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Fahrenheit's Waterfall and the future of New Public Management

*Paper presented by Peter Noordhoek and Joost Mönks**

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Introduction

Though most of us live by the rule of Celsius, in the English speaking world many will think of Mr. Fahrenheit when they say how hot or cold it is. Mr. Fahrenheit proved to be very good at calculating the theoretical formula at which energy, in the form of heat or speed, translates into changes of temperature. During his life he conducted experiment after experiment, until finally he could calculate this formula exactly. With very primitive means this amateur proved to be a true scientist, always searching for a better answer, believing in the power of logic and of rational thought.

However, he did not know when to stop. Once he managed to stop his experiments just long enough to get married. Unfortunately, during his honeymoon he came upon a waterfall. And instead of admiring the view, he left his bride standing on the rocks, went into the water and started measuring the temperature at the top and the bottom of the waterfall, convinced that because of the speed of the water, the temperature at the bottom would be higher than at the top. This proved to be incorrect; the temperature was much lower. He failed to understand the effects of turbulence and condensation on the temperature of the water. He wasted his honeymoon by holding on to a way of scientific reasoning that proved to be far too inflexible for the realities of life.

Some of the proponents of the concepts and methods of '*new public management*' (NPM) are in danger of making similar mistakes. In this paper we will try to demonstrate this by using a number of examples.

The first example concerns '*deregulation*', the concept that stands to some extent at the beginning of NPM. We will show, that though this is a concept advocated by industrialists and defended by economists, it has been taken over by civil servants and has become a concept for lawyers. If we follow William Niskanen's dictum of the 'budget maximising bureaucrat' this is not a logical development. The behaviour of civil servants and lawyers proves to be not as predictable as suggested. What is really going on?

The second example involves the move towards '*independation*'. NPM requires that (parts of) organisations will become more independent from the mother-organisation, sometimes fully (in which case it is called privatisation) and sometimes partly (in which case there is the creation of "agencies"). Substantial consensus for the need of independation has emerged. The mother-organisation wants to go back to its "core-business" and the more independent organisation wants to enjoy its freedom from "those people up there". However, "it is easier to deal with the enemy you know, than with the

friends you still have to make". Crucial patterns of behaviour are neglected, at much cost to the organisation and the people in it.

1 What is 'new public management'?

The label "New Public Management" (NPM), a term which was originally coined in New Zealand, refers to similar administrative reform trends and agendas that emerged in several OECD countries in the late 1970s. These reforms, geared toward enhanced efficiency and performance of public administrations and the introduction of business-like management methods, frequently derived from increasing financial difficulties and citizens' demand for "value for money", and tend to be associated with neo-liberalism.

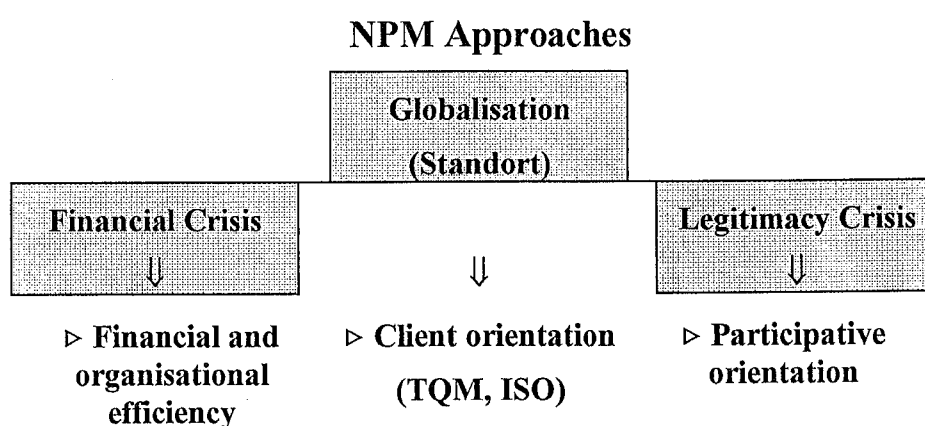
NPM is ill defined and is not a uniform or rigid approach. However, international experience suggests that it has a certain number of core ingredients:

- *Decentralisation & "independation"*: Separation of strategic decisions, to be taken at the political level, from operational activities which are implemented by the decentralised administrative levels, "agencies" or privatised units;
- *Competition*: Move towards internal and external competition through (public) tendering procedures and benchmarking;
- *Entrepreneurial orientation*: Administrative units or agencies are responsible and accountable for the achievement of the politically determined objectives in the framework of performance agreements and lump-sum budgets (output management);
- *Customer orientation*: Citizens are considered as customers and the administration as a provider of services;
- *Reporting, Evaluation & Audit*: Performance indicators and measurement coupled with internal and external evaluations and audits provide controlling and steering information to the legislative and executive levels and make the organisation more transparent.

Comparing some characteristics of the Bureaucratic Model with NPM

<i>Bureaucratic Model</i> <i>Rechtsstaat, Impartiality, Stability</i> <i>(Weber)</i>	<i>NPM</i> <i>Globalisation, Financial and</i> <i>Legitimacy Crisis</i>
<ul style="list-style-type: none"> • Rule-driven • Input management • Non-transparency • Hierarchy/Rigidity 	<ul style="list-style-type: none"> • Performance-oriented • Output management • Performance indicators • Flat organisations/empowerment

As noted by Professor Matthias Finger of the Graduate Institute of Public Administration (IDHEAP) in Lausanne, NPM is not a unique model and various, potentially complementary, implementation approaches of NPM concepts exist. These different approaches put varying emphasis on financial and organisational efficiency measures (accrual accounting, contract management), Total Quality Management and quality management systems; "Lean Administration" concept, and participatory measures aiming at enhanced involvement of the citizen in the service definition and delivery process. NPM experiences have been implemented at the central and local administrative levels, but it is at the local level that results have been most notable (for instance the cities of Christchurch in New-Zealand, Phoenix in the USA and Tilburg in the Netherlands).



For the purpose of this paper we will emphasise NPM's contribution towards organising the public sector in a way that is more responsive to its environment. It seeks to counter the drawbacks of the Weberian bureaucracy by stressing the need for flexibility and innovation. It attempts to shift the focus of public organisations from policy formulation towards policy results and outputs. In order to do so, it demands a better control of the organisational process of government institutions. Civil servants become 'managers' when they are no longer only judged by their knowledge of the policy process, but also by the way they steer that process, and the people in it, towards results. They are 'public managers' because they are able to do their managerial work within a setting that requires adaptability to the wishes of both politicians and the citizens/customers in general.

It is a 'New' Public Management, because it is, more than before, influenced by external - notably market - forces and entrepreneurial examples. The inspiration and the need for reform comes mainly from outside the government, i.e. international competition and globalisation, the crisis of public finance and political legitimacy. We think that this is basically a positive development.

1.1 The Public -Private Sector Dichotomy

Before developing our argument further and considering the “business-like” policy stance of NPM, it is important to briefly reflect on prevalent differences between the private and the public sector and their implications. Although there are several aspects of management that are generic in both public and private settings, public administration, in our opinion, is distinct from private sector management in fundamental aspects.

A first characteristic that distinguishes public from private administration is the ambiguity of objectives. This ambiguity is the result of the nature, scope and impact of administrative tasks and decision making, and the emphasis placed on equity. Frequently there no “bottom-line” in the public sector, whereas in the private sector, profit serves as the ultimate test. Secondly, as monopolistic or semi-monopolistic providers of services, public administrations are often not exposed to market pressures. The absence of competition from alternative sources of supply implies that administrative agencies are not pushed towards organisational efficiency in order to simply survive. A major related difference between the public and private sector is the coercive means of enforcement available to the state: the actions of public administrators have the force of law and the coercive power of the state behind them. Thirdly, the ambiguity of objectives, the coercive means available to the state and the public mission of public administrations have led to a set of distinguishing constraints imposed on public administrations. These constraints are expressed through rules and regulations and constitute what has been referred to as “bureaucratic management”. Legal prescriptions define what public administrators can do, whereas in the private sector the law only defines what cannot be done. Managerial constraints limit, for instance, the possibility to hire and fire in the public sector and important political constraint are imposed on the discretion of public administrators. Administrations require legislative support for their action and are subject to political pressures and scrutiny of the “public eye”. In addition to the problem of short tenure and the consequent lack of continuity among political appointments in the executive branch, interest of the public and legislative power tend to be divers and divergent. These constraints are not matched in the private sector.

Some of the conventional distinguishing characteristics between the public and private sector are challenged by NPM, which introduces market and entrepreneurial elements and reduces constraints in public sector management. This however does not impact on the fundamental difference between the public and private sector, deriving from the “publicness” and political dimension of public administration’s tasks, and the enduring opposition between efficiency and equity considerations in the public sector.

1.2 *New Public Management and socio-economic theory*

The start of this paper is our opinion that, though New Public Management is a positive and significant development within the public sector, the assumptions behind it are not always sufficiently understood or taken into consideration. These assumptions have to do with the way we interpret the functioning of the public sector. Too easily we simply translate the need for new forms of public management from practices that are seen in the private sector. NPM has to do with a strong need to be more responsive to the public in general and involves a fundamental transformation of public administrations. It is simply a matter of survival, but that survival depends on a very complex "dance". It is certainly too simplistic to see it as no more than a result of ideological trends or economic necessities.

In this paper we will show that a part of the economic theory, the Public Choice theory, in itself does not give sufficient explanation of what has happened within the public sector in the past two decades. Without understanding the social and organisational psychology an adequate comprehension of the changes within the public sector is not possible. In this we hope to touch upon essential elements of socio-economic theory.

2 *Deregulation and privatisation*

Looking back, the drive of NPM often started with deregulation and privatisation moves. Both moves arose from the realisation that, though the intentions might have been good, the results from government actions are less than satisfactory. As many republicans have said in America: "the government does not solve problems, the government is the problem". We will talk about privatisation later, first we will take a closer look at the deregulation phenomenon. Something doesn't seem to add up.

2.1 *Deregulation by civil servants*

The neo-liberal assumption was, and is, that with less rules and regulations, the market would function better and thus the economy would fare better. This requires that, resistance by civil servants notwithstanding, the government will reduce its own role by reducing the number of regulations it produced and limit itself to defining the general strategic framework.

Is this possible? The science of public administration is very much influenced by the public choice approach, a specific branch of economic theory. It describes people in terms of their behaviour as dictated by their own interests. People will not do anything that is against their own interpretation of their self-interest. Within the public sector it was an American called William Niskanen who translated this dictum into the

'budget-maximising bureaucrat'. Every bureaucrat is looking for ways to enlarge his office by increasing his budget as much as possible.

This sounds logical. It also suggests that every civil servant will resist efforts in the direction of deregulation. This is because budgets depend upon regulations. Cutting in regulations may mean cutting in budgets, and is therefore against their self-interest. When it comes to bureaucrats, deregulation should be doomed.

However, research shows that it is not true, or at least not as straightforward as Niskanen's dictum suggests. Already in 1985, research by one of the authors shows that by far most of the articles written about (and in favour of) deregulation are written by civil servants and lawyers, and not by management consultants or economists.

The research shows, that only at the very beginning of the deregulation drive the input for the deregulation effort comes from the market side, mostly inspired by American examples and (regulatory) theories. Out of 576 articles written in less than two years that mention deregulation, only 121 have been written from a background of (political) economy. Since then the number of articles written from an economic background has only been dwindling.

2.2 Who wants deregulation?

Of course the writing of books and articles is only a limited indication of what has happened with deregulation. Reading the articles suggests that industry itself is one of the main beneficiaries of regulation, and therefore loses its interest when it comes to specific proposals for deregulation. Does this mean that it is the civil service itself that is in favour of deregulation? Research seems to indicate that it really depends upon the position of the civil servant in the hierarchy whether or not he or she is in favour of deregulation. Top civil servants that are close to the political process, write in favour of deregulation because they need to score with new policy initiatives, whatever they may be. Civil servants at the working level are in favour of deregulation because too many regulations, and frequent changes in these regulations, have caused a workload that is too heavy. They clearly perceive the consequences of bureaucratic overload. This means that the champions of regulation have to be found in the middle layers of the bureaucracy. But even here we have often been surprised.

We are not suggesting that Niskanen's maxim of the budget maximising bureaucrat does not exist. We do mean to suggest that this maxim is not good enough to explain or predict specific behaviour by civil servants.

The new public managers have to come from the same layer of middle managers that seems most susceptible to Niskanen's maxim. We should look at the specific behaviour and conditions for the 'old' public managers to see whether they are or can become 'new' public managers.

3 Independence

New Public Management requires that tasks are done as closely to the public as possible. In fact, new public management favours the transfer of public tasks to institutions as far as possible from the political centre. As we said before, we look upon deregulation and privatisation as starting points for NPM. However, though privatisation has had an impact upon the size of the government, much has still remained within the public sector. It could be argued that though many organisations have been privatised in name, they are still very much the publicly funded monopolies they used to be. Privatisation as a trend is not as important as it has been argued. It can be rewarding to look behind the trend. Then we observe that organisations have moved away from the political centre, but that the form in which this has happened has varied. The distinction between the private and public realm is then less important than the movement the organisation has made away from 'mother' and towards their clients. We want to call this movement 'independation'. By independation we mean "the move towards a more independent position from central government".

Looking at the example of the Netherlands, there have been a lot of changes in the 'mother-daughter relation' of many bodies of government in the Netherlands during the past fifteen years. Sometimes the daughter left her mother's house altogether (privatisation), but most of the time the daughter left her mother's embrace, but stayed within easy reach (as an agency).

Independation is a translation of the Dutch word 'verzelfstandigen'. Since the word does not exist in the English language (it would be something like "making things/people more independent"), we have taken the liberty of creating a new word.

Of course, what may feel like independation, is in reality nothing more than the exchange of one form of dependency (of the government) by another (of the market). Still, getting through this process of independation can be one of the most wrenching experiences an organisation and its manager can go through.

3.1 A game

To illustrate the process of independation, let us tell you about a simple simulation game. A management team is confronted with a financial cutback of several million guilders. The management team has three options: 1) asking central government to make the cutback less severe ("going to The Hague"), 2) searching for internal solutions, and 3) going to the market to find compensations for the cutbacks.

First individually, then as a team they have to choose. Of the 28 management teams with whom the game is played (each team consisting of 7 players), more than 60% of the management teams opted for going to the market, the other options got an equal 20%. The individual choice was even more for using the market option.

Then the real play started, consisting of not much more than time pressure and the need to motivate choices, with a penalty of more cutbacks when they fail in either of these two respects. The play usually took no more than one and a half hours.

The result is this. Of the 28 teams, two were consistent in their choice of the market option and made it all the way. Another two ended in a sort of grey area, one team went consistently to The Hague. All other teams chose for the market and ended up going to The Hague, while collecting more and more cutbacks. These teams usually couldn't motivate their choice for going to the market, or if they did, they usually only did more of what they were used to do.

To sum it up; it is easier to talk with the enemy you know than to meet the new friends you need.

3.2 A struggle on three fronts

The attempts by managers to move their organisation from mother to market could be called 'independation as a struggle on three fronts'.

On the first front you, as the manager, have to deal with the mother-organisation, both in its political and civil service form. You negotiate the terms of separation, you try to make deals about future commitments and do anything you can to steer the independation through the political process.

On the second front there is the internal organisation. Independation is rightly seen as an opportunity to push through all kind of changes in the internal organisation. It is a moment of change. Sometimes of lot of funds become available when an organisation is to become independent. Then some problems can be bought off. But more often independation comes together with cutbacks in both personnel and funding. Then what?

Finally, on the third front, there is the market. For most organisations, going to the market means doing more of what they are already used to do. Certainly in situations of competition the market will not stay the same. Business as usual is out.

(As a matter of fact there often is a fourth front. Most organisation can not make independation on their own. They have to merge with another organisation. You can imagine what this must mean for his agenda: it will be hard not to get mad)

3.3 *Fighting for time on different fronts*

Can one person fight on all three fronts? And for how long?

One thing that makes it hard to fight for a long time on all fronts is the realisation that each front has its own timetable.

As far as the mother front is concerned, it is not hard to observe that the time it takes to get a law on independation through parliament often takes up to ten years and more, with many pitfalls along the way.

The time it takes to make an organisation more market-oriented is a little shorter, but it will still take some years, especially if the goal is a major change of culture. For a real transformation it can easily take five years or more. Meanwhile the organisation is in turmoil. People are loyal, often more loyal than in 'the old days', but not forever. After more than two years of independation, uncertainty starts to take its toll. The organisation becomes a drifting organisation, somewhere in between the market and the mother.

The time it takes to go to the market is less than zero. New public managers often have to run a race in which they are often already quite behind.

Thinking about it should make it clear, that it is not feasible for any manager to be a good fighter on more than, say, two fronts for more than a few years. Someone who is well able to steer the independation through the political process, is often not the right person to find the way towards new markets.

This may be the main reason why the manager who is in the driving seat at the beginning of the process, will not be in that seat at the end of the process.

3.4 *Problems and challenges*

Apart from the problem of different timetables there are other problems an organisation and its manager can run into during independation. Some of them are system or functional problems. Much effort usually goes into changing from one financial system (the government's budget system) to other financial systems (accrual accounting). Certainly in the Netherlands many privatisation plans came to a halt because the government's pension scheme is/was so fundamentally different from the one of the market sector. But the real problems are not functional. The real problems have to do with people and the way they are motivated.

The 'uncertainty principle' of independation seems to indicate that both employees and the market will not allow the manager more than two years to make the important changes. Reality shows that periods of five years or longer are the rule and not the exception. During that period all kind of

things happen to the drifting organisation. More than one organisation will at the same time show both the characteristics of a pioneer organisation and that of a traditional bureaucratic one. Tracking the organisational dynamics can be really interesting for observers and truly bewildering for participants.

All this is a great challenge for a sound manager. Independation is usually well worth it. It is part of the growing up for a daughter to leave her mother's house. Both parties are at the end usually better off, the relation may even improve. And beside, what are the alternatives? No, independation as such is a good thing. For the manager involved it can be a positive development too. Even if the manager has to move on after a while, he or she will leave the organisation with an unique and valuable experience.

The real pain is with the people who cannot leave the organisation in the direction of a new job. The price that has been paid for many independations has turned out to be far higher than it ought to have been. In many cases it would probably have been less painful to start a new organisation and end the old one, than to put it through the kind of messy transitions it now often has to go through.

4 Management in a new public sector

All this has to do with false assumptions about the way management works within the public sector. New Public Management suggest a smooth adaptation of market management techniques to the public sector. The economic or business oriented way of looking at an organisation with perhaps different goals, but the same kind of processes. This is a mistake. The accent should not be on just the new public *management*. The specific *public* character of the environment - and the way it changes! - and the mission of public administrations should be taken in account if a successful transition is to be made. New Public Management is only *new* when public and management are understood and in accord.

Looking at developments, we believe that after deregulation, privatisation and independation, it is the theme of quality that will become the focus for much of the new public management debate. After attempts by central government to create a form of new public management by in fact telling the ones in charge to imitate the way private business is run, we now have a new generation of public managers that are used to making their own decisions. They no longer want to be dependent on central government, they want to make their own decision. They will use the citizen as customer to set themselves free from central government and contribute to the development of what could be called a "Consumer Democracy". In essence it will be a battle between self-regulation and regulation. Who has control over the organisation? If the public manager is to have control over the whole system of the organisation, he or she needs to be flexible, and therefore in favour of self-regulation. But how far can empowerment

go, at what level would the democratic control be situated and can this be rhymed with equity considerations and the principals of our representative democracy? What will be the new balance between efficiency & equity, market & regulation and democratic control?

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