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Opportunity, Strategy and Tactics in Reforming Public Management

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Every successful public management reform is an amalgam of opportunity, strategy and tactics. Opportunities are country-specific conditions that facilitate some reforms and retard others; strategies are policies and actions that set goals for government and for the tasks to be undertaken in implementing wanted change; tactics are the methods used to mobilise support for and overcome obstacles to reform.

Although opportunity is rooted in local conditions, when similar reforms occur in many countries, it is likely that common change-generating conditions also spill over national boundaries. Management reform may become ripe because of elections and changes in government, shifts in public sentiment, a budget crisis or program failure, the drive of politicians or managers to be innovators and the seepage of new ideas into the conventional wisdom on how public organisations should be run. Reforms that appear in many countries may flow from a world-wide slowdown in economic growth or from broad, cross-national attrition in confidence in government. Opportunity both facilitates and constrains; it opens up some possibilities and shuts off others. But opportunity is not just there for the plucking; it must be detected and exploited. And constraints are not ironclad bars to innovation; they can be surmounted or evaded by wilful politicians and managers.

Strategy is the deliberate effort to create a future that is materially different from what would ensue if prevailing conditions were allowed to run their course. It requires verve and vision, the drive to set into motion change-driven processes, to establish objectives and priorities, to tear down old institutions and practices and to make way for new ones, to take the risks that accompany change, and to have confidence in what government should become and the steps required to achieve that vision. Strategy does not necessarily mean making big plans, for it also can entail embedding a culture of ongoing, incremental change in public institutions. In fact, strategy often involves choices between these two approaches or some variant of them. Strategy also entails implementing actions and the commitment to give the change process essential support and resources.

There sometimes is tension between opportunity and strategy, for the more one is beholden to the former, the less attention one might give to the latter. Often opportunistic reformers, by contrast, have a tendency to leap to the untried and risky. Despite the current affectation of labelling just about every government plan or reform as strategic, genuine strategic change is rare because it is difficult to pull off. The temper of much contemporary management reform is reflected in Ireland's case. Referring to the government's strategic management initiative (SMI), Ireland observes that the focus "is essentially on management issues and challenges rather than on the role and function of government and whether these should be radically changed. As a result, the primary thrust ... remains on service delivery and better management of all aspects of administration; in short on delivering better government." But the paper also acknowledges that reform of the magnitude being pursued may be expected "to lead to a process of questioning the role and functions of government."

Does Ireland's SMI rise to the level of being regarded as truly strategic? Is its strategic management initiative an effort to transform public administration or to make spotty improvements? Is it animated by an overriding conviction that big changes are imperative, that even if the task is hard and must be pursued piecemeal rather than all-at-once, it should be undertaken? Similar questions can be asked of the German, Dutch and Norwegian reforms, and perhaps of initiatives in other countries as well. Does it matter whether reform is purposely strategic or merely opportunistic? Perhaps not, for some strategies fail and some opportunities blossom into much bolder innovations than were contemplated at the outset. Britain's management reform started modestly, with efficiency reviews and a financial management initiative, but they grew into a fundamental restructuring of public institutions and the opening up of public services to market competition and greater citizen/customer influence.

While it is likely that a well-developed strategy will produce different outcomes than would a reform born solely of opportunism, confining strategic thinking to the launch stage may condemn the enterprise to failure. It is a mistake to define goals and paths at the outset and to then follow the script regardless of what ensues. On the basis of almost 40 years observing government reforms in many venues, this writer would argue that the failure to systematically evaluate what has been accomplished is one of the greatest threats to durable innovation in public management. Over the years, in many countries management reforms have tended to live an examined life. They typically begin with much fanfare, but after a decent interval, most just fade away or are displaced by the next wave of reform. There are notable exceptions to this generalisation, however. In countries that have advanced the farthest in rebuilding public management, the early innovations have been rigorously assessed and recalibrated. New Zealand is a case in point. It is often said of that country's far-reaching reforms that they were propelled by a coherent, integrated set of principles. True enough, but a large number of the practices that now distinguish New Zealand's public management were not in the first tranche of state sector reforms. Purchase agreements came later, as did strategic and key result areas, departmental forecast reports, strategic plans and efforts to assess the government's interest as owner of state entities. The constant in New Zealand's reform has been the purpose of change, not the toolkit of management practices. In New Zealand and elsewhere, the best strategy may be to set course at the start, forthrightly monitor progress, be honest about what has worked and what has not, and make numerous mid-course corrections.

Doing all this requires effective leadership. Successful reform does not just happen by itself; it depends on leaders who exploit openings and give impetus and direction to change. Strong leaders do not just "read" opportunities; they make them – by moulding public opinion, bringing new blood with new ideas and initiative into government, reaching beyond safe and traditional constituencies to build coalitions in support of change and by taking political and managerial risks that broaden the possibility of change. Strategic reform requires this and more: leaders who venture beyond today's opportunities and constraints and boldly envision a different future, who then mobilise the political and institutional resources of government to produce transformative improvement in the structure and performance of public organisations and who bolster support for their strategy by elevating public expectations concerning the results that government delivers.

Strategy without opportunity cannot advance the cause of reform very far. Without favourable conditions, strategy becomes visionary, lofty ideas that have little prospect of being implemented. Indeed, without the right opportunity, strategy can end up as a substitute for action, fostering the impression that big changes are underway even though no implementing steps have been taken. On the other hand, opportunity without strategy is likely to exhaust itself in faddism, drifting from one fashionable innovation to the next, without leaving a lasting imprint.

Tactics blend together opportunity and strategy to enhance the odds that intended changes will be successfully implemented. It entails judgements on the pace and sequence of innovation, the organs that should be entrusted with the task, the sectors on which reform is to be concentrated, the political cast given the reforms, the extent to which the government associates or distances itself from the changes, decisions on whether to proceed by administrative fiat or through legislative authorisation, and many other implementation decisions. A good tactician considers how strategy can best be executed in the light of available opportunities. Tactical skill requires institutional memory, a keen sense of timing and hard-nosed decisions on the approach to be taken.

Although management reform must be a blend of opportunity and strategy, the proportions matter. During the post-war period, management reform was predominantly opportunistic; during the past two decades it has become increasingly strategic. There is a synoptic ambition in contemporary reform that was absent in earlier waves of innovation. Today's reforms are bolder, more uprooting, more goal-driven and more animated by the conviction that management has to be transformed and improved in order to strengthen democratic governance. The shift in orientation has been due to many factors, the most prominent include declining confidence in government, upheavals in management theory and business practices, revolutionary developments in information technology, pressure to devolve resources and responsibility from central organs to local governments and field units, efforts to slow or reverse the enlargement of government, and most important of all, in an age in which citizens expect more from government but think less of it, business-as-usual management is not good enough.

1. The roads not taken

Whether opportunistic or strategic, there are significant differences between today's reforms and those tried in earlier times. The generalisations set forth in this and other sections do not fit all countries. Some countries have been more opportunistic, others more strategic. Nevertheless, the paths they have taken are different from the ones favoured in previous reforms.

1.1. Contemporary reform is more likely to be comprehensive than piecemeal

It is not confined to a few institutions or a single process. The aim is to uproot entrenched management practices and behaviour, not just to upgrade the civil service system or budget procedures. Even when implementation is spread over an extended period, as has been the case with the United Kingdom's Next Steps Initiative, the comprehensive reach of the reform agenda is manifest at the outset.

In striving to restructure public management, some governments have resolved to reform all major sectors and administrative units. Others, however, have opted to pilot test their reforms before deciding on full implementation. Germany, for example, tested flexible budgetary management arrangements before it enacted legislation that authorised the new practices. Similarly, Sweden conducted a closely monitored test of three-year budgetary procedures before launching comprehensive management reform.

Often, however, pilot testing slams the door on further innovation, for it conveys the message that the government is not really committed to reform or is uncertain about the direction it should take. The key to successful pilot tests that promote innovation is for the government to establish a strong commitment to reform in advance by specifying the steps it will take when the tests have been completed to revamp management systems and practices.

1.2. Contemporary reform is not confined to particular administrative processes

For generations, management reform has been compartmentalised along the main lines of public administration. One set of reforms has sought to rationalise budget decision-making, another has targeted civil service practices, still others have sought to improve public procurement, cash management, accounting systems or other parts of the machinery of government. In this way, activities that should have been linked were cordoned off into separate specialisations. Accounting reform proceeded on one track, budget innovation on a second, advances in auditing on a third. One group of reforms aimed at raising productivity, a second experimented with performance budgeting, a third introduced performance audits. The obvious interdependence of these isolated reforms were neglected because the principal aim was to improve a particular process, not to lift managerial capacity.

Not surprisingly, reforms that concentrate on particular tasks rather than on managerial systems and behaviour rarely make much headway. Budget reform is a case in point, for it has been premised on the mistaken notion that the process by which funds are allocated can be revamped without taking account of the information generated by the accounting system, the demands made by auditors, the incentives provided by civil service rules and other administrative procedures, the embedded habits and norms or budget makers, the interface between managers and politicians and numerous other managerial considerations. In much contemporary reform, by contrast, budgeting is regarded as part of a grid of interconnected practices and processes. Budgeting cannot be reshaped without also restructuring the management framework within which financial resources are spent and activities carried out. The same can be said for reforming the civil service and other basic management systems.

1.3. Contemporary reform seeks to devolve rather than concentrate managerial authority

Reforming public management impels governments to assess and modify existing organisational structures. The assessment might lead to the establishment of new entities, a redefinition of organisational boundaries and responsibilities or the elimination of some units. But there is a marked difference between the restructuring favoured in the not-so-distant past and some contemporary realignments. Once, reformers sought functional integration by consolidating related programs and activities in the same department. All educational activities were grouped in a Department of Education, transportation services in another department, the provision of health care in a third, and so on. This made for a small number of big departments, as well as for the concentration of managerial resources and authority at the centre of each department. Inasmuch as there is no perfect functional alignment, the quest for integration led to frequent reorganisation.

This type of reorganisation still occurs, as in Australia's consolidation of its departments into broad portfolios during the 1980s. But the main thrust these days is in the opposite direction – breaking up functionally integrated, multi-purpose departments into a number of service delivery entities, each with a clearly defined mission, operating independence and performance targets. There are two main reasons for decoupling services and operations. On the one hand, large departments that are structured as holding companies for loosely related activities tend to be top-heavy, slow-moving and inefficient entities that have high operating costs, quash innovation and give managers muddled messages as to the performance expected of them. On the other hand, in functionally integrated departments, service providers "capture" policy-makers, feeding them advice that blunts innovation and weakens accountability.

In the decoupled model, core departments retain important functions in policy-making and advice, setting standards and targets, and overseeing the performance of operating agencies. This form of organisation is still quite new and not enough experience has accumulated to assess its long-term effectiveness. Already, however, concern has been voiced that departments may have been weakened to the extent that they cannot carry out essential co-ordinating functions. It may be that in the enthusiasm to liberate operating managers, inadequate attention has been given to the resources and authority needed at the centre of government and in departmental headquarters to rationalise programs and policies that cut across agencies and to maintain strict accountability.

1.4. Contemporary reform relies on incentives, not just formal rules, to change behaviour

In traditional administrative reform, it is often assumed that changing formal rules suffices to alter the actions and performance of managers. This presumption is rooted in the command and control model of public administration, in which central authorities promulgate and enforce rules and subordinates comply. But a succession of failed reforms and new theories and evidence in business management, institutional economics, organisational theory and related fields have driven home the message that informal rules and managerial incentives must be changed in order for a high-performance managerial ethic to take hold. Changing the formalities does not make much of a difference if the self-interested behaviour of managers sabotages organisational objectives.

Many governments have concluded that the best way to motivate managers to improve performance is to set clear and reachable performance targets, give managers sufficient flexibility so that they can improve operations and hold them personally and organisationally responsible. This orientation dominates the strategic reform agenda.

1.5. Contemporary reform is concentrated on operations and service delivery

In line with the emphasis on modifying incentives and behaviour, the focus has shifted in many countries from strengthening policy-making to upgrading line operations, the delivery of services, the productivity of the public service and the responsiveness of government to the interests of citizen/customers. Top-down reform inevitably leads to "one size fits all" rules which circumscribe operating discretion and deter field managers from tailoring their services to suit local conditions. In top-down reform, the relationship between the centre and operating units is hierarchical, the former make policy, set the rules, issue orders and demand compliance; the latter are supposed to carry into effect the policies handed down to them and produce the information demanded by superiors.

Top-down administrative structures have serious shortcomings: they demand compliance and uniformity when flexibility and diversity are called for; they stress inputs and neglect results; and they spur managers, who have a job to get done, to evade or subvert the rules. Beneath the veneer of rule-based public administration an informal managerial ethic flourishes, softening the rules and loosening the rigidities. Entrepreneurial managers devise means of outwitting the controls while paying lip service to them. They manage to travel even when the travel budget is depleted, fill positions when a hiring freeze is in place, procure IT without going through central procurement, and so on. The problem with this behaviour is that many managers spend more time evading onerous controls than driving their organisations to higher performance.

1.5.1. Opportunity

The fact that many countries have similar reform objectives suggests that the opportunities are not entirely dependent on local situations. Some opportunistic conditions cross country boundaries, others do not. This section considers both types of opportunity.

1.5.2. *Timing*

Opportunities come and go. For some reforms, the right time has arrived, for others it has already passed. During the 1990s, Canada appears to have had significant success in rigorously reviewing its programs, but it made little headway when it undertook to rationalise its programs through the Public Expenditure Management System (PEMS) during the 1980s. Of course, there are material differences between the current and the previous approach, but they do not fully explain why one innovation has promoted the realignment of government program expenditures while the other one had little to show for the substantial investment made in it.

Innovations yield different outcomes, depending on when they are tried. The saying, "an idea whose time has come", applies as much to government reform as to other innovations. Two decades ago, Canada invested heavily in building evaluation capacity in the Comptroller General's office. It is generally thought that the impact on program and budget decisions was modest. About a decade later, Australia launched an ambitious evaluation strategy that has made a measurable difference in the reallocation of resources. Arguably, Canada learned from its earlier PEMS experience and has undertaken program review in a more effective manner, and Australia learned from Canada's failure to implant an evaluation culture. But this cannot be the sole explanation of the earlier failures and later successes. Just about every country that tried to build a formal program analysis and review system in the 1960-1990 period failed. The Netherlands made little progress with a reconsideration effort that involved the Cabinet in selecting programs for re-examination; Sweden had little results from program budgeting, the United Kingdom installed and then discarded a program analysis and review system, the United States adopted an ambitious planning-programming-budgeting system, and other countries also introduced similar innovations. In my view, the earlier reforms may have been premature: voters and politicians were not yet convinced of the compelling need to halt the growth in government spending and to reallocate resources from lower to higher priorities. Although program reallocation still is difficult, the political mood of today has been much more hospitable to efforts to rearrange government programs and expenditures than it was during the post-war growth spurt.

1.5.3. *Government*

Elections and changes in government open or narrow opportunities for management reform. In fact, major changes in government organisation or programs often are launched by new governments shortly after taking office. The British reforms were initiated shortly after Margaret Thatcher became Prime Minister in 1979; they were extended (by means of the Citizens Charter) a decade later by John Major shortly after he became Prime Minister, and redirected by Tony Blair after his election in 1997. Australia, New Zealand and Canada also adopted reform agendas shortly after new governments were inaugurated. Several factors explain the impulse to innovate at this stage in the political cycle: *i)* a new government is more inclined to change course than one which has held power for an extended period; it also has the energy and fresh ideas to break new ground; *ii)* when the old government is defeated at the polls, the election may be regarded by the successor government as a mandate for change; *iii)* in coalition governments (such as the Netherlands) the process of forming the government often entails negotiations among the coalition partners as to the policy changes and reforms to be undertaken. There definitely has been a trend to more detailed coalition agreements which spell out what the government will do during its tenure; *iv)* an incoming government may confront a crisis that requires immediate attention and makes big changes politically attractive.

One election does not make for lasting reform. Basic reforms that uproot established practice must have staying power beyond a single election, and preferably beyond a single government. The countries that have made the most headway in restructuring public management are those in which the reform process has been carried forward and deepened by successive government. Moreover, reforms are most likely to endure when they survive a change in government from one party (or coalition) to another.

In many countries, basic reforms started by one government have been continued by the next. A shift in political orientation from left to right, or in the opposite direction, has not interrupted the reform process. Perhaps the most interesting case of reform surviving political change has occurred in the United Kingdom, but the same pattern is found in other countries as well. The Thatcher-Major management reforms would be of little current interest if they had not been continued and extended by the Blair Government.

Political orientation has not been a reliable indicator of the pace or direction of reform. New Zealand's Labour Government introduced market-oriented reforms following its election victory in 1984. In some countries, a centre-right government has promoted management change; in others, a social democratic government has taken the initiative. Regardless of their political affiliation, ministers and senior civil servants have supported the drive for management improvement. Their leadership has spelled the difference between reform that is stillborn and reform that transforms the public sector.

1.5.4. Ideas

When leaders innovate, they often are propelled by powerful ideas that give them confidence that what they are doing is the right thing. Significantly, however, ideology does not play a role in contemporary reform. Today's political leaders are looking for ideas and practices that promise to improve the services government is providing, not to redefine the role and purpose of government. They do not have to be *avant garde* to innovate; they can draw from a body of developing and accepted ideas concerning the organisation and operation of the public sector, including the following:

- Performance improves when managers are told what is expected of them and results are measured against these expectations.
- Performance improves when managers are given flexibility in using resources to carry out assigned responsibilities.
- Performance improves when operational authority is devolved from central agencies and departmental headquarters to operating levels and units.
- Performance improves when government decisions and controls focus on outputs and outcomes rather than on inputs and procedures.
- Performance improves when managers are held accountable for their use of resources and the results they produce.

Not all reform ideas are as widely accepted as those listed above. Some still are contested or untested. These include propositions that performance improves when: *a)* citizen-customers have choice in selecting the supplier; *b)* government services are out-sourced; *c)* public organisations are run along business lines; or *d)* service delivery is separated from policy-making. Although not all contemporary management ideas have been widely applied, this writer agrees with the observation of B. Guy Peters that "contemporary reforms are driven by ideas. … This characteristic distinguishes the current round if reform from some of the tireless tinkering that has tended to characterise administrative reforms." As we shall see, ideas in currency have provided the strategic underpinning for transforming public management in industrial democracies.

1.5.5. *Innovators*

Ideas rarely sell themselves; they need promoters with sufficient authority to persuade leaders to risk new approaches. In the past, the reform agenda in many countries was set by special commissions or task forces established to study particular issues or problems. Typically, the commission would produce a well-publicised report containing a number of recommendations and then turn the implementing job to existing government organs. Some countries still draw innovative guidance from *ad hoc* entities, but the more likely source these days is from within government itself. The senior civil service has been a fertile sources of reform ideas. Ireland describes the role of the senior civil service in the reform process.

In every country, the innovators have come from political echelons or the top ranks of the public service, not from operating levels. Strategic reform has not bubbled up from below, nor should it be expected to. The broad scope of reform requires perspectives, and power that are held either in central agencies or departmental headquarters. Top-down, reform, however, runs into problems if it is perceived by subordinate units as just the latest exercise in administrative centralisation.

1.5.6. Crisis

In public management, as in other endeavours, crisis can be a spur for change. When leaders become convinced that the course the country is on is unsustainable, they may embrace remedies that would not be tried in normal times. At least two countries (Finland and New Zealand) went through a serious economic crisis that called into question established policies and practices; at least one (Norway) has not experienced any significant crisis. Most of the countries have been impelled by a progressive erosion in confidence that the course they were on – progressive enlargement in the relative size of government, steadily rising tax burdens, stagnant or declining productivity in public institutions, and (in a few countries) a perceived decline in the public service performance – could be sustained. In other words, decline rather than crisis has been the number one motivating factor.

1.6. Strategy

There are many paths to management reform, that different governments have pursued similar objectives in different ways. This is not surprising, for management reform must comport with a country's political administrative values and traditions. In fact, one can discern as many strategies as there are countries, for even countries proceeding along the same general path combine elements of various strategies in different ways. Without claiming to be comprehensive, this section discusses four strategies: market-driven reforms that rely on competition, prices and contracts; managerial reforms that rely on the professionalism, skill and public service ethic of managers; program review which relies on policy analysis and evaluation to reallocate resources and redesign programs; and incremental deregulation that relies on ongoing review of rules and practices to streamline management and remove wasteful controls. The four approaches have some important common elements. All strive to make public services more efficient and responsive; all seek to strengthen accountability for results and resources; all encourage greater variety and flexibility in the provision of services. But even when they share objectives, the four strategies proceed differently. A market strategy would lead government to divest certain tasks or activities; it would favour the most efficient (or least expensive) supplier, even if the outcome was a truncated, weakened civil service. A managerial strategy, by contrast, would seek to strengthen public service norms by giving rank and file civil servants a greater voice in running operations and in accommodating variations in local conditions. A program strategy seeks to optimise social outcomes by shifting resources from lower to higher priority programs. An incremental strategy looks for opportunities to deregulate and ease management rules.

Underlying the various strategies are different conceptions of the future role of the state. The market strategy draws a sharp distinction between the state as policy-maker and the state as service provider. It has a strong preference for living off the delivery of services to non-governmental entities or to operationally independent agencies. The managerial model allows a broader role for government in providing public services but wants these activities to be less hobbled by bureaucratic rules and more sensitive to the wants of recipients. The program strategy envisions a state whose primary responsibility is producing desired social outcomes within severe resource constraints. The incremental model seeks a state which continues to function along familiar line, but is less burdened by old rules and requirements.

Each country can be slotted into one or more of these categories. Some classifications are straightforward. The main thrust of New Zealand's reforms has been to establish market-like arrangements and incentives within government. Canada has pursued a program-oriented strategy and has made considerable progress in aligning public expenditures and program results. Germany has maintained an incremental approach for an extended period, making frequent adjustments in rules and operations to improve management. Ireland and several other countries have emphasised managerial reforms.

These classifications conceal an important feature of reform: most countries pursue more than one strategy. Each country's hybrid is distinctive. The United Kingdom, for example, has both market and managerial innovations; Canada uses both program and managerial strategies. In every country, however, one strategy usually is paramount. A country seeking to enhance public performance may turn to markets for some purposes and to public managers for others; it may also review program commitments in the light of political demands and resource constraints.

If the applications are hybrids, why be concerned with defining and classifying strategies? Why not consider each country's bundle of innovations on its own terms without fitting it into pre-set categories? The answer is that each strategy raises particular questions which should be addressed in assessing the prospects for success. In the market strategy, one must ascertain whether true conditions for competition have been established. Just labelling something a market or a contract, or assuming that the means of providing a service is contestable does not make it so. In the managerial strategy, the key issue is whether adequate accountability mechanisms are established. In the program strategy, the key issue is whether government has the political will and strength to allocate resources and take other actions on the basis of a fundamental review of programs. And, finally, in the incremental approach, the overriding question is whether government can sustain interest and support for reform over an extended period. If these key questions are not addressed in a forthright manner, reforms that showed much promise at launch may fade away, leaving few traces that they were ever tried. This was the fate of many past management reforms; thinking strategically can help avert a similar fate for current and future reforms.

1.6.1. The market strategy

"If there is a single alternative to the traditional model of public administration favoured by contemporary politicians, academics and probably the public," Peters writes with some overstatement, "it must be the market model." Market-type arrangements have penetrated core public services in some OECD member countries, but not in most, and not everywhere in the same manner. Political culture has a role in shaping both receptivity to market-oriented solutions and the type of solution adopted. A fair assessment of management reform would conclude that marketisation has been much more widely applied in state enterprises and business-type activities than in basic public functions. For example, education still is publicly financed and provided in virtually all countries, and the use of market-type devices such as vouchers or alternative schools still is quite limited, though more extensive than a decade ago. In the core public sector, it has proven exceedingly difficult to establish true markets in contrast to simulated ones.

In this writer's view, the main contemporary influence of business practices on government management innovation has not been in generating competition but in changing the concept of public organisations. For decades, the vertical integration of firms (internalising the production of components) was paralleled in the public sector by the functional integration of departments (combining in the same entity the various programs contributing to the same objective). Vertically integrated firms were as layered, hierarchical and bureaucratised as big government departments. In both, command and control systems ran from the top to the bottom and uniformity and compliance were enforced by central controllers who wrote the rules and monitored the actions of subordinates. Nowadays, however, vertical integration is widely regarded as rigid and inefficient and many large firms have been reorganised into semi-autonomous business units which outsource much of their production. A number of governments have followed suit, breaking up integrated departments into small units and contracting out some functions.

Although the market strategy affects the form of government organisations, its principal objective is to create markets within government. This model is predicated on the expectation that consumer choice and competition will drive service providers to be more efficient and responsive. But competition and choice operate in two distinct domains: one is in the relationship between customers and suppliers, the other is in the relationship between government entities purchasing and providing services. The two types of markets – one external, the other internal – give rise to different issues. External markets, such as are created when government operations are privatised or contracted out, or when citizens are given the option of selecting their providers raise questions concerning the adequacy of information available to consumers, the differential impact of choice on the affluent and the poor, and the transaction costs of empowering consumers to select providers. Deeper concerns pertain to whether marketising public responsibilities might crowd out important social values such as equality and uniformity in the provision of services, a public service ethic and the sense of citizenship that one develops through government-provided education and other basic services.

Internal markets raise more complex questions, though ones not likely to receive as much attention because they involve transactions within government. These internal transactions may include the purchase of services by government or ministers from departments, purchases by departments from line or field units and purchases by departments from autonomous agencies. Even when the trappings of markets, such as contracts and prices, are introduced, the fact remains that relationships within government are not truly arm's-length. And because they are not, the gains from competition may be illusory rather than real.

New Zealand, which has advanced much further than any other country in establishing internal markets relies on a network of contracts to formalise relations between in-house purchasers and providers. It has performance agreements for department heads, fixed-term contracts for senior and middle managers, purchase agreements for ministers to contract for services at agreed prices from departments, and contracts by which departments purchase services from other government entities. A number of structural and operational changes have been made to institutionalise the contractual relationship, including: *a)* ministers have a free choice to purchase services from departmental or other sources; *b)* the outputs to be produced are specified in advance; and *c)* fulfilment of the terms of the contracts if monitored through reports and audits.

There is no doubt that New Zealand has been extraordinarily creative in building contracts into government. No other country has extended contractual relationships into so many areas of public management and program operations. But as creative as New Zealand's internal markets are, they may be weak substitutes for genuine markets. Real markets have actual rather than just potential contestability; real markets specify the unit cost of outputs, not just total costs; real markets allow redress if the contract has been breached. Several questions need to be considered in appraising the robustness of internal markets. To what extent do ministers actually purchase services from the outside sources rather than from government entities? Have ministers cancelled contracts because they were dissatisfied with internal suppliers? Is the amount paid by the government adjusted if the volume or quality of outputs varies from the contracted terms? What recourse does the government have if internal suppliers fail to fulfil the terms of their agreements? Do government departments have the requisite skills to negotiate contracts and monitor compliance? What are the transaction costs of maintaining an extensive network of contracts? What evidence is there that organisational performance has been improved? The answers to these questions should shed light on the suitability of a market strategy in other countries.

1.6.2. Managerial strategy

This strategy is predicated on the presumptions that "letting managers manage" by liberating them from *ex ante* controls on inputs and operating procedures maintained by central controllers (especially with regard to human and financial resources) boosts organisational performance. The driving assumption is that public managers want to do a good job, they are committed to the prudent and efficient use of public money, they care about the quality of services and whether recipients are benefiting, and they have a strong public service ethic. But, the argument runs, they have been held back from doing their best by rigid rules which enforce uniformity and retard managerial initiative. Take away these assumptions and "letting managers manage" injects a dangerous permissiveness, an "anything goes" mindset into the conduct of public business. Worse yet, it gives opportunistic managers license to pursue their self-interest at the expense of the government or citizens.

The management strategy sweeps away practices that once were regarded as bulwarks of rule-based public administration. At one time, standardising rules and procedures was regarded as a signal advance in government. All agencies were required to budget the same way, all had to abide by the same rules in hiring and paying civil servants, all were subject to the same procedures for buying goods and services, arranging accommodations and travel, and so on. The bulging rule books were regarded as *prima facie* evidence of sound administrative practices; line item budgets dictated the number and cost of the myriad things purchased by spending units. Just about everything that cost money had its own rules and enforcement procedures. The fact that the rules circumscribed administrative discretion was regarded as a virtue, for civil servants could not be trusted to do the right thing on their own. They had to be monitored and controlled. Upholding the legality and propriety of administrative actions through central control, was the foremost objective of public administration.

The managerial ethic argues, however, that whatever laudable purposes the control regime may have served in the past, it has become counter-productive. The controls impel managers to care more about inputs than outputs, more about procedures than results, more about complying with the rules than on improving performance. A managerial strategy strips away most centrally enforced controls. One approach is to selectively discards rules and procedures that appear to be the latest, useful or most onerous; another is to broad-band various administrative rules (for example, reducing the number of civil service or budget classification). The fullest expression of managerialism is to give managers global budgets, with discretion to use the resources as they deem appropriate. In this arrangement, managers have a fixed budget for operating (or running) costs, they must keep within that budget, but they have freedom to decide how much to spend on salaries, travel and other expenses. They may still be required to comply with some residual rules concerning, for example, fair employment practices and competitive tendering of contracts. But most operating decisions are left to the discretion of managers. They no longer need advance approval from central controllers.

Many countries have elements of a managerial strategy in their administrative reforms. This includes the United Kingdom, Germany, Finland, Ireland and the Netherlands. Some of these have taken bold steps to devolve managerial discretion to the operating levels which provide direct service to the public; others still retain significant managerial authority in departmental headquarters.

In explaining the broad of appeal of managerialism, one is struck by a seeming anomaly. The present age is one in which trust and confidence in government is at a low level in many OECD member countries. Yet the managerial strategy depends on entrusting managers with greater discretion, on trusting them to be prudent, efficient and responsive in carrying out their responsibilities. What is the rationale for broadening managerial freedom at a time when there appears to be little confidence that managers will act in the public interest? Some governments feel that declining (or stagnant) operating budgets and a sense that the old controls do not work give them no choice but to loosen constraints on managerial discretion. Others believe that improved performance will come with managerial freedom and will boost confidence in government. Whether because of the first motive or the second, today's governments take the position that the easing of controls must be accompanied by a strengthened accountability framework for managers. A vital part of the managerial strategy is the *ex ante* specification of performance targets or expectations and the *ex post* review of actual performance. "Letting managers manage" must be linked to "making managers manage."

The jury is out on whether investing in managerial performance will be repaid with higher trust and confidence in government. This writer is of the view that the low esteem of government has less to do with objective performance than with rising demands on government. It may be that when citizens want and get more from government, they nevertheless remain dissatisfied that they are not getting enough.

Like the other strategies discussed in this paper, the managerial strategy opens the door to difficult questions as to whether the reforms have, or are likely to, yield the expected results. One area of concern is the link between "letting" and "making" managers manage. It is much easier to fulfil the first part of the bargain than the second. It is much easier to remove controls than to enforce accountability. In fact, accountability frameworks – the specification of targets, reporting on results and audit of performance – still are relatively undeveloped in a number of the countries pursuing a managerial strategy.

The managerial strategy relies extensively on performance measurement. While considerable advances have been made in defining various types of measures, there is at best sketchy evidence that the behaviour and performance of managers has been significantly influenced by the new information. It is one thing to measure performance, quite another to manage on that basis. Moreover, most governments relying on a management strategy have had more success in measuring outputs than outcomes and they have tended to devise measures that put their performance in a favourable light. They generally have shied away from measures that challenge them to overhaul operations or to significantly raise their level of performance.

The managerial strategy relies on the assumption that civil servants are committed to the public's interest rather than their own. But are they always? What safeguards are there when self-interest takes over, when government employees behave opportunistically, exploiting their discretion to do as they please?

These concerns do not call the managerial strategy into question. Rather they indicate the need for careful assessment of what has been accomplished under the new regime, how managers have actually behaved and the effectiveness of the accountability mechanisms put in place.

1.6.3. *Program strategy*

This strategy is built on the idea that the most urgent task in reforming the modern state is ensuring that public resources are effectively allocated to achieve the fundamental objectives of government. From this perspective, the two previously discussed strategies – turning various tasks and responsibilities over to market-like institutions and entrusting managers with operating discretion and holding them accountable for results – apply mostly to the operational work of government. The program strategy urges that defining objectives and establishing policy should be accorded higher priority.

This is an old issue that will not be settled in the current round of reform. The issue is contested on many fronts: outputs *versus* outcomes, efficiency *versus* effectiveness, doing the right thing *versus* doing things right, centralisation *versus* devolution, top-down *versus* bottom-up reform, and so on. In the past, the emphasis was on strengthening policy capacity at the centre of government or in headquarters; today, most countries are focusing on operational matters.

Can the two approaches be melded together? Yes, but they rarely are. For most governments it is hard enough pursuing the limited reforms that one or another of the strategies dictates. Canada is one of the few, however, that has taken an eclectic approach, combining a substantial commitment to program review along with a wide-range of management initiatives affecting service delivery, citizen participation, deregulation, the civil service, financial management and a number of other administrative practices. But program review has been the centrepiece of the Canadian reforms. It was launched in 1994, at a time when the country faced serious financial and budgetary pressures. As one Canadian colleague observes, "program review addressed not only *pragmatic questions* of program design and delivery, but more fundamentally, *fundamental questions* of the role of the federal government, which anchored the ensuing changes to programs." Although program review has not formally covered transfers to individuals or other levels of government, these have been separately reviewed in a parallel exercise.

Canada's program reviews assessed each ongoing program in terms of six questions: does it serve the public interest?; is there a necessary and legitimate role for government?; is the current role of the federal government appropriate?; should the program be carried out, in whole or in part, by the private or voluntary sector?; if the program is continued, in what ways can it be improved?; and is the program affordable within the fiscal parameters of the government?

Canadian officials strongly believe that the reviews have made a significant contribution to the country's successful fiscal consolidation. When the reviews were initiated, the federal government seemed hopelessly mired in oversized budget deficits; barely four years later, the government reported that it had balanced the budget. Although the bulk of the reviews were concentrated in the first years, the government has taken steps to institutionalise the process and link it to expenditure decisions. Toward this end, it has established an expenditure management system to feed the results of reviews into budget actions. Learning from the unsuccessful program expenditure and management system tried more than a decade earlier, the government has built strong reallocation requirements into the new system with few exceptions, program initiatives have to be funded through savings in existing programs.

Some reform-minded countries initially focused on service delivery and operational efficiency and over time broadened their perspective to review program effectiveness and outcomes. Thus, a decade after launching the Next Steps initiative, the United Kingdom undertook a series of fundamental reviews. Canada, however, has moved in the opposite direction. After consolidating its fiscal position through program reviews and other policy changes, it set into motion more than half a dozen initiatives aimed at strengthening managerial capacity.

In considering the program strategy, one must be mindful of past efforts to link strategic objectives to budget allocations. These efforts include Canada's PEMS system mentioned earlier, PPBS in the United States, and the reconsideration program in the Netherlands. None was successful, though each had a temporary impact on budgetary procedures and decisions. Truly fundamental program review requires an enormous amount of time and information, fuels conflict and often produces relatively modest reallocation. It has been difficult to integrate in-depth reviews with the ongoing routines and procedures of budgeting.

Why should the results be more favourable this time? Perhaps because countries have learned from past failures, perhaps because there now is a stronger commitment to contain the cost of government by weeding out ineffective and low priority programs. In looking back at the PEMS failure, the Canadian Government perceived that while the allocations to envelopes (sectors) were supposed to be ceilings, they often were regarded as floors, adding to pressure on public expenditure. This time, therefore, the program review progress is much more explicit in demanding reallocations within fixed budgets. Moreover, contemporary program review does wrestle with fundamental questions that were slighted in earlier periods. These pertain to the role and functions of government, its relationship with the private and voluntary sectors and the future affordability of commitments undertaken when public resources seemed to be more abundant and confidence in public institutions was higher. The times may be ripe for a strategic realignment of government objectives and programs. If they are not, the program strategy will not make much of a difference; if they are, the results will be different this time.

1.6.4. *Incremental strategy*

Mounting any of the strategies discussed thus far entails a substantial commitment of political and organisational resources and (in some cases) a leap of faith that the innovations will bring promised improvements. Understandably, therefore, some countries have taken a cautious approach, moving incrementally as opportunities become available. The obvious advantage of this approach is that particular reforms can be adopted when they seem the right thing to do and the reform process can be fine-tuned as circumstances and opportunities change.

German reform seems to fit this model. Whether because its federal makeup inhibits leapfrogging innovation or because the government has been preoccupied with unification, the country has adopted a series of measures aiming to streamline the state and reduce costs. There have been doses of privatisation and deregulation, new requirements that proposed legislation show projected costs, reductions in the number of federal ministries and in other federal entities, new management instruments focused on measuring costs and performance, and some efforts to decentralise responsibility for resources. These and other initiatives have been packaged into an "action program" to increase the effectiveness and economic viability of the federal administration. The aim of the reforms is to reduce the size of the state by identifying tasks which can be transferred to subordinate authorities or the private sector, or abolished altogether.

Germany notes that comprehensive reform of administrative apparatus was attempted in the 1970s, but many of the proposals made at the time were not implemented. The current modernisation program, by contrast, emphasises constant improvement. It "is carried forward in small steps (mosaic theory) and is not based on a holistic approach. Accordingly the ministries follow different concepts for their modernisation measures. ... If one tried to reform all elements of public administration which require change, it would be too time-consuming and demanding. ... A step-by-step approach is therefore necessary."

Incremental reform has several potential drawbacks. One is that the many small steps might not add up to significant change; another is that reform will be directionless, propelled by expediency rather than by strategy; a third is that government may lose interest in the endeavour along the way. Incremental reformers who take one step at a time and allow the last step to determine the direction of the next one, can produce a lot of motion that signifies little. It is important, therefore, that incrementalists clarify at the outset the aims of their reforms. It is also important that the reforms show sufficient progress to sustain support an interest in government, and that they build on one another. The fact that Germany had the same government for an extended period may explain the staying power of its reforms. In some countries, the government of the day has lurched from one reform agenda to the next, without integrating the various initiatives into a coherent strategy.

1.7. Tactics

No strategy is self-implementing. As it embarks on a course to transform public management, a government faces myriad decisions on how the reforms should be carried out, by whom and when. It also must take steps to build support for, and interest in, the reforms. These and related tactical considerations often dominate the reform agenda; in some cases, they spell the difference between robust and tepid progress. This section briefly discusses a few of the many tactical issues that a government faces in implementing a reform strategy.

The pace and scope of reform are common tactical issues. One option mentioned earlier is to test-pilot all or some elements and defer decisions on full implementation until the results have been evaluated. At the other extreme, the government may mandate comprehensive implementation by all departments and agencies. Still other options are to implement reforms according to a staggered schedule (some agencies or elements the first years, other the second, etc.) or to allow each department to decide the extent and timing of its participation.

There appears to be less test-piloting in the strategic reforms than in past waves of reform. However, some governments have given departments discretion on restructuring their management practices. The rationale for this permissiveness is that management reform cannot succeed unless operating departments welcome the changes and have a say in how they are implemented. If reforms are forced on departments, if they are committed to the prescribed changes or if they feel that the changes do not meet their needs, only meagre improvement will be forthcoming.

Even when departments are entrusted with wide discretion in implementing recommended reforms, the government may consider assigning oversight responsibility to an existing central agency or an *ad hoc* entity established to fill this role. The finance department is the obvious candidate for this role, but not always the most appropriate. Its control of the purse strings can get in the way of encouraging managers to improve performance. But if the role is entrusted to a rival unit, the finance department may try to undermine the reforms.

In developing a reform program, the government may proceed by administrative fiat or it may seek legislative authorisation. Most governments have taken the first course, preferring the flexibility that administrative action gives them. A few, most notably New Zealand, have embedded their main reforms in law. But even countries that have taken the second course have found it necessary to make adjustments outside the ambit of the legislation. They have had to experiment and adapt in order for the reforms to be sustained.

Many tactics are country-specific and generalisations about the most effective approach are questionable. What works in one country might not in another. Perhaps the best advice one can offer on tactics is for the government to invest reform with sufficient institutional resources and political support, to have a firm idea of where it is heading, and to keep an open mind on how it should get there. If the current wave of reforms has stayed around much longer than previous ones, it is because governments have been adaptable and tactics have been moulded to needs.

1.8. The path ahead

Strategic reform takes time. Most of the countries participating in the project have been at it for a decade; the British Government is completing its second decade and much additional work and innovation lie ahead. In fact, there is no real end to the task of improving public management. As new problems arise and as novel ideas displace old ones, governments redefine their expectations. Successful reforms open up fresh opportunities, failed reforms impel governments to go back to their drawing boards and try again.

Regardless of the progress made thus far, all reforming countries face the task of institutionalising the changes they have made and preparing for the next generation of management innovations. All have to guard against lapsing back to their old ways, while building in capacity for continuing improvement. Most still have to work out an acceptable balance among the various strategies. All have to reconsider the role of central agencies and their relationship with operating units, and all have to strengthen the means of maintaining managerial accountability.

Beyond the current agenda lies a melange of issues and possibilities pertaining to the future configuration of public management. The leading questions here deal with the impact of emerging information technology on the delivery of public services, the potential for changing relations between citizens and state, the future makeup and role of the civil service, the boundaries of the market and public organisations, and the extension of the logic and instruments of performance management into core areas of governmental service. Although the distinction between current issues and the future agenda is somewhat arbitrary, it is useful to distinguish between those reforms that lie within the current interests of national government and those that might emerge in the future. There is a high probability that just about all reformist governments will tackle the current issues, but a significantly lower probability that they will deal with potential future issues.

1.8.1. Reversion to control and compliance public management

No matter how much progress a government had made in dismantling traditional control mechanisms, it must be vigilant against retrograde reforms that restore the old order. The main risk is not that governments will throw their management innovations overboard and re-install discarded practices, but that in piecemeal fashion they will impose rules and procedures in response to particular problems. Relapse might be due to an actual or perceived abuse of managerial discretion, parliamentary demands for information and controls, or the unease of risk-averse public managers with performance-based systems. Each re-installed rule or requirement may be justified in its own right, but the cumulative impact may be to reintroduce compliance-centred management.

It is not easy to guard against a return to the old ways. There are two main approaches for dealing with this tendency. One is to concede that there is a natural inclination to add controls, and to periodically review the rules and purge those which are deemed redundant or inapt; the other is to institutionalise the precepts of managerial discretion and accountability in law and behaviour so as to discourage inroads. The first path bows to the inevitability of recentralisation, the second seeks to thwart it.

1.8.2. Continuous improvement

Improving public management should not be a one-shot affair, done once and for all. Lasting and sustainable progress requires that each reform build on the last, that governments learn from experience, that they search for opportunities to raise expectations and performance. But it is not easy to build this capacity into public institutions, many of which go through bursts of innovation and change, followed by pause and consolidation. This cyclical patter enables government to transmit new rules and expectations down the ranks, instruct employees in innovative practices, acquire needed information and test new procedures and requirements. Governments which rush from one partially implemented innovation to the next suffer form "reform fatigue" and confusion. In some such countries, this writer has encountered senior managers pleading for breathing space to assimilate the last reform before the next one is urgently thrust upon them. Matters are made worse when each round of reform promises the same things but has distinctive nomenclature and procedures.

In markets, competition forces change. In governments, the prod often is a performance measurement system that periodically raises the targets to impel monitored organisations to do better. Using performance measures as an engine of change requires that the targets: *a)* be few in number, so that they send strong signals as to what is expected and provide a clear basis for assessing progress; *b)* challenge agencies to make changes in programs or operations that will enable them to meet targets; *c)* are jointly selected by each agency and the central authority responsible for overall government performance; *d)* are monitored and audited to ascertain whether the targets have been met; *e)* are part of a larger managerial framework that encourages agencies to improve performance. This is not a full itemisation of the characteristics of a performance measurement system, but each item above is especially relevant to the task of driving organisations to continuous improvement.

1.8.3. Balancing the reform strategies

This paper has noted that some countries have focused on operational management and others on program effectiveness. Ideally, the two strategies should go hand-in-hand, for programs depend on well-run organisations to achieve their objectives, and operations produce public good only to the extent they serve governmental objectives. The longer a country stays at the task of reforming public institutions, the greater the likelihood that having started with one of these strategies, it will gravitate to the other. Combining the two is not simple because they require different types of information and have different uses and perspectives, and engage different parts and levels of government. Assuming that a government intends to proceed on both fronts, it has to decide whether to combine the two strategies in a unified reform or to separate them. To this writer's knowledge, Australia is the country that has grappled most with this question. Beginning in the 1980s and continuing into the present decade, it has sought to integrate a financial management improvement program with program budgeting. The combined FMIP/PB initiative has made significant headway in realigning programs and in improving management, but the relationship between the two parts of the reform package has not always been easy.

1.8.4. The role of central agencies

One of the tensions between program and managerial strategies has to do with the changing role of central agencies, particularly those dealing with financial and human resources. These agencies once served as the central command and control posts of government, but this role is not compatible with the new managerial ethic. Some central agencies have retooled themselves to the drive for devolution and flexible management. But driving reform from the centre in the name of decentralisation sometimes gives the wrong message to departments on the receiving end. Rather than hearing that they are to be freed up to run their own operations, they fear that the new performance regime is a ploy to get them to supply information to be used against them by central controllers.

Central agencies are in a quandary. If they allow each department or agency to pursue reform its own way, they risk getting very different managerial arrangements than the ones they wanted. If they intervene to dictate how departments and agencies should run their affairs, they risk being accused of violating the precepts of managerialism. Moreover, having divested many of the controls that was, for generations, the source of their power over operating departments, central agencies may be too weak to compel compliance with their views as to how government should be managed.

The evolving role of central agencies differ from country to country. In some, the Finance Ministry (or a similar organisation) has unrivalled authority over management matters; in others, the government has established a separate agency to oversee the reform drive. In some, the Finance Ministry has a firm sense of its role and relationship to operating units; in others, the Finance Ministry is going through an identity crisis seeking to carve out a niche that enables it to retain considerable administrative authority within the managerial framework. In all, the Finance Ministry (and other central agencies) face the task of prodding agencies to get on with the business of reform.

1.8.5. Strengthening managerial accountability

It was noted earlier that more progress has been made in devolving managerial authority than in enforcing managerial accountability. Dismantling old controls has proved easier than establishing new performance-based accountability. There is significant risk, therefore, that managerial flexibility will be discredited by misbehaving officials who take the new freedom as license to breach the public trust. Some abuses may be real, others only perceived; either way, they may impel governments to take rein in public managers by reinserting centrally enforced rules and standards. The indiscretions need not be major to spur this reversal; even minor lapses can impel ministers and parliamentarians to demand more control.

What should be done? Some, or all, of the following depending on the quality of accountability systems already in place: *i)* train managers and civil servants in their responsibilities under newly devolved arrangements. Do not take for granted that they know what is permitted and what is not; *ii)* review rules pertaining to employment, finance, contracting and other managerial actions to determine whether there are gaps that have to be closed;

iii) indoctrinate managers in the principle that they are personally and professionally responsible for good conduct in their organisations; *iv)* assess financial reporting systems, the quality of financial statements and audit practices, and take appropriate steps to elevate standards to acceptable levels; *v)* in countries which rely extensively on out-sourcing, develop a corps of public servants who are skilled negotiators of contracts with private parties and overseers of compliance. These skills are much more highly developed in business firms than in government departments; *vi)* improve performance reporting systems, including the audit of reported results.

1.9. *The next generation*

The current wave of management reforms will not be the last. Developments, already underway, will expand the envelope for novel, as yet untried, management arrangements. These including the diffusion of information technology that facilitates interactive communication within government and between government and citizens; rising expectations concerning the volume and quality of public services; the weakening of civil service norms and increased reliance on temporary, part-time and non-public employees; further encroachment of markets and competition onto the provision of public services; and adoption of practices that make performance measurement more a reality than a slogan.

These changes are both independent of one another and interconnected. Establishing remote, interactive communication between government and citizens covering a wide array of services and relationships may proceed on its own, but once it is in place, it opens the door to reconfiguring the civil service, bringing the market-type mechanisms into core public services and taking performance-based management seriously. Alternately, while the development of new technologies might speed up communication and enable remote interaction with citizens, it may do little to change the way governments might retain career-based civil service system, or that might rely on the overall labour market to obtain workers as needed.

In a leap of vision, one can foresee government of the future organised along very different lines than it is currently. A futuristic public service would work out of homes or out of communications hubs; it would consist of workers hired by business firms under contract with government; citizens would have broad choices in the public services they purchase; government departments would shrink to core political-policy functions; governments would adopt variable budgets, in which the volume of resources were linked to the volume of outputs and other measures of performance.

In the medium- to long-term, the direction taken by government will closely track the direction taken by business organisations. If the "virtual" firm becomes the model of business organisations, it also will become, with some lag, the model of government organisation.

In other words, if one were able to foresee how the market sector will evolve, one would be able to foretell how the public sector will change. Lacking such foresight, this writer urges governments to attend to the near-term agenda and defer visionary plans until the future has arrived.

Table of Contents