors model in the public services. This entails reducing the power of elected representatives and minimizing the influence of labour unions on management. This has been a noticeable phenomenon in the United Kingdom (Ferlie et al., 1996) and is being adopted in other countries, such as Ghana.

The benefits expected and the objectives of management decentralization may vary from one organizational context to another.[6] However, the economic and administrative cases for management decentralization rest on bringing service delivery closer to consumers, improving the central government's responsiveness to public demands, improving the efficiency and quality of public services, and empowering lower units to feel more involved and in control (Mahamba, 1991; Smith, 1985:30-37). It is also meant to reduce overload and congestion at the centre and speed up operational decision making and implementation by minimizing the bottlenecks associated with over-centralization of powers and functions at just one or two points in the hierarchy of a public service organization or ministry. Thus management decentralization seeks to increase the operational autonomy of line managers and agencies, leaving only broad policy guidelines to be worked out at the centre. It also entails flatter internal hierarchies.

**Problems and Capacity Issues in Decentralizing Management**

The application of management decentralization as an element of NPM in varying contexts and in different forms suggests that there are some institutional constraints with implications for the capacity of central agencies to manage the process in both crisis and non-crisis states.

Drawing on the experience of the United Kingdom, Walsh (1995) has pointed out some of the constraints on the management of reforms in the public services, with particular reference to financial devolution under the Financial Management Initiative (FMI). These include the following:

- *resistance* from different levels of the civil service to the FMI and the treasury's reluctance to reduce centralized control;
- concern about the erosion of the traditional concept of the civil service as a unified body, and resistance from people who would like to preserve the traditional approaches; increased discretion of the line manager was seen as a challenge to the traditional dominance of the policy stream within the civil service;
- inadequacy of available technical syst-ems, e.g., accounting information systems; the FMI was "constrained by the relative failure of performance indicators which were subject to manipulation by managers" (Walsh, 1995:170);
- the FMI left the *structure of control relat-ively unchanged*, reflecting the difficulty of making funda-mental changes in existing structures.

The United Kingdom experience with management devolution shows that *unless devolved management and control involve a substantial change in power structure, devolution of control by itself will only have limited impact.* As Walsh (1995) points out, there is the risk that autonomy would be subverted or eroded by ministers and top bureaucrats at the centre. "These limitations are always likely to occur when the devolution of control takes place within organizational frameworks that are still strongly hierarchical" (Walsh, 1995:178). Financial devolution within a framework of central control will tend to encourage local managers to remain oriented to the senior controllers of the organization, rather than outward to users. Highlighting a key institutional constraint in decentralizing management in the form of executive agencies, Walsh adds that:

> Departmental arrangements have not always changed to represent the quasi-contractual relationship between the minister and the head of the agency. Formal organizational change has not been matched by deeper change in the institutional character of the service (1995:188, emphasis added).

He goes on to argue that:

> The development of executive agencies in central government has, so far, had limited effect because it has not been accompanied by significant changes in the financial regime that operates within the civil service. The service is still dominated by an institutional framework that assumes central control, uniformity, and traditional concepts of financial control.
>
> . . but the experience of other agencies and other countries suggests that without attention to fundamental institutional issues traditional approaches will tend to reassert themselves (1995:191, emphasis added).

A recent study of reforms in Zimbabwe's health sector also notes that the governance and institutional contexts pose severe constraints in decentralizing management (Russell et al., 1997). These include unreformed institutions, such as centralized public service commission regulations and treasury expenditure controls—all of which prevent managers of decentralized units from having control over operational inputs. Similar observations have been made concerning health sector reforms in Sri Lanka (Russell and Attanayake, 1997) and Ghana (Larbi, 1998b, 1998c). In general, there is reluctance in most central control agencies in crisis states to devolve budgets and financial control partly for fears about financial accountability and partly because of the stringent regime of expenditure controls associated with the introduction of structural adjustment programmes. As I have noted, "A paradox of structural adjustment is that it generates simultaneous demands for strict fiscal control, especially over employment cost, and decentralization" (1998b:382). In the case of Ghana, devolved units have no control over hiring and firing and related salary budget partly because of government concerns about the size and cost of the public service, and partly because of a culture of centralization in the bureaucracy. Decentralized units therefore tend to have no incentive to economize on payroll costs because any resulting savings cannot be retained or transferred to other items of expenditure (Larbi, 1998b).

*The implications of decentralized management for capacity*

Walsh (1995) points out some capacity implications of management decentralization, including:

- the capacity to develop monitoring and inspection procedures to check whether managers and devolved units are achieving their targets and working within defined strategies, as well as setting and monitoring performance;

- the capacity to develop an information system that would provide appropriate intelligence for managers at all levels, to develop a budgetary control system for administrative costs, and to develop performance indicators and measurements. In the United Kingdom experience, the FMI exposed the inadequacy of traditional information and control systems for management purposes;

- the capacity to manage relations between departments and a network of non-departmental bodies through which services are delivered. The capacity to manage programme expenditure efficiently and effectively depends on capacity to manage the inter-organizational networks through which services are delivered;

- the capaci*ty to co-ordinate the activities of devolved units* to ensure harmonization and improve accountability.

The above capacity issues apply to crisis states where capacity weaknesses may be more acute. Management decentralization not only requires relaxing controls over inputs but also setting up monitoring systems. The experience of developing countries suggests that the introduction of executive agencies requires the existence of a credible system for monitoring before relaxing controls over finance and inputs. Where these controls are weak, or undeveloped and arbitrary, behaviour cannot be checked; introducing greater managerial flexibility may only increase arbitrary and corrupt behaviour (World Bank, 1997:20; Nunberg, 1995). In Ghana audit reports on the accounts of decentralized (sub-national) units of government have shown gross abuses linked to the lack of an effective system of monitoring and accountability (Ayee, 1997). The problem of capacity is thus not only limited to central agencies but is even more acute at the level of decentralized agencies. Planning, budgeting and management systems within decentralized units are often weak, while financial and human resources at these levels are often lacking (Larbi, 1998b:384).

## PERFORMANCE CONTRACTING

Another key trend in the new public management approach in crisis states is the increasing resort to performance contracting[7] as an instrument to reform state- owned enterprises. A performance contract is defined here as a written or negotiated agreement between government or its representative agency and the management of public enterprises and other autonomous units directly delivering public services, or between government and private managers of state assets, wherein quantifiable targets are explicitly specified for a given period and performance is measured against targets at the end of the period (World Bank, 1995:171). As part of the performance-orientation in government, the common purposes of performance contracting are to clarify the objectives of service organizations and their relationship with government, and to facilitate performance evaluation based on results instead of conformity with bureaucratic rules and regulations (Mallon, 1994; Islam, 1993).

### *Performance Contracting and Reforms in Public Enterprises*

An examination of the new public management trends suggests that performance monitoring is emerging as a common policy issue (Mayne and Zapico-Goñi, 1997; Shirley and Xu, 1997). Performance contracting is central to this trend, especially in crisis states that are undergoing structural adjustment programmes. SAPs in particular have given attention to the problems of SOEs, especially loss-making ones that continuously require government subsidies to survive and are thus a significant burden on national budgets and a drain of scarce resources (World Bank, 1995). Two (not mutually exclusive) strategies have been used to address the problems of SOEs —

divestiture or complete privatization, and restructuring without change of ownership (Mallon, 1994).

While the divestiture of relatively small and purely commercial public enterprises seems to be relatively easy, a recent review of experience in some countries suggests that for large, strategic SOEs performing both policy and commercial functions, divestiture or privatization is proving more difficult and slow (World Bank, 1995). There has been more rhetoric than action.

Four explanations emerge from the literature for the slow progress in divestiture (see Mallon, 1994; Islam, 1993; World Bank, 1995). First, for large and "strategic" SOEs (e.g., railways, water and electricity) there are usually formidable political obstacles to divestiture, including opposition by powerful labour unions and other key stakeholders. Second, political wrangling over enabling legislation, in the case of open democratic systems, may be very intense and prolonged over several years. Third, large SOEs, particularly utilities, tend to enjoy non-competitive market power derived from natural monopoly rights, especially in small countries, due to either economies of scale or artificial barriers to competition, in some cases both. Fourth, in crisis states where regulatory capacities are weak or undeveloped, divestiture is not an easy option for reforming large and politically sensitive public enterprises.

The implication of the above difficulties is that divestiture may not lead to real competition. But without competition, private ownership *per se* is not likely to lead to improvement in performance and efficiency. To prevent exploitation of monopoly rights and mitigate other forms of market failure arising from market imperfections, governments are obliged to intervene either by owning the enterprise or regulating private ownership. The alternative to divestiture is to restructure the SOEs such that management becomes more accountable for performance.

Managing the interface between government and SOEs has tended to be problematic in developing countries, reflecting the difficulty of balancing control and autonomy.[8] Excessive controls and frequent political interventions and policy instability are some of the institutional problems of SOEs cited in the literature (see Shirley, 1989; Fernandes, 1986). In a review of SOE reforms in Asia and Africa, Islam notes that the proliferation of institutions of control leading to "the problem of plural principals giving direction to a single agent" were common in the 1970s and early 1980s (1993:134). He also notes that stifling controls by government and its agencies tended to be over routine activities of SOEs while, at the same time, there was lack of control of the more important aspects of their activities. This consequently led to a serious lack of managerial autonomy in day-to-day matters, but practically no accountability for results.

In line with the new institutionalist perspective in public sector management reforms, as reflected in agency and public choice theories, and in the policy prescriptions based on them, performance contracting between governments and SOEs is increasingly being applied as an instrument for restructuring SOEs and for managing the government-SOE interface. Underlying performance contracting, and in line with NPM, is the belief that while granting SOE management operational autonomy, there is need to hold it accountable for performance. This illustrates the shift of emphasis from input and procedure-oriented controls of the past to the new paradigm of output or result-oriented controls.[9] The underlying assumption is that SOEs can be made more efficient by changing the "rules of the game", i.e., the conditions and incentives under which they operate.

Though contractual relationships have been implicit between government and SOE management, the current trend is to make such contracts more explicit by formally spelling out the obligations of management and government in written performance contracts. The World Bank has been instrumental in the introduction of performance contracting in a number of developing countries. According to Shirley (1989) this has been done by using structural adjustment loans, sectoral adjustment loans (SECALs) and technical assistance loans, which usually have SOE reform components as conditions. In addition, separate public enterprise reform loans (PELs) have been negotiated with some countries.

Between 1978 and 1988, 11 African countries adopted performance contracting under World Bank programmes (Shirley, 1989) — all, except Ghana, in francophone Africa. Since 1988 more countries have introduced performance contracting, including 93 performance contracts in various stages of implementation in 14 African countries outside the Bank's programmes, almost all in francophone countries (Nellis, 1989).[10] A recent study by the World Bank also identified 385 such contracts in 28 countries, 136 of them in Africa. These were across sectors ranging from agriculture and extractive industries to transport, telecommunications and utilities (World Bank, 1995).

*Institutional Capacity and Constraints in Performance Contracting*

Previous studies on performance contracting suggest that implemen-tation has been problematic. The main reason, as pointed out by Mallon, is that "performance contracts, like so many previous public management and control systems (e.g., performance budgeting), have often been adopted as panaceas, as if simply entering into a contract would solve the problems" (1994:927). In practice, a number of critical institutional preconditions need to be present to enable performance contracting to work as expected (Mallon, 1994; Shirley and Xu, 1997; World Bank, 1995). These preconditions, drawn from the cited studies, include:

- the need for governments (as principals) to explicitly state their objectives, prioritize them and translate into performance improvement targets;
- the need for principals or governments to have a "hard budget" in place in order to minimize or even eliminate ad hoc subsidies and financial bail- outs of agencies;
- the need for principals to credibly signal their commitment to the contract, e.g., by prompt payment of bills (in the case of utilities) and not reneging on other commitments;
- the delegation of meaningful autonomy to senior managers. This has been proble-matic in some cases partly because of the reluctance of central controlling agencies to let go their controls over finance and personnel, and partly due to political interference. However, if managers are to be held accountable for results, they must be free from blatant political patronage and from pervasive external interference in operational matters;

- reliable and functional managerial information systems in place to enable manage-ment by results. The availability and quality of information and how this is managed is a key capacity issue in applying performance contracts;

- the monitoring of performance contracts. There is therefore the need for effective and competent monitoring agency with skilled personnel. Monitoring also requires independent auditing by qualified managerial experts and account-ants; a syst*em of rewarding or penali-zing managers* according to their performance needs to be in place and must be seen to be working.

The studies by Shirley and Xu (1997), Mallon (1994) and the World Bank (1995) suggest that most of the above conditions fail to materialize in the context of developing countries. For example, where the appointment of managers is based on patronage, rather than merit, it may be difficult to penalize poor performance, which may be excused or tolerated rather than sanctioned. In reviewing the experience of Bolivia in performance contracting, Mallon notes that *vulnerability to politicization* was a major problem for implementation. Also, the *autonomy of the technical staff* that monitored performance contracting was compromized due to inability to resist interference (1994).

Studies by Ayee (1994) and the present author (1998a) on performance contracting in Ghana suggest that one of the main constraints was government reneging on its commitments. In India, Islam (1993) and Trevedi (1990) have noted *extensive control by multiple agencies* as one of the constraints on capacity to implement performance contracting in public enterprises. According to Islam, this may be linked to a *low degree of cultural acceptance of the manager's right to take decisions*. Also, a *high degree of environmental uncertainty and complexity* (e.g., an inflationary situation) does not lend itself to a neatly divided set of targets and obligations set down in contract documents (Islam, 1993:144). The assumptions under which targets are set can quickly change in an unstable situation and undermine achievements. Shirley and Xu's study of 12 written performance contracts with monopoly public enterprises in six developing countries[11] found that information asymmetry, lack of government commitment and lack of managerial commitment led to weak incentives and shirking by agents.

The review of performance contracting suggests that its successful implementation requires certain preconditions. There are capacity issues ranging from autonomy of managers, through an effective management information system, to a well staffed and equipped monitoring agency.

*Contracting Out*

As part of the efforts reconfigure state-market relations in order to give more prominence to markets and the private sector, contracting out of the provision of public services is increasingly advocated in crisis states. Contracting out refers to the out-sourcing or buying in of goods and services (e.g., information technology and management services) from external sources instead of providing such services in-house (Walsh, 1995; OECD, 1993a). It involves legal agreement, but this is for the supply of goods or the provision of services by other actors. Contracting may be between a public organization and a private sector firm or between one public organization and another or, as in competitive tendering in the United Kingdom, between management and an internal work force who bid to

**Table 4: Types of contracting arrangements**

| Ownership | Management | Staffing | Description |
|---|---|---|---|
| | | | **Types of contracting arrangements** |
| public | private | public | management contract (e.g., hiring a private firm to manage a water utility) |
| public | private | private | management and operations contract (e.g., hiring a private firm to run a hospital, using its own staff; or private firm leasing laundry or catering equipment) |
| public | public | private | operations contract (e.g., hiring temporary clerical staff) |
| private | public | public | equipment and facility leasing (e.g., public leases privately owned buses) |
| private | private | public | government-paid workers assigned to a private firm (e.g., employment or training programme) |

*Source: Adapted from Savas (1987, 1989).*

provide such services in-house (Paddon, 1993; Sneath, 1993). The responsibility of the public organization is to specify what is wanted and let the private or voluntary sector provide it.

Contracting out represents more explicit efforts to emulate the market in the management and delivery of public services, especially where outright privatization, i.e., change of ownership, has not been possible. The rationale for contracting out is to stimulate competition between service-providing agencies in the belief that competition will promote cost-saving, efficiency, flexibility and responsiveness in the delivery of services (Savas, 1989). It also reduces the areas of discretionary behaviour for individuals and groups in an organization and imposes discipline that results in improved performance (Israel, 1987:97). Thus, as Metcalfe and Richards (1990) have pointed out, contracting out puts competitive market forces directly at the service of government.

Contracting out is regarded as the most common market-type mechanism (MTM) (Walsh, 1995), and it is the best documented of the MTMs (OECD, 1993a). While contracting out is not fundamentally new to the public sector, there have been considerable efforts, in recent years, to extend the scope of its application to a wider range of public organizations and activities than before in both developed and developing countries. In the United Kingdom, for example, the "Competing for Quality" (Market Testing) Initiative (1991) required agencies to open up many of their functions to competition from the private sector or other public sector contractors. In sub-Saharan African countries undergoing structural adjustment, policy prescriptions have included outright privatization, contracting out, deregulation to allow private sector participation, decontrol of prices and liberalization of trade.

Contracting out may take several forms based on the public-private divide (see Savas, 1987, 1989).[12] Table 4 summarizes some of the possible forms of contracting out based on functions encountered in the production of goods and services (e.g., ownership, management and staffing). Contracting out may take the form of management contracts where government transfers to private providers the responsibility for managing an operation such as a water utility, railway or hospital—i.e., buying in management. Under this arrangement, assets are retained by the government, but the responsibility for managing and operating these assets is contracted out to a private firm. This would increase the autonomy of management and minimize the risk of political interference in the day-to-day operations of the public organization (World Bank, 1994).

Although contracting out is not new to management in government, what is new is the extension of the practice to activities that have traditionally been carried out by in-house bureaucratic arrangements, including various activities within public health and water services. Under Ghana's ongoing Civil Service Performance Improvement Programme (CSPIP), various activities carried out by the bureaucracy are expected to be subjected to "market testing" (OHCS, 1995) while private sector participation in the provision and management of urban water supply is underway, although there is some resistance from the local labour union (Larbi, 1998a). In Zimbabwe, non-clinical health services such as cleaning, laundry, catering, security, maintenance and billing are contracted out, while clinical services are contracted out on a limited scale (Russell et. al., 1997; Bennett et al.,1995). Zimbabwe is also embarking on widespread contracting out of municipal services, partly on the initiative of the central government in response to its Economic Structural Adjustment Programme (Batley, 1996:726).

Best practices in contracting out suggest that where outputs are easily specified but direct competition is impossible, competition managed through various forms of contracting out can yield benefits. In Brazil, for example, the World Bank notes that contracting out road maintenance to private contractors led to 25 per cent savings over the use of government employees (World Bank, 1997:88). In Malaysia, the leasing of Port Kelang to a private firm increased operational efficiency, while a similar arrangement for urban water supply in Guinea is said to have increased technical efficiency of water supply (World Bank, 1997).

According to another World Bank report, the poor execution of infrastructure projects by governments led to considerations of leaving them to the private sector in 10 African countries. Managerial autonomy of the operators enabled them to run efficient, impartial and transparent operations free from political pressures. This enabled them to complete projects largely on schedule, with cost overruns of only 1.2 per cent of the portfolio compared to average cost overruns of 15 per cent in the case of public procurement. They also regularly obtained unit prices of 5 to 40 per cent lower than those obtained by the government through official bidding (World Bank, 1994). Another form of contracting out is service contracting. This transfers to private providers the responsibility for both managing and delivering a specific service (e.g., cleaning), using their own staff. Other forms of contracting out are leasing, which could be either the public sector renting or leasing a private sector asset or vice versa; and operations contracting (e.g., hiring temporary clerical staff).

*Contracting Out and Reforms in Public Services in Crisis States*

Under SAPs, contracting out and other MTMs are being applied to new activities in developing countries. It must be restated here that the case for reforms in adjusting economies rests mainly on neoliberal economic theory and cannot be dissociated from the paradigm shift in Western industrialized countries. The broad policy prescriptions under SAPs have, in practice, entailed privatization, deregulation and decontrol of prices, and liberalization of trade. Similar to trends in Western industrialized countries, public enterprises that have not been sold for strategic and other reasons, plus other areas of government activities, are being compelled to open their doors to enable private sector organizations to compete with them. There is a noticeable emergence of new non-governmental providers of public services, and public-private partner-ships in service provision are becoming common in activities such as curative health (Mills, 1995; Bennett and Ngalande-Banda, 1994), local security (Centre for Development Research, Denmark, 1995), solid waste management (Batley, 1996) and urban water supply (Nickson, 1997).

The opening up of hitherto public monopolies for participation by and competition with the private sector is clearly illustrated by the breaking up of the monopoly power of agricultural marketing and inputs supply boards, such as the Ghana Cocoa Board (Shepherd and Onumah, 1997) and its equivalent in Côte d'Ivoire. In both cases the private sector has been allowed to compete with the marketing organizations with regard to domestic purchasing. Government, however, still retains control over exports in both countries (Lensink, 1996).

*Institutional Constraints and Capacity Issues in Contracting Out*

While contracting out is becoming popular in the public services of crisis states, there is need to exercise caution in its application. First, successful contracting out assumes that there is the existence of an efficient market and private sector capacity to undertake activities to be contracted out. This is not always the case in some developing countries and for some services where both markets and government capacity are weak, as was found to be the case in Ghana's health sector where an attempt was made to contract out auxiliary services in hospitals.

Second, the prevalence of patronage systems and other institutional weaknesses may undermine the benefits to be derived from contracting out policies. Contracting out in developing countries may be more prone to corruption and mismanage-ment, in as much as contracts are within the public sector. In such circumstances contracting out may be economically inefficient and wasteful. The institutional context of a country, therefore, needs to be taken into consideration in extending contracting out to new areas.

Third, there is no guarantee that the private sector under competitive contracting will perform better than the public sector. The evidence on the efficiency of contracting out is mixed (Batley, 1996) and has been challenged by recent studies (cf. Boyne, 1997). Indeed, the World Bank advises that: "Contracting out, setting up performance-based agencies, and ensuring formal accountability for results are not viable options for many services in countries with weak capacities" (1997:91). This is particularly acute in services like health and education—and, to some extent, in water—whose operators interact daily with the people they serve, are geographically dispersed, have substantial discretion, and produce outputs that are difficult to monitor and are not subject to competitive pressure. For such services the risk of market failure is high. Incentives for hard work, regular monitoring and supervision, greater clarity of purpose and task may boost incentives to improve performance in these areas.

Fourth, there are some services which could be at great risk if contracted out, either because they are essential to the core business of the organization or because they are of strategic importance. The protection of privacy could be at risk (as in social security and tax systems) or there could be a risk of loss of control and over-dependency on the outside agency (OECD, 1993a).

Fifth, another possible barrier to successful contracting out is the fear that in-house staff may lose their positions and competence, becoming demotivated and resisting change. There is also the problem of managing the selection of suppliers.

While the above are constraints on capacity to contract out and manage contracts, there are more explicit capacity issues that have to be considered. First, on the managerial capacity implications of contracting out, one would agree with Metcalfe and Richards that no matter what area of activity is contracted out, "the transfer of responsibility for supply does not absolve government from managerial responsibility" (1990:167). Government would still retain the responsibility for planning and financing, and deciding what should be provided and at what cost, as well as laying down the "rules of the game". In general, greater use of contracting out must be accompanied by *effective regulatory and monitoring capacity*. For most crisis states this is not always easy to achieve and is even more daunting in the case of social services, such as health and education. Regulating and monitoring a large number of small-scale providers is usually beyond government capacity in crisis states.

The second capacity issue is that in contracting out the government becomes a customer. Like all rational customers government would have the responsibility for evaluating the product, deciding whether it meets stated standards, and determining how to ensure satisfactory contract performance, i.e., government should have the capacity to manage contracts. Third, another management respons-ibility with implications for capacity is the availability and analysis of comparative data about public and private performance to assist evaluation, which could then form the basis for a review of the policy of contracting out a particular activity.

It is apparent from the above that contracting out imposes managerial responsibilities on the government or its administrative agencies for planning, financing, monitoring, regulating and evaluating contracts. These roles may not require a large workforce operating on civil service terms and conditions of employment, which in-house provision would require. However, they certainly do require more high-level and highly trained management and technical personnel than crisis states can often afford. As contracting out becomes more widespread in public sector organizations in developing countries, the difficulty of managing a network of contracts and subcontracts becomes more apparent. The expected improvement of performance in contracting out will depend, first, on the appropriate choice of form of contract, and then on effective management of contractual relation-ships (Metcalfe and Richards, 1990). It is possible that many of the managerial problems that contracting out is supposed to eliminate or minimize through sloughing off the employment relationship would recur in an inter- organizational context in contract management, and these may be more acute in developing countries, as I have demonstrated in the case of Ghana (1998a). At the same time the implications of contracting out for the cost (price) of public services, for access to these services and for public reaction to possible price increases may be cause for concern in politically sensitive services, such as health and water.

*Cost Recovery: User Fees/Charges*
Short of outright privatization, one of the major developments in the provision of public services under adjustment programmes has been the introduction of user fees or charges. This is part of the cost recovery measures and efforts to share the cost of publicly financed services with users, usually introduced as a condition for sectoral adjustment loans (World Bank, 1994).

Charges to consumers for public utilities, such as water and electricity, have increased in recent years in a number of developing countries. Before reforms in the 1980s, social services, such as public education and public health care, in most developing countries were based on free access, financed from direct support via the budget. Even when fees were charged, these were minimal. In recent years, however, social services have seen the introduction of user charges in both developed and developing countries. For example, fees have been introduced at different levels of education in Ghana, Uganda, Malawi, Kenya and other countries implementing structural adjustment programmes.

Although user fees and charges are not new, what is new is their widespread application, and their significant increase in cases where they were already in use. These policies assumed increasing importance in developing countries, especially in Africa, in the 1980s as governments faced slower economic growth and rising deficits that made public expenditure levels unsustainable (Adams and Hartnett, 1996). User fees therefore represent attempts to diversify financing for public services and reshape public spending. Where financial management and control are decentralized, the retention of user fees by hospitals will reduce dependence on the central ministry of health and this in turn will enhance managerial autonomy.

Bennett et al. (1995) and a World Bank survey in 1995[13] (Shaw and Griffin cited in Adams and Hartnett, 1996) provide evidence to show that, in comparison to other developing regions, user fee reforms have been most extensive in sub-Saharan Africa. This is because the gap between resources and health needs, and the influence of international donors, have perhaps been greatest in Africa (Bennet et al., 1995:22).

The need to raise additional revenue to supplement government revenue in the face of increasing demand for services is the key rationale for the introduction of user fees or charges (Bennett et al., 1995). However, cost recovery does not only place emphasis on raising funds, but also on preventing over-use of services by consumers by making the latter more cost-conscious. It is also meant to make providers more efficient by improving quality (Adams and Hartnett, 1996:7). The assumption here is that since users are paying for the service, they will only use it when they really need it and will insist on better value for money. This is part of the move toward a market-orientation in the provision of public services.

*Institutional Constraints and Capacity Issues in Cost Sharing*
In introducing user fees, most governments, backed by donors, hoped that greater cost sharing would help the poor because it would mobilize more resources from better-off groups. These could then be used to improve services for the poorer groups (Adams and Hartnett, 1996). Implementing such a policy required setting up exemption systems, such as safety nets for the poor. There is some evidence, however, that the introduction of user fees has made access

to social services more difficult for the poor, at least in the initial years of the scheme. This is because exemption systems and safety nets have not been effective (Nolan and Turbat, 1995). Consequently, the introduction of charges in some countries led to a drop in hospital attendance. To illustrate, a study by Waddington and Enyimayew in Ghana (1989, 1990) showed a sharp decline in hospital attendance following the introduction of user fees in 1985.

Part of the problem has been that planning for new or higher fees has frequently outstripped preparation and implementation of exemptions or safety nets. Although good administ-rative and management practices are key to successful cost sharing, experience shows that, in developing countries, management and accounting capabilities have been inadequate to support cost recovery programmes.

The lack of information about incomes, especially for large numbers of people in the informal sector, on which to base exemption decisions has also been a major obstacle. This often results in the use of discretion by front-line managers as to who gets exemption. The system is subjective and unreliable. Consequently, it has not been possible, in most cases, to design user fees that would fall mainly on services consumed by the non-poor. Enforcing user fees has also sometimes been problematic and politically sensitive. Loopholes in accounting and auditing systems have, in some cases, contributed to illegal fees and overcharging by hospital staff.

Given the above constraints, cost recovery accounts for less than 10 per cent of current expenditure on health in most developing countries (Donaldson and Gerard,1993:9; Nolan and Turbat, 1995). It should be noted, however, that in some countries (e.g., Benin and Guinea) user fees in health care have consistently contributed between 30 and 45 per cent of the operating costs of health centers (Shaw and Griffin cited in Adams and Hartnett, 1996:22).

To summarize, it is apparent that charging for services, although not entirely new, is becoming widespread in developing countries. Introducing and implementing the policy of user fees has not, however, been without its share of problems. The key problem is the lack of effective exemption systems for the poor, which is also linked to weak administrative and management systems. Improving and strengthening capabilities in these areas would be crucial to making cost recovery work better in developing countries.

## 5. LIMITATIONS OF THE NEW PUBLIC MANAGEMENT APPROACH AND REVIVAL OF THE STATE

The preceding section has presented some evidence on the application of specific new public management practices, highlighting not just their benefits but also issues of institutional constraints and capacity in their application. Apart from the above, the optimism of NPM advocates is countered by critics who argue that NPM has produced some disagreeable consequences. In fact, the evidence of superior efficiency claimed by NPM advocates has been questioned in recent years on methodological grounds (Boyne, 1997). A study of contracting and other forms of competition and private provision of public services in six developing countries by Batley concludes that: "The presumption that involving the private sector makes for higher levels of performance is given only partial support" by the evidence (1996:748).

Le Grand and Barlett (1993) have pointed out that quality in service provision may fall as aspirational professional standards are increasingly replaced by minimalist, economizing managerial standards. With too much emphasis on cost reduction, NPM may encourage the pursuit of efficiency in flawed policies with short-term gains, undermining the capacity of the state to take a long-term perspective on issues such as education, technology, health and the environment. These are issues that need to be considered in seeking to transfer NPM to crisis states.

Dunleavy and Hood (1994) note concerns among traditional bureaucrats or "hierarchists" about the potential destabilizing effects of NPM if the processes of change should get out of control, become unmanageable and do irreversible damage to the provision of public services. For developing countries, but not for the World Bank and donor agencies, the price to be paid for such policy mistakes may be great in terms of threats to political stability and loss of economic well- being. In the United Kingdom, one of the leading exemplars in NPM applications the internal market in the NHS has been criticized as concentrating too many resources on management and paperwork rather than on front-line service provision. This is illustrated by the almost fourfold increase in the number of managers in the NHS between 1991 and 1994, with administration absorbing 10.5 per cent of all NHS costs in 1994, compared to 6 per cent before the reforms (Lacey, 1997:153). Overall, public sector managers are seen as a gaining group (Pollitt, 1993; 1994) in the managerial emphasis in reforms.

In lamenting the collapse of the welfare state, critics of NPM also point to increasing inequality, as market-type mechanisms produce "market niche-seeking" behaviour by public service providers (e.g., primary care doctors seeking to avoid those socio-economic groups most prone to illness; "good" secondary schools biasing their entry procedures toward the children of parents of higher socio-economic groups) (Pollitt, 1994). Thus the cultural and organizational change in social provision, expressed in the concepts of markets and individualism, may arguably create conditions of social exclusion (Mackintosh, 1997). Such reforms may therefore harm most those in need of state provision and welfare safety-nets: the poor and the vulnerable

The above egalitarian critique of NPM (Dunleavy and Hood, 1994) notes that it may promote self-interest and corruption as policy makers and senior bureaucrats opt for privatization and contracting out because of increased opportunities for rent-seeking and other forms of misdemeanour. Critics also argue that NPM has led to falling ethical standards in public life with increasing incidence of greed, favour-itism or conflicting interests. For developing countries, where patronage systems are more prevalent and accountability mechanisms are weak, the adoption of NPM may lead to more abuses and arbitrary use of discretion (e.g., in contracting).

There are also complaints about loss of public and traditional channels of local accountability as functions are fragmented among numerous agencies and many are privatized or contracted out to profit-seeking commercial firms (Dunleavy and Hood, 1994; Bogdanor cited in Ferlie et al., 1996). Fragmentation makes accountability and monitoring more difficult. Finally, there is a risk of huge increases in transaction costs as governments and other purchasers struggle to monitor contracts across an increasing and varied number of provider organiza-tions, and new QUANGOs have to be set up to regulate market-type mechanisms.[14]

In practice, as Pollitt (1994) has noted, NPM techniques may work better in some contexts than others. The public service sector covers a wide variety of activities, some of which have high technological content (e.g., tele-communications) and others low; some are person-centred (e.g., health and education) and some not; some competitive, some very hard to remould into a competitive format. It is important to bear these differences in mind, because they increase or decrease the chances of NPM being a "good fit" in crisis states.

Clarke and Newman have also argued that NPM "is often portrayed as a global phenomenon — a core element in the process of convergence between states, overriding distinct political and cultural characteristics" (1997:ix). Given the different and difficult circumstances of reforms in adjusting economies and the potential risks mentioned above, it is doubtful whether a universalistic and "evangelical" approach to NPM is a tenable option. Even in developed countries such as the United Kingdom, experience suggests that change toward NPM "has not been smooth and linear, but uneven and contested" and that social actors are not shaped unambiguously by large-scale trends or forces for change (Clarke and Newman, 1997:x).

The above criticisms of NPM and concerns about social cohesion, equity and stability have revived interest in the active role of the state in some aspects of development. The debate is now about how to revitalize the state to enable it perform its role effectively. As the United Kingdom's Secretary of State for International Development has noted, the main focus of development policy, the elimination of poverty, could only be achieved "through strong and effective states", and that "the era of complete enmity to the public sector in general and to State provision in particular is coming to an end" (cited in Minogue et al., 1997).

Refocusing on the "effective state" is given prominence in the 1997 World Development Report, The State in a Changing World, which marks a significant shift in thinking about the state and its role in development: the need to factor the state back into development. There is now some recognition by the Bank that reforming the public sector the NPM way does not lend itself to clear, unambiguous solutions; NPM is not a panacea for all problems in the public sector.

The enthusiasm for neoliberal policies and NPM practices that characterized most of the 1980s and early 1990s is now tempered with caution and, in some cases, rejection of the more extreme forms of the NPM approach. There is recognition that imposing one template of reform on all, irrespective of context, is unwise and unimplementable, and may even breed conflict and undermine stability. The way forward is to make the state work better, not to dismantle it. The Bank suggests two strategies. The first is to match the state's role to its capability; the earlier mistake was that the state tried to do too much with few resources and limited capacity.

The second approach is to strengthen the capability of the state by reinvigorating public administration institutions to enable them to perform their enabling, regulating, monitoring and co-ordinating roles. This will entail creating effective rules and restraints, encouraging greater competition in service provision, applying measures to monitor performance gains, and achieving a more responsive mix of central and local governance by steering policies in the direction of greater decentralization (World Bank, 1997).

## 6. CONCLUSION

This paper has provided an overview of the evolution of the NPM approach, the combination of factors driving change, and the potentials and limitations of NPM. The paper has shown that variants of the new public management approach are being introduced in some crisis and developing states, following trends in advanced market economies. While the adoption of these NPM practices seems to have been beneficial in some cases (e.g., cost savings in contracting out road maintenance), the paper has also shown that there are both potential for and real constraints to applying elements of NPM in crisis states. The implementation of NPM raises capacity questions even for non-crisis states with mature public administration systems. The limited experience of NPM in crisis states suggests that there are institutional and other problems whose persistence may be binding constraints on the application of NPM.

It is apparent from the factors driving change that the context or conditions for introducing NPM-type reforms in crisis states may be different from those of developed countries. Public sector management reforms in crisis states tend to be externally driven by donor conditions and bound by donor timetables. The comprehensive nature of reforms and the penchant for quick results usually fail to take account of existing institutional and management capacities. This may overstretch and overload the administrative and management capacities, both of reforming and implementing agencies and of their political supporters. Comprehensive short-term reforms may also have a shocking effect not only on the public administrative system but on political stability in countries where recently elected democratic governments are trying to consolidate and where the political environment may still be volatile.

NPM-type reforms in crisis states seem to be based on a common framework with those in developed countries and seem to follow a "blueprint" rather than a process or contingent approach. Yet countries differ widely in terms of their institutional conditions and their capacity to implement public sector management reforms based on NPM principles and practices. There is a need to give attention to questions of *how* to implement rather than just *what* to implement (Larbi, 1998a). For some time now, too much attention has focused on the policy content of reforms without adequate attention to appropriate arrangements for implementation (Brinkerhoff, 1996a: 1393; 1996b), partly due to the dominance of external agencies in the design of reform packages and the consequent lack of local ownership and commitment to reform.

The present writer, like Turner and Hulme (1997:235) and Caiden (1994), takes the view that the argument about NPM's application to crisis states should not be about whether it is right or wrong, good or bad. There is a need to take context into account. The application of NPM in crisis states needs to be contingent upon whether or not prevailing contexts or conditions are suitable. It may be that some NPM components are more suitable in certain contexts than others. For example, in countries with high levels of corruption and patronage a key question will be whether NPM will help reduce this—or whether NPM will permit malfeasance at higher levels than were previously possible. That is, would NPM solve the problems of old public administration or would it create new, more intractable problems? In other contexts, it may be advisable to consider whether aspects of NPM will enhance or undermine political stability.

While the new public management approach may not be a panacea for the problems of public sector management in crisis states, a careful and selective adaptation of some elements to selected sectors may be beneficial. Implementation needs to be sensitive to operational reality.

## Notes

[1] The term paradigm, as defined by Kuhn, means the "entire constellation of beliefs, values, techniques and so on shared by members of a given community" (cited in Massey, 1997:3). Rondinelli (1995:232) defines a paradigm shift as "a change in the conceptual framework that allows large numbers of people to perceive problems and opportunities in very different ways than they had done in the past or to conceive of responses to problems and opportunities in a new context".

[2] A conceptual distinction may be made between "stabilization" and "structural adjustment" even though the two are closely linked in practice. The former is generally associated with the IMF and concerned with short-term measures to improve macroeconomic balance and stability — i.e., measures to eliminate disequilibrium between aggregate demand and supply, which manifests itself in balance of payments deficits and rising prices. Structural adjustment is dominated by the World Bank and consists of comprehensive medium- to long-term measures to increase economic growth. Stabilization is usually seen as precondition for adjustment. In practice the IMF and the World Bank impose overlapping conditions, so the distinction breaks down.

[3] Structural adjustment lending was introduced in early 1980 in the immediate aftermath of the second oil price shock in July 1979, which triggered a deterioration of the external economic circumstances confronting most developing countries throughout the 1980s.

[4] It should be noted here that it was only after the collapse of communism and the end of the Cold War that issues of good governance became prominent on the reform agenda. Major donors and international development agencies reviewed their aid policies, requiring recipient countries to introduce political liberalization and restructure the framework for governance.

[5] Examples of international management consultancy firms with worldwide operations include PricewaterhouseCoopers (United Kingdom-based), and Public Administration Service (United States-based).

[6] For a discussion of the benefits of decentralization see Rondinelli (1981) and Smith (1985:18-30).

[7] Different terms are used in different countries for performance contracting. In India the term "memorandum of understanding" is used (Trevedi, 1990). In Senegal the term "contract plan" is used, while in Pakistan "signalling system" is used (Islam, 1993). Bolivia (Mallon, 1994) and Ghana (Ayee, 1994; Larbi, 1998a) use the term "performance contract" or "agreement".

[8] For a detailed discussion of the problematic relationship between government and public enterprises, see Fernandes (1986).

[9] The extent of control exercised by government and the nature of its interventions in management may vary from one context to another and from one kind of enterprise to another. However, the core of government's involvement in the affairs of SOEs is typically in such matters as investments, major capital expenditure, corporate objectives, development goals, appointment of board members and chief executives, pricing and marketing policies, and wage and employment policies. Under current reforms the prerogative of government in some of these areas is being questioned.

[10] The dominance of francophone Africa in the adoption of performance contracts is explained by the fact that France pioneered the practice in the late 1960s and over the years transferred it to its former colonies.

[11] The six countries are Ghana, India, the Republic of Korea, Mexico, the Philippines and Senegal.

[12] See also Batley (1996) for a discussion of public-private partnerships, and Nickson (1997) who discusses public-private mixes in urban water supply.

[13] The survey covered 37 African countries and found that national systems of user fees were operating in 17 of them and were present, but not operating well, in 11 others. In six other countries user fees were collected by individual facilities or communities and were not part of a national system. Only three countries—Angola, Bostwana, and Sao Tome and Principe—did not have user fees in the government sector.

[14] QUANGO is an acronym for quasi non-governmental organization. In the United Kingdom regulatory bodies were set up for privatized utilities, e.g., OFWAT (Office of the Water Regulator) and OFTEL (for telecommunications).

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