OVERVIEW OF PUBLIC SECTOR MANAGEMENT REFORM


INTRODUCTION AND CONTEXT

For over two decades a set of management techniques and practices, mostly associated with market and private-for-profit sectors, have been used to reform administration and management in government, in a variety of countries, notably the UK, New Zealand and Australia. The past decade has seen the application of some of these practices in some developing and transitional economies. These techniques and practices have been collectively referred to as the ‘New Public Management’ (NPM).

The NPM reform trends have been driven by a combination of factors, no one of which can be said to be responsible for driving reforms on its own.

Pressures for change

(a) Economic and fiscal pressures on governments, experienced in most developed countries in the 70s and early 80s, and more dramatically in developing countries in Africa and Asia and, more recently, in the Asian Tiger economies. Fiscal stress caused by massive public sector deficits, external trade imbalances and growing indebtedness, especially in developing countries, has been a major driver for restructuring the public sector, and rethinking and reshaping the role of government. Issues of downsizing, privatisation and contracting out gained prominence as methods of controlling the fiscal deficits and restructuring the public sector.

(b) Public attitudes and increasing criticisms (especially by public choice theorists) of the ineffectiveness and inefficiencies of delivering public services through bureaucratic organisational arrangements and the need to search for alternatives. Old public administration was seen as too slow, driven by rules instead of performance, inefficient and unresponsive to users.

(c) The resurgence of new right politics in the late 70s and 80s (e.g. ‘Reganomics’ and ‘Thatcherism’) that were pro-market and pro-private sector. NPM had ideological underpinnings, challenging the post-war consensus on the welfare state as unsustainable.

(d) The proliferation of management ideas generated, packaged and marketed by international management consultants, who often act as advisers on reforms to governments around the world.

(e) In the case of most developing and transitional countries, an additional factor driving NPM-type reforms has been donor advocacy and lending conditions of international financial institutions, notably the IMF and the World Bank, with the adoption of a more pro-market and pro-private sector stance in structural adjustment programmes.

(f) The spread of global markets, especially those related to financial integration and liberalisation and the resultant competition are forcing the public sector in most countries to reshape itself to keep pace with the emerging global economy and modern information technology. These are changing conventional ideas about the public sector.
The growth and use of new information technology has also provided impetus for some of the changes. Some aspects of the NPM reforms such as performance management, executive agencies and management decentralisation of public services have been facilitated by the development of information technology that allows for indirect monitoring and control of performance.

**THE RISE OF NEW PUBLIC MANAGEMENT**

Several theories have provided the theoretical underpinnings of NPM and have helped shape NPM ideas. The two most prominent theories are public choice and principal-agent theories.

**Public choice theory**

The rise of NPM doctrine is associated with increasing popular and intellectual disenchantment with the growth and role of government and increasing taxation and, consequently, pressures to curb the expansion of government and shift towards privatisation (Hood, 1991). In particular public choice theorists (e.g. Niskanen 1971) have criticised the Weberian bureaucratic model as lacking cost-consciousness because of the weak links between costs and outputs. The rewards system in the public sector is not oriented towards improving performance and consequently there are no incentives for politicians and bureaucrats to control costs. There is waste and over expenditure, with public managers focusing more on delivery than on productivity and efficiency. Public choice theory also argues that public bureaucracies are notoriously slow to respond to changes in the environment, as well as being unresponsive to service users.

**Principal-agent theory**

Principal-agent theory also argues that the public (as principals), on whose behalf politicians and bureaucrats (as agents) are supposed to govern, is unable to hold the latter accountable because of insufficient information (information asymmetry), the incompleteness of the contracts of employment, and the problems of monitoring behaviour (Walsh, 1995; Lane, 1995). The public sector under performs because state officials pursue their own narrow self-interests rather than the public interest. It is difficult to extract accountability and good performance from public servants (agents) because of the monopoly characteristics of public services, imperfect information about the services, and about the abilities and interests of public employees, and the huge transaction costs that would be involved in efforts to write and monitor complete contracts. One solution to the problem of the public sector is to expose the public services to greater competition.

The result of the above drivers for change is that the role and institutional character of the state have been under increasing pressure to be more market-oriented and management-oriented, with emphasis on ‘doing more with less.’ The traditional model of organisation and delivery of public services, based on the principles of bureaucratic hierarchy, planning, centralisation, direct control and self-sufficiency is being replaced by a ‘new public management’ (NPM) model.

**WHAT IS NEW PUBLIC MANAGEMENT?**

The response to the pressures for change is that various countries are in different stages of:

- Rethinking and reshaping government and its role;
- Restructuring and repositioning organisations;
- Redesigning and improving service delivery;
• Reframing systems of performance and accountability; and
• Revitalising human resource capacity and organisational performance

These trends capture the reform agenda under new public management (NPM). NPM has become a collective term for a bundle of particular management approaches and techniques, many of which are borrowed from the private-for-profit sector. It is a rising body of managerial thought (Ferlie et al. 1996). Some (e.g. Pollitt, 1990) have even characterised it as an ideological thought system based on ideas generated in the private sector and imported into public sector organisations. The new public management is not a homogenous whole, but consists of varieties of practices and techniques.

Key components of NPM

The various ideas and themes of NPM may be categorised broadly into two strands. On the one hand there are those ideas that derive from managerialism, i.e. emphasising management in government. These include management decentralisation, desegregation and downsizing of government, creating leaner and flexible organisational structures and systems, and giving managers more freedom to manage.

On the other hand, there are ideas emanating from new institutional economics that emphasise markets and competition as a way of giving choice and ‘voice’ to users and promoting efficiency in service delivery, i.e. the use of market mechanisms such as franchising, vouchers, contracting out, internal markets, user fees and customer orientation.

The key components of NPM may be outlined as follows:

• **Breaking up huge bureaucracies** by disaggregating separable functions into separate agencies. This may involve hiving-off operational arms of ministries to form separate agencies. There is a split between the strategic policy core and operational arms of government. These agencies will them be related to the central or parent ministries not through the traditional hierarchy but by contractual agreements and on arms length basis. The best examples are executive agencies in UK.

• **Replacing traditional ‘tall hierarchies’** with flatter, flexible and more responsive structures formed and reformed around specific processes (e.g. issuing licences, paying benefits) rather than the traditional functions (e.g. finance and personnel).

• **Separation between funding, purchasing and provision of services.** Making a clearer separation (organisational and financial) between defining the need for and paying for public services on one hand and, on the other hand, actually providing those services. This means that governments can provide finance for services, but do not necessarily have to provide the service by themselves. Service provision may be contracted-out to the private sector.

• **Decentralising management authority within public agencies** - giving top management freedom to manage with clear responsibility, and reducing the management role of the centre.

• **Devolving budgets and financial control** to decentralised units; creating budget centres/spending units. Delegation of financial responsibility gives managers some leeway to consider alternative methods of ensuring the provision of required services.

• **Capping budgets and making them more transparent in accounting terms.** This usually involves some combination of output oriented budgeting and devising ways of making managers more
aware not merely of current costs of operations but also of capital employed (e.g. by means of accrual accounting.

- **Shift to output-orientation.** Greater emphasis on output controls in resource allocation and rewards linked to measured performance; use of performance agreements and performance-related pay. There is a shift from inputs and process to outputs in control and accountability mechanisms. This requires managers to work to performance targets, indicators and output objectives. Devolved budgets and financial control and output orientation allow for entrepreneurial flexibility in meeting targets by offering managers greater control over the purchase, use and sale of assets necessary to produce the required outputs.

The above changes may be categorised mainly as managerial and structural.

The NPM elements and practices that emphasise markets and competition include:

- Introducing *market and quasi-market type mechanisms* (MTMs) to stimulate competition between service providing agencies, in the belief that this will promote cost savings and responsiveness. The common instruments mentioned in current discussion of MTMs include:
  
  - **Contracting out** service provision or management responsibility to private providers. Service providers competitively bid to provide services.
  
  - **Internal markets** - splitting providers into feasible sized agencies in order to allow for competition among alternative providers; this will allow users more scope to ‘exit’ from one provider to another. Perhaps the most advanced application of internal markets is in UK’s National Health Service, where hospitals have been given trust status and some General Practitioners manage budgets on behalf of patients. GPs can ‘shop’ around hospitals to buy the best ‘value for money’ service for their patients.

  - **Vouchers** or their equivalents used to purchase services by service users, instead of providing direct funding to service providers. The best service providers will attract more service users and thus receive more vouchers and claim the money from government.

  - **User charges or a fee, e.g. in health and education services** where partial of full cost recovery may be applied. The idea is to put a price on public services, though this need not be a market price. Apart from providing needed funding for the provision of services, it is thought that sharing the cost of service provision with users may encourage more responsible use of such public services.

The above arrangements for producing goods and delivering services are replacing the traditional way of delivering public services through the bureaucracy. It should be noted that each MTM could take different forms and thus encompass clusters of arrangements rather than specific mode of application whose outcomes are perfectly predictable.

- **Emphasis on quality** in the sense of making public services more responsive to the wishes of their users. This involves a re-conceptualisation of service users as customers or clients. Customer views and demands are increasingly being used to shape service provision e.g. UK’s Citizens Charter and NHS Patients’ Charter.

- **Changing employment relations:**
• Preference for limited term contracts employment for senior staff over traditional career tenure.
• Use of wholly monetised incentives
• Performance-related pay
• Locally determined pay rather than uniform fixed salaries

**SELECTED APPLICATIONS OF NPM**

**Decentralised management within public services**

One of the exemplars in management decentralisation is the UK, where executive agencies have been created out of parent ministries since the launch of the Next Step initiative in 1988. About 140 agencies were created with over about 70 percent of civil servants working in them. A few agencies were privatised, whilst others like the Civil Service College has been reabsorbed into mainstream parent government departments. New Zealand provides another examplar agency-type reforms with policy functions separated from operational agencies. However, in the case of New Zealand, the creation of agencies was step towards eventual privatisation in most cases.

*Singapore* has, since the 1970s, organised its civil service around the concept of statutory boards. A process of devolution of financial management has started as a prelude to creating autonomous agencies. From 1996, ministries and departments were assigned operating budgets, based on target outputs that are quantifiable and measurable (Lim, 1997). Korea has also introduced executive agencies through the Agency Act in January 1999.

*Ghana’s Ministry of Health* (MOH) has been a focus of reorganisation since the early 1990s. This has involved the granting of autonomous status to Teaching Hospitals with their own ‘independent’ management boards and the establishment of regional and district health management teams for hospitals. A Ghana Health Service (GHS) has also been created as an executive agency, separate from the central MOH and hence from the civil service. Whilst the MOH is to concentrate on policy and strategic issues, the GHS will be concerned with implementation of health policies. Also Customs and Excise and Internal Revenue departments were hived-off from the civil service (Ministry of Finance) to constitute autonomous agencies in the 1980s.

Uganda, Kenya, Tanzania, Jamaica, Latvia are all at different difference stages of creating executive agencies out of existing ministries. For example, Tanzania’s ‘Organisation and Efficiency Reviews’ initiated in the mid-1990s aims at separating core policy-making and regulatory functions of ministries from those of implementation, with the latter handled by executive agencies. The result has been a 25% reduction in the number of ministries and the creation of 9 executive agencies. (The target is to create 46 agencies by 2004). Jamaica had created 8 agencies so far and Latvia 150.

Capacity Implications of decentralised management:

• Capacity to develop monitoring and inspection procedures
• Capacity to develop performance indicators, measures and budgetary control systems
• Capacity to co-ordinate the activities of decentralised units
Contracting out of public services

Contracting out is increasingly being applied as a management tool, especially where a complete market solution or outright privatisation cannot be employed.

In Britain and New Zealand, contracting out has been used extensively in the provision of public services, including white and blue-collar jobs at both central and local government levels. In Zimbabwe non-clinical services such as cleaning, laundry, security and catering have been contracted out in the health sector.

As part of Ghana’s Civil Service Performance Improvement Programme various activities performed by the bureaucracy are expected to be subjected to ‘market testing’. In the water sector some customer management functions such as billing and collection have been contracted-out to the private sector on pilot basis, whilst refuse collection in cities have been contracted-out. In both health and water some activities have traditionally been contracted out, including construction, feasibility studies and management training.

In Brazil road maintenance is contracted out to private contractors and this has led to 25 percent savings over the use of government employees (World Bank, 1997). Also port management in Malaysia, plantations in Sri Lanka, the management of airports in Philippines, hotels in Egypt and Bulgaria have been contracted out.

There is evidence of the application of contracting out. Introducing contracting out, however, assumes that the capacity exists within the private sector to take on the provision of contracted-out services. This is not always the case in some developing countries, and in the case of some services. In some instances, the private sector was found to be ill equipped to take over the provision of non-clinical services (e.g. in Ghana). It is also the case that the capacity to manage and monitor contracts with a large variety of providers is usually lacking in government organisations. Also the prevalence of patronage systems, corruption and other institutional weaknesses undermine the successful application of contracting-out policies. In such circumstances contracting out may be economically inefficient and wasteful, if there are no mechanisms to mitigate the constraints.

User fees and charges

These have been introduced (and/or increased) in some developing countries especially in health, water and education, as part of attempts to raise revenue by share cost with users of public services, and to improve efficiency and quality of services. User fees reforms have been widespread in sub-Saharan Africa where the influence of international donors seems to be greatest. In some cases, however, user fees have been introduced without adequate safety nets for the poor who cannot afford to pay. In Ghana, Zambia and other African countries, the introduction of user fees led to a drop in the utilization of health care facilities in both urban and rural areas. Whilst urban areas recovered, attendance by rural populations remained low. Also the weaknesses in monitoring and accountability mechanisms have led to abuses in some cases and loss of revenue to hospitals through corruption.

Changing employment relations

Performance related pay is increasingly being applied in some developing countries.

This requires that fairness and objectivity is upheld, that performance targets and criteria
are clearly stated, and that performance measurements and rewards are based on actual work performed throughout the performance period.

Malaysia has made good progress in implementing a new performance appraisal system, the key features of which include setting annual work targets and standards of performance between manager and subordinate, review of work performance in relation to targets, a co-ordination panel in each ministry or agency to ensure fair, transparent and objective appraisal, and the selection of excellent employees for reward and recognition (Shafie, 1996).

Ghana has also replaced annual confidential reports with a new performance appraisal system and is trying to introduce performance-related pay for senior managers as part of its civil service reforms. The limited experience in performance management, however, suggests that there are problems in defining and measuring performance targets for employees. In some countries, the system is also undermined by political patronage in employment and promotions processes and lack of enthusiasm in the system by those responsible for implementation.

**Customer Orientation**

Responsive service delivery is now prominent on the agenda of most countries. Several tools are being used to achieve this. Customer surveys have been used in Ghana and, a Public Complaints Units have been established in all ministries. Malaysia has established consultative panels that have customer representatives. The use of report cards in some parts of India allows service users to evaluate service providers; Singapore has established a Service Improvement Unit to investigate and respond to complaints from service users. A number of countries are also following the example of the UK Citizens Charter by establishing charters or guarantees of standards of service that clients can expect. For example Malaysia introduced a national Clients’ Charter in 1993. There are over 60 countries that have service charters.

**NPM in the Context of Adjusting Countries**

As noted above, some elements of NPM are being applied in developing countries usually in the context of structural adjustment. One can identify three forms of risks in introducing institutional reforms embodied in NPM in the context of adjustment:

1. The timing may be too strongly influenced by external agencies. This may lead to lack of support and preparedness on the part of government and the reforming public organisations.

2. External agencies and experts who rarely have detailed knowledge or long-term commitment for reforms may heavily influence the design and content of the reform.

3. In view of 1 & 2, local involvement, understanding and commitment known to be required for the successful institutional reform may be lacking or weak.

The few illustrations of the applications of NPM-type reforms in the context of developing countries have highlighted the following:

- The application of NPM reforms sometimes prompted by donor advocacy, needs to take context into account. The lack of mature public services in some developing countries and the relative lack of required preconditions call for the need to adapt NPM creatively and realistically and not to blindly follow ‘blueprints’ that are not implementable. Perhaps some NPM practices are more
implementable in a developing country context than others. The test has to be capacity and ‘state of preparedness’ of governments and reforming organisations.

- There is need to sequence reforms in such a way that initial reform measures focus on ensuring that the preconditions for a particular element of NPM are in place before introducing others. This calls for an incremental approach to implementation. For instance it may be advisable to have a good management information system in place before introducing performance agreements and performance-related pay. Also some education and publicity of new systems may enhance understanding and acceptance by key stakeholders.

- As the World Bank itself admits, in its review of ten years of structural adjustment in Africa, greater recognition needs to be given to the time and attention needed for changes, especially institutional reforms, to take effect.

REFERENCES


*A good summary of the attempts to apply some aspects of NPM to developing countries and the implications


*Public Policy and Administration*, 10(2):104-117.


