

Public Sector Modernisation

Introduction

Most OECD countries have been actively reforming their public sectors for two decades. Initially the problem seemed to be a relatively straightforward one of improving efficiency, reforming management practices, and divesting public involvement in commercial enterprises. These reforms have indeed had a major impact but they have also given rise to some unexpected problems of their own. Even a seemingly straightforward action such as simplifying a welfare benefit form and cutting the time taken to process it may, for example, encourage more people to apply for the benefit, increasing the workload and making it more difficult to cut waiting time. While more efficient government is certainly desirable, efficiency alone is not a guarantee of better government.

To complicate matters, governments are now under pressure for more profound changes to meet the requirements of contemporary society. A concern for efficiency is being supplanted by problems of governance, strategy, risk management, ability to adapt to change, collaborative action and the need to understand the impact of policies on society. To respond to this challenge, member countries, and the OECD, need better analytical and empirical tools and more sophisticated strategies for change than they have generally had to date. ■

This Policy Brief is the first in a series looking at the evolving modernisation agenda and how governments can best develop their capacity to achieve, and measure, the desired results. This Brief takes an overall view of recent developments and looks at what tools governments need to help make a success of public sector modernisation in the next few years. Future Policy Briefs will deal in more detail with individual aspects of modernisation, such as Modernising Public Sector Employment and Changing Organisational Structures.

Why does the public sector need modernising?

Have reforms so far been successful?

What went wrong?

How to take a new approach?

Separating rhetoric from reality

What makes governments different?

How to preserve good governance?

How to make change stick?

How to craft better policies?

How to achieve systemic change?

What “levers” are most likely to produce systemic change in the coming decade?

How to build capacity for change?

For further information

For further reading

Where to contact us?

Why does the public sector need modernising?

The conditions under which OECD member countries operate are changing fundamentally. The shifting relationships among state, market and civil society institutions require not only management changes but also changes in governance – the way state authority and decision-making power are allocated, and how these arrangements maintain constitutional values over time. With these new challenges, public management is becoming a major policy issue. It is receiving an unprecedented level of attention in OECD countries and beyond, and the pressures for change will not ease off in the decades ahead.

The first-generation pioneers of public sector reform also faced the challenge of adjusting to a rapidly-changing world economy. But then the rhetoric of the day identified government itself as “the problem”. This led to an impression that there was a single generic cause – “bureaucracy” – to be addressed by a generic set of solutions – “reform” – to arrive at the desired result – “efficiency”. This approach suggested a single change from an unreformed to a reformed efficient state, a coherent task with a specific purpose that would be completed when this goal was reached. Since the primary goal was economic efficiency, the pioneer reformers went to work on reducing public expenditure, freeing up the public sector labour market and making greater use of market-type mechanisms in government.

The flowering of this first round of public sector reform efforts in some English-speaking and Scandinavian countries in the late 1980s and 1990s brought new thinking and processes into public services, much of them in the form of management theory borrowed from the private sector. In the heat of rhetorical battle, the well-established term “public administration” became politically incorrect. It became fashionable to refer rather to “public management” because “public administration” was very much associated with rules – and part of the “managerialist” reform was to break away from a rules-bound system to one driven by management processes such as output and performance measurement. ■

Have reforms so far been successful?

Did these reforms produce the desired results? The reform period certainly led to a deep and permanent change in the way public administration is thought about. For one thing, it changed the long-standing view that public administration was a unique discipline and uniquely specific in each individual country, so that comparisons with what went on in the private sector, or in other countries, were pointless. Once reforms began, there was an upsurge in borrowing ideas on public administration, and from being “closed shops”, governments opened up to new ideas on how to organise themselves.

Although there are different assessments of the practical results of modernisation, the most frequently noted achievement has been sizeable efficiency gains through reducing the range of activities in which government was involved, lowering staff levels and reducing real operating expenditures. These changes were certainly necessary, but have not automatically led to better government. This is essentially because of two problems.

The first is that the reforms produced some unexpected negative results. For example, decentralisation in some continental European countries helped to renew local democracy, but also increased local problems of financial management and corruption. In Australia, the deregulation of the public service and the adoption of an arm’s-length posture by the central agencies allowed management freedom, but deprived the Finance Ministry of the information it needed to adequately advise the minister.

A second, closely associated problem is that some reforms had a perverse impact on matters of governance – who takes public decisions and how these arrangements are safeguarded. For example, in some countries the reform of public accounting systems has made them so complicated that many parliamentarians feel they are now less able to monitor public expenditure. ■

What went wrong?

The reforms themselves were not wrong – keeping governments efficient and affordable was a critical problem then and remains so now. The problem is that the reforms were insufficient.

It is becoming clear that governments did not pay enough attention to the likely systemic and governance effects of the first generation of reforms, for a number of reasons. The first was a tendency to transpose management ideas which placed strong emphasis on formal systems of specification and measurement wholesale into the public service. While it is important to have better goals, targets and measures in government, we must recognise that such a highly formalised approach has severe limitations for complex activities, many of which are at the heart of the public sector. This approach failed decades ago, not only in the private sector but also in the public sector in command economies, because it could not address complex problems and because there are limits on how much information human beings can (or do) take into account when making decisions.

The second problem was a failure to appreciate that, despite its size and complexity, government remains a single enterprise. Governments operate in a unified constitutional setting and coherent body of administrative law, and their performance is determined by the interaction of a few crucial levers such as the policy process, the budget process, the civil service management process and the accountability process, all within the ambient political/administrative culture. Because of that, a reform of one of these levers inevitably involves the others.

The third problem was a failure to understand that public management arrangements not only deliver public services, but also enshrine deeper governance values and are therefore, in some respects, inseparable from the constitutional arrangements in which they are imbedded. The idea of the professional independence of the civil service, to ensure non-partisan continuity of policies, is most effectively expressed in the culture of the public service. Changing the incentive systems for senior civil servants may inadvertently undermine that professional independence, or another important governance value such as the ability of the civil service to work collectively. ■

How to take a new approach?

A key challenge now is to go beyond applying management tools to improve efficiency and to consider the effect of these tools on the wider governmental

system as a whole, in order to promote the public sector's capacity to adapt to change while keeping core values and public confidence. But the capacity of countries (and international organisations) to understand the dynamics of public sector modernisation, and its impact on public governance and management in the longer term, is still at an early stage of development.

One fundamental problem in achieving change is separating rhetoric from reality. Much reform activity in governments consists of slogans and new processes that are not followed through and so do not significantly change behaviour. One reason for this is that public administration has become a more prominent item on political agendas. There is therefore a perpetual temptation to be seen to be reforming, even if in reality not much is changing. There are political advantages in launching reform initiatives but political disadvantages in carrying them through, since they upset the status quo and it takes time and effort to get them imbedded in the civil service culture.

Finally, it is intrinsically difficult to evaluate public management initiatives, and almost any fresh reform proposal, however ill-conceived, can produce the short-term benefit of giving a group of people more attention. This can generate a stream of initiatives that produce redundant additions to the management process. The growing popularity of performance measurement around the budget and reporting process, for example, often creates flows of superfluous information that nobody in fact uses. ■

Separating rhetoric from reality

Focusing on reality, rather than aspirations, presents a considerable professional challenge for the OECD and its member countries. Public management is complex and difficult to measure, but without some valid form of evaluation, we are slaves to theory, management fads and rhetoric. Upgrading professionalism requires collaborative work on how to identify, track and compare key behavioural changes. We also need to acquire a better understanding of the time required for serious public management interventions: culture change is not achieved overnight, and may take several years. There is also a need to strengthen mutual assistance by putting relatively more effort into peer review and

independent observation than in countries' own self-assessment, and by encouraging evaluation of major initiatives once they have been implemented.

The implicit assumption of some first-generation reformers was that given political will, anything is possible. In reality, countries respond very differently to pressure for change. Nations' choices are constrained by their social and political context, by their history and by the presence or absence of political opportunities for major change. In addition, significant human problems rarely yield to a single intervention. So, effective remedial action requires not only an orchestrated and sustained use of a range of means of influencing behaviour, but also an intervention strategy calibrated to local circumstances. ■

What makes governments different?

Contextual variables between countries – differences in economic pressures, influence of unionised labour, public attitudes to government, constitutional arrangements, vested interests and national culture – mean that societies have different public sector reform priorities and different areas where, for historical and cultural reasons, it is or is not possible for assertive action to be taken. We need to develop a stronger sense of the different contextual constraints within which different coun-

tries operate if international comparisons are to be useful. For instance, those countries where agreement with organised labour is a sine qua non of civil service reform will have more to learn from each other than from countries where unions have much less influence.

Countries differ widely too in their systemic characteristics. Interventions that work in one country may not work in another because, for example, of major differences in the public transparency of government action.

Finally, when a problem has emerged in government, it requires careful diagnosis to identify the possible contributory factors in the managerial environment. There is scope for tools to help governments be more precise about the problem they are trying to solve (it is easy to forget that reform is not an end in itself); to identify the factors in the managerial environment that have helped cause the problem; and to formulate an appropriate intervention plan.

Table 1 illustrates the complex interplay of these three factors in addressing a risk common to all governments – corruption. For international comparisons to be useful, they should go beyond generic instrumental solutions to sharing what does and does not work in government systems with similar characteristics and constraints. Country profiles

Table 1. Factors potentially relevant to addressing corruption risk

Risk	Contributory factors	Systemic characteristics	Contextual variables
Corruption	<ul style="list-style-type: none"> • Inadequate compliance with accounting and reporting rules • Patronage in appointments • Undue influence by major vested interest groups • Weak oversight of arm's-length public bodies • Secretive and unaccountable officials • Weak internal and external controls • Weak safeguards for awarding government contracts 	<ul style="list-style-type: none"> • Lobbying and party funding system • Incentives and accountability of officials • Accounting and reporting standards and compliance • Ethical and professional standards among officials • Senior civil servant system (elite/non elite, permanent or politically appointed) • Official information disclosure regime • Effectiveness of external invigilators 	<ul style="list-style-type: none"> • Power of organised labour to resist change • Capacity of the legislature to constrain Executive action • Balance of power between head of government and ministers • Constitutional autonomy of lower levels of government • Citizens' interest in and expectations of official behaviour • Independence/assertiveness of judiciary • Political capacity of Executive for difficult decisions

drawn on this basis could be more useful than the current generalisations between groups of countries. ■

How to preserve good governance?

One area that needs more attention is civil service governance. The factors that motivate public servants flow from civil service legislation and procedures, and from a culture which has, in most OECD countries, developed over decades, if not centuries. Yet contemporary public management attention tends to focus on processes such as competencies, contracts, training or pay for performance. There is a danger that the constitutional, legal, cultural and leadership factors which together create what is important and distinctive about public services and the people who work in them, are not considered or, worse, are dismissed as the bureaucratic problem which must be “reformed”.

Every organisation, from an assembly line manufacturer to a government office, must rely on informal factors such as staff commitment and the sense of joint purpose if it is to be successful. In complex areas of activity where performance is impossible to measure in any comprehensive way, these informal cultural factors become the prime means of direction, motivation, co-ordination and control. There is no area of activity more complex than the policy domain of government, and it has long been recognised that the core public service is controlled more by culture than by rules, a situation that is likely to continue despite progress in target-setting, performance contracts and measurement.

Some administrations therefore attach high importance to building a closely-knit cadre of leaders and potential leaders with a strong shared sense of the national interest. This strategy has historically been a very successful way of assuring the co-ordination and continuity of the public service and of certain important governance values. In other administrations, leadership selection has been less a matter of overt strategy than the result of informal assessment networks and patronage among successful public servants who have attained the required level of seniority within their departments. This system of producing leaders also ensures cultural consistency and continuity, but with less attention to national vision and horizontality.

The first approach has come under fire in some OECD member countries because the elite came to be seen as insufficiently representative of the people at large and/or unresponsive to new political direction. The second approach tends to be criticised for producing leaders who lack innovation and are too bogged down in the status quo.

Both kinds of system are being modified in some OECD member countries by the introduction of market-type mechanisms such as fixed-term contracts, external appointments and performance management. There is also a countervailing trend of politicians wanting greater use of party political appointments. It is quite clear that these innovations will eventually change public sector culture and therefore the civil service system. What is less clear – but very important – is the long-term nature of that change. It is a matter for theoretical concern at least that the leadership model being pursued in some countries focuses on individual competencies rather than group socialisation around the national interest. Will this weaken the cultural glue of the future civil service? ■

How to make change stick?

Changing rules and processes can change behaviour, and changed behaviour can lead to cultural change, but neither result is automatic. Systemic reform in the public sector requires clarity about the behaviour, attitudes and beliefs that are to be changed, an appreciation of how formidable the challenge of cultural change really is, and a multi-faceted intervention sustained long enough to achieve this change. Many public sector reform efforts have tended to be deficient in all three respects. Some human resource management (HR) interventions treat cultural change as if it can be readily and predictably achieved through the application of certain short-term measures, particularly speeches and training. This is a dangerous myth. Not only is cultural change very difficult, but its outcome is always uncertain.

Major change is uncomfortable and anxiety-producing, and because of this there is a natural instinct to resist it. Dedicated managerial attention can change officials' behaviour but it is only at the point where this behaviour has been internalised by individuals and groups – the point of cultural change – that it is

likely to continue without such attention. So a reform that does not reach the critical point of internalisation will slip back to the prior state once the dedicated effort for change relaxes. And that is what happens to many attempted reforms.

Considerations of culture, values and leadership have become more important in management generally, and are of particular importance in public management. The challenge for governments is to recognise that the public service culture, and the relationship of leadership to it, matter a great deal; that certain public management policies do change the culture in important ways; but that these changes take place over a number of years and their impact is difficult to control or predict. Governments need to develop a better understanding of culture and values in their public sector environment, and ensure that their reform efforts in the civil service system are informed by that understanding. ■

How to craft better policies?

Even when governments have met the challenge of making reforms relevant to the country's situation and set of problems, public management literature provides very little guidance about how to set the order of reforms. It is true that political opportunities for change open up in an unpredictable fashion – usually in response to high-profile public management failures or the emergence of new national challenges. But when such opportunities do emerge, it is important that the public sector advisers involved understand the systemic consequences of different options, and of the sequence in which action should be taken if the desired results are to be achieved.

The mistaken perception that countries share a common problem is often accompanied by the idea that there is a smorgasbord of solutions available, any or all of which will be beneficial. This misconception, peddled under the label of “best practice”, has had tragic consequences in some developing countries, where reforms have been pushed ahead faster than in OECD countries because they are imposed as conditions for loans and grants. Under the influence of such thinking, for example, wholesale privatisation of public assets has been pursued in the absence of any wider legal and institutional framework.

Working out an appropriate sequence of reforms is fundamental to avoiding such problems, and this will depend on the political/administrative culture of the country in question. But some broad lessons on sequence are beginning to emerge from work in developing countries. There is a growing consensus that matters of constitutional governance should be dealt with before matters of administration; that legal frameworks should be in place before dealing with administrative arrangements; that a functioning core civil service is a pre-condition of more distributed public governance arrangements; and that rationalising rules and enforcing compliance should come before starting to reform the rules.

These are still very general guidelines, and even so are often overlooked by reformers hoping for quick results. The area warrants a bigger investment in analysis and research than it has had to date. ■

How to achieve systemic change?

One way to develop a better way of thinking about intervention policy is to be clearer about which kinds of change have systemic effects and which do not. On the basis of the OECD's experience of reform to date, we can identify a number of “levers” likely to produce change (see Box on page 7).

Because these levers can indeed change behaviour, they need to be operated judiciously with a clear sense of the problem being addressed, and an understanding of their dynamic, longer-term, cultural consequences. Many interventions in such areas as strategic planning; evaluation; information technology; and performance management will only have a real impact on behaviour if they are used in support of one or more of these systemic levers. These levers will be discussed in more detail in the other Policy Briefs in this series. ■

How to build capacity for change?

The core capacity which needs to be strengthened if public sector modernisation is to be managed successfully in the future is the ability of governments to reflect on their public sector arrangements as a total system. This requires better diagnostic and risk analysis tools; deeper understanding of civil service culture and leadership and their critical place in public governance; more empirical research and data on

What “levers” are most likely to produce systemic change in the coming decade?

- **Major changes to the budgeting and financial management process.** The budget and accounting process has become the operational planning tool of government and provides the architecture for accountability. The current vogue for including performance targets and measures has further strengthened the role of the budget (and finance ministries) as a lever for change.
- **Major changes to the civil service system.** During the first-generation reforms, some of the biggest impacts – not always good – occurred in those countries that put large numbers of public servants outside the rules of the core civil service system by creating arm’s-length public bodies. The other area of high impact has been major changes in selection and incentives for senior public servants.
- **Major changes to public transparency and accountability.** Over the last decade the growing prevalence of laws requiring the disclosure of official information has been a powerful force in piercing the secrecy of government, and thereby closing the power gap between officials and the public. Also, more local transparency measures such as customer charters and remedies, public score sheets and “league tables” appear to have a high impact on behaviour.
- **Changes in powers of departments.** In those countries where departments have truly been delegated managerial power over both money and staff, real change does occur – sometimes to the point where the centre wants to rein them back in after a few years.
- **The creation and closure of organisations.** This is a very powerful lever for change – and also a risky one. Confronted with an issue of public concern, a minister or senior official can create new agencies or parts of agencies. However, simply setting-up a new body does not of itself solve the problem, and may create new ones.
- **Use of market-type mechanisms.** The introduction of such measures as contracting out, vouchers, market-testing and public/private co-financing have introduced competition, and in many cases more efficiency, into public services. Problems can arise when such arrangements impact adversely on public trust in government, when private sector parties attain a position to exert leverage on public decisions, and when government ends up losing a strategically important competency.
- **Devolution of decision-making power.** Governance is about who takes decisions. The most important governance change in some OECD member countries in recent years has been the devolution of powers from central to local government. In the managerial domain however, the devolution of decision rights to the boards of arm’s-length public agencies is of considerable interest. Where these boards have been advisory, they have operated very much as delegates. However, where countries have introduced boards in non-commercial public bodies with broad decision-making powers, it has given rise to numerous political and governance problems.

behaviour or attitude change; and improved strategies for intervention which recognise both the difficulty of achieving sustained behavioural change, and the fact that change must proceed in a managed sequence.

Management fashions come and go but public sector modernisation is a task that will be with governments for years to come. What we need now is to

professionalise our tools for diagnosis, policy design and measuring results. ■

For further information

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For further reading

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- **Allen Schick, The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change**, 1996
- **Modernising Public Sector Employment, OECD Policy Brief (forthcoming) - available at: www.oecd.org/pol_brief/**
- **Changing Organisational Structures - OECD Policy Brief (forthcoming) - available at: www.oecd.org/pol_brief/**
- **Governing for Performance - OECD Policy Brief (forthcoming) - available at: www.oecd.org/pol_brief/**

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