Public Sector Modernisation: 
 a New Agenda

by

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Executive summary

This paper argues that if governments are to adapt successfully to the changing needs of their society, they require better analytical and empirical tools, and more sophisticated strategies for change than OECD member countries have generally had to date.

The last two decades of public sector reform in OECD member countries have focused on the efficiency of government itself, and of the role of government in society. A range of new instruments and processes have been developed to this end and have been widely copied internationally.

It is now evident that such instrumentalist reforms can have unforeseen effects on government as a whole – and that the same instrument may perform very differently among countries.

Moreover, it appears that governments now face new pressures that require quite fundamental systemic adaptations. A concern for efficiency is being supplanted by problems of governance, strategy, risk management, adaptivity, collaborative action and the need to understand the impact of policies on society. This paper describes this new modernisation agenda, and suggests that new capacities need to be developed for addressing this agenda.

1. Introduction

Ten years ago the objective for reform of the public sector was greater efficiency. While first-generation reforms generally improved services, many reforms were ineffective and some, in some countries, impacted adversely on the government management system, and on governance values.

The need for improved governmental efficiency remains, but complex problems have emerged, creating pressure on governments for more profound changes to meet the requirements of contemporary society. As this next generation of reforms will be more concerned with “steering” than “rowing”, central government agencies themselves must become the objects of reform.

In some important respects the analytical tools and comparative information used in first-generation reforms were not up to the task. Member countries, and the OECD, need to build a new capacity to guide the systemic, cultural and governance dimensions of public management adaptation.
2. Public management in flux

The conditions under which OECD member countries operate are changing fundamentally. There are shifting relationships among state, market and civil society institutions, requiring “governance” as well as management changes. With these new challenges, a government’s stance towards the nature of the public service is becoming a major policy issue across the OECD. Ten years ago only a few countries were seriously involved in public sector reform; now, the public sectors of all countries are having to be re-configured. Public management is receiving an unprecedented level of attention, and these pressures for change will not ease off in the next 10 years.

2.1. First-generation reforms – efficient but insufficient

Many of these improvements are a matter of technical or operating efficiency – more outputs produced with fewer inputs… But as important as it is, efficiency in producing outputs is not the whole of public management. It also is essential that government has the capacity to achieve its larger political and strategic objectives… It will have to move from management issues to policy objectives, to fostering outcomes.2

The first-generation pioneers of public sector reform faced similar problems in adjusting to a changing world economy. They looked for solutions in reducing public expenditure, freeing up the public sector labour market and greater use of market-type mechanisms in government. The rhetoric of the times had identified government as “the problem” rather than “the solution”, and the impression was created of there being a single generic problem – “bureaucracy” – to be addressed by a generic set of solutions – “reform”. It suggested a change from an unreformed to a reformed state, something coherent and purposive taking place over a limited time. Its primary goal was economic efficiency.

The flowering 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 to make them more efficient and more responsive to clients. The main policy differences among the countries involved were not in their goals, but in the degree to which the government did or did not seek consensus among those involved in the reforms.

The reforms were directed at “managerialising” the public sector. In the heat of rhetorical battle, the well-established term “public administration” became non-politically correct. It became fashionable to refer to public management because public administration was very much associated with rules – and part of the managerialist reform was to reduce the specificity of rules.

Have reforms in OECD member countries over the past two decades produced the desired results? The main impact of the reform period was to
change a long-standing view that public administration was unique to an individual country, and unique as a discipline. Shortly after a few countries undertook reforms to make government more affordable, there was a huge upsurge in interest in international comparisons, and in experimenting with processes and techniques from the private sector. It is argued now that some of this enthusiasm for international and private sector borrowing was naïve, but there is no doubt that the way public administration was thought about had undergone a deep and permanent change. From long being “closed shops”, governments opened up to new ideas on how to organise themselves.

In the course of modernising, many countries reduced their reliance on centralised regulation, giving managers autonomy in exchange for better accountability. A number of countries significantly reduced the cost of the public service by divesting activities and by using non-government service providers. Governmental processes moved away from the external control of cost, input and process to internal control and management by performance. These changes have, in many instances, led managers and staff to take more active and flexible approaches to the management of public services, breaking down the compliance-dominated culture that characterised some parts of government. In a number of countries, government agencies have introduced private sector approaches for dealing with citizens, building public image and mass communication.

Although there are different assessments of the practical results of modernisation, the most frequently noted achievement has been in public management efficiency – sizeable efficiency gains through reducing the range of activities in which government was involved, lowering staff levels and reducing real operating expenditures. However, these changes – though necessary in those countries facing fiscal problems – have not turned out to be a sufficient condition for better government. There have been two problems.

The first problem is that reforms have produced positive results but also some negative and perverse results when considering public management as a total system. For example:

- Decentralisation in some continental European countries contributed to renewed local democracy, but also increased problems of financial management and corruption at the local level.
- New Zealand’s tight output specification and accountability reduced unit costs for many services, but had perverse systemic effects on investment in future organisational capacity and attention to the outcomes of policies.
- 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 is currently considered to have deprived the Finance Ministry of the information necessary for it to adequately advise the minister.
Privatisation of British railway services reduced costs, but also public confidence in service quality.

In the United States, the capacity to contract in expertise provided flexibility in personnel policies but is considered by many to have had the perverse effect of running down the overall human capital of the federal public service (Paul Light, The Troubled State of Federal Public Service, 2002).

A second, closely associated problem has been that some reforms have had perverse impact on matters of governance – i.e. who takes public decisions and how these arrangements are safeguarded. For example:

- In the United Kingdom, the creation of Next Steps agencies gave rise to public concern about the relative responsibilities of ministers and chief executives.
- In the Netherlands, at the beginning of the 1990s, the use of independent administrative bodies (ZBOs) was criticised by the National Chamber of Audit for limiting ministerial responsibility and allowing a differentiation of management rules and administrative controls for unjustified reasons.
- In New Zealand, the creation of arm’s-length non-commercial public bodies under decision-making boards raised public concerns about their accountability.
- In Canada, the use of one arm’s-length organisational form had the unforeseen effect of removing some aspects of public expenditure from scrutiny by the Auditor General’s Office.
- In a few countries, the movement of public accounts to accruals has so complicated the accounts that many parliamentarians feel their capacity to monitor public expenditure has been impaired.

Three different conceptual problems contributed to the insufficient attention to systemic and to governance effects of the first generation of reforms.

The first was the uptake of management ideas without sufficient attention to their inherent limitations. There has been a tendency towards reborn “scientific management”, with a strong emphasis on formal systems of tight specification and measurement. It is important to have better goals, targets and measures in government. However, the mensuration movement needs to be tempered by the fact that for complex activities – many of which are at the heart of what it is to be the public sector – a highly formalised approach to management has severe limitations. This approach failed decades ago in the private sector and in the public sector in command economies because it could not address problems of complexity and change, and because there are limits to how much information human beings can or do take into account when making decisions.
The second problem was 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 whole-of-government 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 “institutionalise” deeper governance values and are therefore in some respects inseparable from the constitutional arrangements in which they are imbedded. For example, the idea of 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 some other important governance value such as the disposition of the civil service to work collectively.

Table 1. **A changing perspective in modernising government**

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<thead>
<tr>
<th></th>
<th>Instrumentalist approaches</th>
<th>Systemic approaches</th>
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<tr>
<td><strong>Environment</strong></td>
<td>● Moderate uncertainty and risk</td>
<td>● High uncertainty and risk</td>
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<td></td>
<td>● Clear divisions of labour for actors</td>
<td>● Partnership among government, business, civil society</td>
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<td></td>
<td>● Pressure to reduce public expenditure</td>
<td>● Globalisation</td>
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<td>● Pressure from market (transparency, anti-corruption)</td>
<td>● Pressure for credibility and predictability</td>
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<td><strong>Main Focus</strong></td>
<td>● Delivery structures</td>
<td>● Governance arrangements</td>
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<td>● Management focus</td>
<td>● Policy focus</td>
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<td></td>
<td>● Incentives for efficiency</td>
<td>● Incentives for effectiveness</td>
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<td></td>
<td>● Flexibility/autonomy</td>
<td>● Joined-up, whole-of-government perspective</td>
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<td>● Client/customer focus</td>
<td>● Citizen focus</td>
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<td></td>
<td>● Specialisation</td>
<td>● Integration, co-ordination (horizontal, vertical)</td>
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<td></td>
<td>● Operational efficiency/accountability</td>
<td>● Macro-efficiency – impact/accountability</td>
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<td>● Output focus</td>
<td>● Outcome focus</td>
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<td></td>
<td>● Short-term focus</td>
<td>● Longer-term focus</td>
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<td></td>
<td>● Single-purpose agency</td>
<td>● Multi-purpose ministry</td>
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<td></td>
<td>● Differentiated issues/programmes</td>
<td>● Cross-cutting issues/programmes</td>
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<td></td>
<td>● Efficiency and service improvements</td>
<td>● Risk management and fostering innovation</td>
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<tr>
<td><strong>Challenges</strong></td>
<td>● Poor macro efficiency</td>
<td>● How to balance different approaches/values</td>
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<td></td>
<td>● Silo mentality</td>
<td>● Capacity-building for adaptation to emerging challenges</td>
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<td></td>
<td>● Lack of co-ordination</td>
<td>● Creating new partnerships among stakeholders</td>
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<td></td>
<td>● Weak in managing risk</td>
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3. The need for improved reflective capacity

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. At this stage we lack both the conceptual tools and the empirical information to address this phenomenon. The following are proposals of areas needing further work.

3.1. Taking a whole-of-government perspective

The effort to improve efficiency has led to a reform discussion focused on instrumental/technical management tools. This “instrument fixation” has meant that changes have been made without due consideration of their effect on the wider governmental system – a deficiency noted in a number of recent reform evaluations. A key challenge is now to consider the use of these tools from a systemic perspective in order to promote the public sector’s overall capacity to adapt to challenges while keeping core values and public confidence.

3.2. Strengthened professional scrutiny

There is a fundamental problem in public management of separating rhetoric from reality, and hopes and aspirations from actual achievement. Much reform activity in governments exists in slogans and new formal processes but does not significantly change behaviour. Many more reform programmes are initiated than are ever followed through. There are a number of reasons for this to be so:

● First, public administration and its perceived shortcomings have become a more prominent item on political agendas. There is therefore a perpetual temptation for politicians and senior officials to be seen to be reforming, even if in reality not much is changing.

● Second, real change in government is very difficult. It requires important and upsetting changes to the status quo, and it must be consistently followed over a number of years if it is to become imbedded in the culture. There are political advantages in launching reform initiatives and political disadvantages in carrying them through. Hence the prevalence of reform initiatives that are abandoned before the critical mass-point of cultural change.

● Finally, it is intrinsically difficult to evaluate public management initiatives; and almost any fresh reform proposal, however ill-conceived, can produce a “Hawthorne effect” – the short-term benefit of giving a group of people more attention. This can generate a stream of initiatives that end up in a litter of redundancy in the management process. Human resource management is particularly prone to this (e.g. the introduction of
competency-based management, or 360-degree appraisal in organisations, without addressing fundamental issues of accountability). The growing popularity of performance measurement around the budget and reporting process is prey to some of the same problems – often creating superfluous information flows that nobody in fact uses in decision-making or monitoring.

Focusing on reality, not rhetoric or aspirations, presents a considerable professional challenge for the OECD and its member countries. The solution must lie in:

- developing a stronger capacity to reflect on governance and management issues from a whole-of-government and systemic point of view;
- gathering better empirical information on whether interventions are producing the desired behavioural change. Measurement is difficult in the complexity of public management, yet without it or 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;
- acquiring a better understanding of the time required for serious public management interventions;
- strengthening mutual assistance by putting relatively more effort into peer review and independent observation than country self-attestation, and by encouraging post-evaluation of major initiatives.

3.3. Diagnosis and risk analysis tools

Countries’ responses to the pressures for change show that nations are very different. Their problems and reform options are determined by history and circumstances. Significant human problems rarely yield to a single intervention: there are no silver bullets. Effective remedial action not only requires orchestrated and sustained use of a range of means of influencing people’s behaviour, but also an intervention strategy calibrated to local circumstances.

The implicit assumption of the heady beginnings of some first-generation reformers was that given political will, anything is possible. In reality, nations’ choices are constrained by their social and political context, by “hysteresis” (the enduring influence of past traumatic events; e.g. a culture with tyranny in its past may resist allowing more centralised power) and by the presence or absence of political opportunities for major change.

**Contextual variables** of economic pressures, the 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 countries operate. 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 will work in one country may not work in another because of, for example, 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 assist governments in:

- being precise about the problem they are trying to solve (reform is not an end in itself);
- identifying the factors in the managerial environment that give rise to the problem;
- formulating an intervention plan appropriate to the systemic characteristics and context.

Table 2 illustrates the four levels of analysis regarding the problem of corruption. Comparative international learning should go beyond generic instrumental solutions to sharing what does and does not work in government systems with similar characteristics and constraints. Country profiles drawn on this basis could be more useful than the current generalisations between groups of countries: *e.g.* Anglo-Saxon vs. Continental.

### Table 2. **Factors potentially relevant to addressing corruption risk**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Contributory factors</th>
<th>Systemic characteristics</th>
<th>Contextual variables</th>
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<tbody>
<tr>
<td>Corruption</td>
<td>Inadequate compliance with accounting and reporting rules</td>
<td>Lobbying and party funding system</td>
<td>Power of organised labour to resist change</td>
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<td></td>
<td>Patronage in appointments</td>
<td>Incentives and accountability of officials</td>
<td>Capacity of the legislature to constrain Executive action</td>
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<td></td>
<td>Undue influence by major vested interest groups</td>
<td>Accounting and reporting standards and compliance</td>
<td>Balance of power between head of government and ministers</td>
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<td></td>
<td>Weak oversight of arm’s-length public bodies</td>
<td>Ethical and professional standards among officials</td>
<td>Constitutional autonomy of lower levels of government</td>
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<td></td>
<td>Secreteive and unaccountable officials</td>
<td>Senior civil servant system (elite/ non elite, permanent or politically appointed)</td>
<td>Citizens’ interest in and expectations of official behaviour</td>
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<td></td>
<td>Weak internal and external controls</td>
<td>Official information disclosure regime</td>
<td>Independence/assertiveness of judiciary</td>
</tr>
<tr>
<td></td>
<td>Weak safeguards for awarding government contracts</td>
<td>Effectiveness of external invigators</td>
<td>Political capacity of Executive for hard decisions</td>
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</table>
3.4. Civil service culture and its place in good governance

The least systemically-oriented area of recent public management reforms has been human resource (HR) management. The deep incentives for public servants flow from civil service legislation and procedures, and from the culture which has, for most OECD member countries, developed over many decades, if not centuries. Yet contemporary public management attention tends to be on particular 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, are not reflected on or are dismissed as the bureaucratic problem which must be “reformed”. Civil service governance, important to national governance, needs more attention.

The reason for the success of firms and organisations, over individuals acting independently, is that organisations allow the creation of a community in which mutual trust and a sense of joint purpose are developed, thus facilitating informal co-operation and information exchange. That community and the values and informal capacity for synergy it contains – the organisational culture – are the most important management assets of any organisation. Formal systems are designed to strengthen organisational culture, not displace it. In a well-functioning organisation, the aim should be to progressively lighten the burden of formal management arrangements, as members of that organisation “internalise” its mission and values.

Every organisation must rely on informal factors such as staff commitment and the sense of joint purpose if it is to be successful, even an assembly line manufacturer. 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 despite progress in the areas of target-setting, performance contracts and measurement, this domain will always be governed by cultural means (Ouchi calls such control “tribal”).

3.4.1. Leadership and culture

That the core public service is controlled more by culture than by rules has long been recognised. 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 of developing and socialising a hand-picked elite with generalist skills over the course of their careers has historically been a very successful way of assuring the coordination 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 – including political 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 of perceived governance problems: the elite came to be seen as insufficiently representative of the people at large and/or unresponsive to new political direction. The second approach (sometimes caricatured as “Buggins’ turn”) 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 mechanisms such as term contracts, external appointments and performance management. There is also a trend in some countries away from in-house training and development of senior people and toward greater use of high-level short course management training, often at international business schools. There is also a countervailing trend to this movement towards the market, of politicians wanting greater use of party political appointments. That these innovations will eventually change public sector culture and therefore the civil service system is quite clear. 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 (except for political appointments, which imply some external socialisation process). Will this weaken the cultural glue of the future civil service?

3.4.2. Culture and change

Changing rules and processes can, but does not necessarily, change behaviour, and changed behaviour can, but does not necessarily, lead to cultural change. Systemic reform in the public sector requires clarity about the behaviour and associated 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 HR interventions treat cultural change as if it can be readily and predictably achieved through the application of certain interventions – 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, organisations and their members have a natural instinct to resist it. They have a self-protective mechanism that gives priority to preserving their current interests. According to Schein (The Corporate Culture, 1999: 117), changing culture and behaviour has three stages:

- unfreezing: creating the motivation to change;
- learning new concepts and new meanings for old concepts;
- and internalising the new concepts and meanings so they are incorporated in self-concepts and ongoing relationships.

The distinction between behavioural change and cultural change is important because it includes the notion of critical mass in a reform process. Dedicated managerial attention can change officials’ behaviour but it is only at the point where this behaviour has been internalised by the individuals and the groups – the point of cultural change – that it is likely to continue even without the dedicated managerial attention. Given that dedicated management attention is a critically scarce resource and therefore not sustainable in the longer run, a reform that does not reach the critical point of internalisation will slip back to the prior state once the dedicated change effort relaxes. Many attempted reforms do just that.

3.5. Implications for reformers

Considerations of culture, values and leadership have become more important in management generally, and are of particular importance in public management, especially at the interface between politics and administration. Examination of these issues within governments has suffered, however, from being seen as too soft – a poorly defined set of ideas superficially associated with certain HR interventions – but also as being too hard – involving deep and intractable issues of social behaviour beyond the reach of 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. What seems important is that governments develop a better understanding of culture and values in their public sector environment, and ensure that their instrumental interventions in the civil service system are informed by that understanding.
4. Towards improved intervention policies

4.1. Entry and sequence

Even within reforms relevant to the country’s endowment and problem-set, public management literature provides very little guidance about how to decide the order in which reforms should proceed. Major changes in public management arrangements do not occur in a rationally planned and organised manner. 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. What is important is that when such opportunities for change do emerge, the public sector advisers involved have a good understanding of the systemic consequences of different option, and a principled understanding of the sequence in which actions should be taken if the desired changes are to be effected.

The mistaken perception that countries share a common problem that needs reforming is often accompanied by the idea that there is a smorgasbord of public sector reform solutions available, any or all of which will be beneficial. This misconception under the label of “best practice” has had tragic consequences in some developing countries where reforms have tended to be pushed ahead faster than in OECD member countries because such reforms are imposed as conditions for loans and grants. Under the influence of such thinking there has been, for example, wholesale privatisation of public assets pursued in the absence of any wider legal and institutional framework, or public-private partnerships in countries where public and private interest are already inadequately distinguished, or public sector downsizing efforts which set off an anorexic spiral of reducing institutional capacity.

Fundamental to avoiding such problems is an intervention sequence, which is itself highly dependent on an understanding of the political/administrative culture of the country in question. 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;
- legal frameworks should be in place before dealing with administrative arrangements;
- a functioning core civil service is a pre-condition of more distributed public governance arrangements; and
- rule rationalisation and compliance enforcement should precede rule reform.
But these are still very general (and even now often overlooked by reformers hoping for quick results), and the area warrants a bigger investment in analysis and research than it has had to date.

5. Identifying and using “levers” of systemic change

One way of developing a better way of thinking about intervention policy is to be more clear on which kinds of change have systemic effects and which do not. Can we identify the systemic levers which will be of most importance for the coming decade?

On the basis of observing efforts in OECD member countries, we have concluded that much reform activity is relatively ineffective. There are two reasons for this.

The first, addressed above, is that reforms are often too narrow in their focus and do not address the underlying incentives and dynamics of the systems they are trying to change. For example, introducing a performance management system into an organisation without relating it in some way to the formal or informal incentives operating on senior managers, or of establishing the credibility of performance reporting, is likely to impose an added corporate overhead cost without the benefit of changed behaviour. Many public organisations have layers of modern-sounding management processes sitting uselessly and wastefully on top of systems operating according to traditional incentives.

Second, as also discussed above, the problem is compounded by the fact that public sector reform has become fashionable, and officials have incentives to exaggerate the degree to which it is being undertaken. A good deal of reform has more to do with rhetoric and presentation than substance.

There is therefore room for work on what interventions produce systemic change – and their strengths and weaknesses in different contexts. On the basis of the OECD’s experience of reform to date, the following are the levers most likely to produce systemic change.

- **Major changes to the budgeting and financial management process.** In modern government the role formerly played by central planning has been taken over by the budget. The most powerful incentives for politicians and public servants are around the allocation and disposition of funds. The budget and accounting process has become the operational planning tool of government and provides the architecture for accountability. The role of the budget (and Finance Ministries) as a lever for change has been further strengthened by the current vogue for including performance targets and measures in the budget and accounts.
● **Major changes to the civil service system.** During the first-generation reforms, some of the biggest impacts – not always good – have occurred in those countries that have put large numbers of public servants outside the rules of the core civil service system through the creation of arm’s-length public bodies. The other area of high impact has been major changes in the 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 – though most applicable to the more measurable functions of government. The public disclosure of evaluation and review reports, especially in areas such as health and education but also more generally, can have a high impact.

● **Changes in powers of departments vis-à-vis central agencies.** “Letting managers manage” is one of those areas where there is often more rhetoric than action – mainly because such delegations are often incomplete. For example, in the Netherlands, the first agencies created after 1994 were supposed to implement a results-oriented management model. At first, this only led to major frustrations, as the reporting policy department continued its inputs-oriented management. However, in those countries where departments have truly been delegated managerial power over both money and staff, real change does occur – sometimes to the point of the centre wanting 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. Political benefits are front-loaded in structural reform. Confronted with an issue of public concern, a minister or senior official can create new agencies or parts of agencies or invigilating units, or boards, and this demonstrates political or managerial assertiveness. The display becomes even more convincing when the new body is named after the problem being addressed. However, creating a new body does not of itself solve the problem, and may create new ones. One risk is redundancy: if the new body is not integrated into how the system as a whole takes decisions, then, apart from the political benefits at the point of creation, the entity becomes a useless overhead cost. Also, the use of structural change as a lever of reform needs to take account of the high risks of new start-ups in areas of government where cultural controls are paramount. Such new organisations can face very serious problems in the absence of culture-carried assets such as institutional memory and
professional networks, and it can take several years before they become effective—and, in this weakened state, then may be vulnerable to scandals and further structural change.

- **Use of private sector service providers.** The use of private sector providers for both internal and external services has considerable impact, not just through displacing public servants but through putting pressure on government performance by allowing a comparison of cost and quality, and by providing government with greater operational flexibility. Generally, in-sourcing and out-sourcing seem to have worked well. Where problems have arisen, they have tended to be with complex projects (such as major IT investments) where government has lacked the capacity for adequate project management. Very large undertakings, however, especially those using private finance, have sometimes created governance problems when the activity has become politically sensitive (e.g. the use of the private sector in air baggage screening), when the private sector party has been seen as exerting too much influence on government actions, or when the political costs of project failure are such that private investors can ride free on a *de facto* government underwrite.

- **Devolution or centralisation of decision-making power.** As with delegation of management, sometimes formal changes are not accompanied by the reality of devolution. However, a real shift of decision-making responsibility has important consequences. An interesting comparison is that of the boards of arm’s-length public agencies. Where these boards have, in effect, been advisory, these bodies have operated very much as delegates. However, some countries have introduced boards in non-commercial public bodies with decision-making powers analogous to those of the board of directors of private companies. This category of agency has given rise to numerous political and governance problems.

  For the reasons discussed, 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. The converse of our hypothesis is that if a reform effort is not using one or more of these levers, it is most unlikely to be capable of systemic change. There are an array of instrumental interventions in such areas as strategic planning; evaluation; information technology; performance management; management information; performance pay; and visions, missions and values that will have real impact on behaviour only if used in support of one or more of the systemic levers above.
6. A new agenda – and a new capacity

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 (recognising the important differences between one governmental situation and another);
- deeper understanding of civil service culture and leadership and their critical place in public governance;
- more empirical research and data on behavioural or attitudinal change (recognising the prevalence of empty rhetoric and superficial action in this area);
- improved intervention and change strategies – which recognise both the difficulty of achieving sustained behavioural change, and the fact that change must proceed in a managed sequence.

Notes

1. “Governance” as used in this paper refers to the distribution and safeguarding of power and authority. Public governance deals with how state authority and decision-making are allocated, and how these arrangements are kept safe in terms of preserving constitutional values over time.

ANNEX 1

List of Ministries and Ministry-level Presidential Secretariats

1. Ministry of Agriculture, Fisheries and Livestock
2. Ministry of Communications
3. Ministry of Culture
4. Ministry of Defense
5. Ministry of Education
6. Ministry of the Environment
7. Ministry of Finance
8. Ministry of Foreign Affairs
9. Ministry of Health
10. Ministry of Industry and International Trade
11. Ministry of Justice
12. Ministry of Labor
14. Ministry of National Integration
15. Ministry of Planning, Budgeting and Management
16. Ministry of Rural Development
17. Ministry of Science and Technology
18. Ministry of Social Assistance
19. Ministry of Transportation

There are also several Secretariats within the Presidency that have the status of ministries:
1. The Civil House (Chief of Staff)
2. The Institutional Security Secretariat
3. Secretariat-General of the Presidency
4. Secretariat of Communication
5. The Attorney-General's Office
6. The Internal Control Secretariat
Notes

1. For a discussion of Brazil’s economy, see OECD Economic Surveys – Brazil.

2. All expenditures except interest on the debt are covered. The Constitution mandates a plan to be issued for capital expenditures but the inclusion of other expenditures is discretionary.

3. There is a three-year high-level fiscal framework attached to the Budget Guidance Law. This is, however, a high-level macro-economic framework with the macro variables not being operationalised.

4. For further elaboration of such frameworks, see A Longer-term Focus to Budgeting, OECD, GOV/PUMA(2002)1.

5. Three out of the five sub-committees are permanent: the Committee for the Budget Revenue Evaluation, the Committee for the Amendments Evaluation, and the Committee for the Evaluation of the Information sent from the Audit Office.


7. A list of these entities is provided in Annex 1.

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