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New Frontiers in Public Sector Management

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Frieder Naschold

New Frontiers in Public Sector Management

Trends and Issues in State
and Local Government in Europe

Translated by Andrew Watt

With Case Studies by Robert Arnkil and
Jaakko Virkkunen in Cooperation with
Maarit Lahtonen and Claudius Riegler



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Preface

This volume is based on an evaluation study of public sector modernisation in Finland conducted by the author. The aim of this evaluation was to place Finnish public sector developments in the context of the OECD countries and to sketch out a strengths-and-weaknesses profile at central and local government level. In the course of the study, the comparative perspective expanded considerably. This publication must therefore be seen primarily as an attempt to analyse public sector developments in selected OECD countries, in particular Great Britain, Germany, Finland, Sweden and Norway, from a comparative perspective. Given that the state of comparative public sector research is still very under-developed, at least compared with that into many areas of the private sector, this attempt should be seen as opening a door for debate, rather than seeking to bring discussion to a conclusive end.

A project such as this is only possible within a broad-based working, discursive and supportive environment. I would therefore particularly like to express my thanks to the most important people and institutions within this framework.

The initiative and continued support for the project came from Pertti Sorsa (Secretary General), Matti Salmenperä (Director of Working Environment Division) and Timo Kauppinen (Director of Research Unit, Working Environment Division), all at the Finnish Ministry of Labour. Further thanks go to the representatives of the Ministry of Finance and the Ministry of Transport and Telecommunication, the Finnish Road Administration and the Sibelius Academy, all of whom offered support in an extremely competent, friendly and helpful way in the form of interviews and assistance in tracing relevant documents. The many discussions held with representatives of Finnish business, trade unions, collective organisations, and individual firms and organisations were also very informative. Without the diverse and very stimulating discussions with colleagues from the academic community, consulting firms and with interested journalists, the project would never have been concluded in its present form. Particular thanks are due to the academic and consulting colleagues, from whose written and oral comments I have profited greatly. These are: Robert Arnkil, Social Development Company, Hämeenlinna, Antti Kasvio, University of Tampere, Ilkka Ronkkainen, Yritystaito, Helsinki and Jaakko Virkkunen, Administrative Development Agency, Helsinki.

In the city of Hämeenlinna I was able to conduct a number of intensive interviews and discussions and to take part in a number of important strategic conferences. I have been very impressed by the enthusiasm, the persistence and the strategic sense of politicians and administrators in the city of Hämeenlinna, who

were never reluctant to discuss the problems facing the city. The great hospitality towards, and willingness to support, the evaluation project were remarkable. I would like to express my heartfelt thanks to Mrs. Elina Lehto, mayoress of the city, and Mr. Veikko Mikkola, Head of Municipal Planning as proxies for all those involved in the city's politics and administration.

The comparative study would not have been possible without the support of the representatives of the labour and finance ministries, including members of the subordinate agencies, and of selected local authorities in Great Britain, Sweden, Germany, Norway and Austria.

In Germany, my working relations within projects conducted by private foundations was of great value. I am particularly grateful to Dr. M. Pröhl and Dr. C. Schurig of the Bertelsmann Foundation and to Dr. E. Mezger of the Hans Böckler Foundation. I have profited enormously from the discussions within a project entitled "Methods and Instruments to Determine the Degree of Vertical Integration of the Public Sector" involving the following colleagues: Prof. D. Budäus, University of Hamburg, Prof. W. Jann, University of Potsdam, Dr. E. Mezger, Hans Böckler Foundation, Dr. M. Oppen, WZB, Prof. A. Picot, University of Munich, Prof. C. Reichard, Technology and Economic College, Berlin, and N. Simon at the headquarters of the public sector workers' union in Stuttgart.

I sincerely hope that I have been able to incorporate into the study at least some of the stimuli that have resulted from my many years of contacts and discussions with Dr. M. Wulf-Mathies, formerly Chairperson of the German public sector workers' union, and now European Commissioner in Brussels.

As with previous studies, the departmental team at the WZB was indispensable in carrying the entire project through to a successful conclusion. I would particularly like to thank for their competence, cooperation and the good working atmosphere: Franz Cramer, M.A., Mrs. E. Narewsky and Mrs. S. Giesecke, M.A.

An evaluation study in foreign countries can, in the final analysis, only be conducted with continuous and extremely competent support "on the ground". Without Mrs. Maarit Lahtonen, this project would never have been completed. She was project assistance for the entire course of the study and filled the roles of academic assistant, project organiser and overall coordinator with gusto, imperturbable patience and constant good humour. As always with Scandinavian projects, Mr. C. Riegler, Ystad (Sweden) played a major supporting role in the project. He has kept me consistently up to date and well informed on the Scandinavian, and in particular the Swedish discussion on public sector modernisation, and conducted a number of small-scale research projects at central and local government level.

As he has done many times before, Andrew Watt BSc., Berlin, has produced a skilful translation into English of this difficult text within a tight time schedule.

He also drew my attention to a series of weaknesses in the first German version of the text.

It goes without saying that sole responsibility for the weaknesses that remain lies with the author.

Helsinki, Berlin, November, 1995

Frieder Naschold

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Summary

Whereas the 1980s were characterised by restructuring in many private-sector industries, in the 1990s scientific and political interest in the OECD countries has increasingly turned towards the restructuring of the public sector. Led by English-speaking countries such as Great Britain and New Zealand, an ever increasing number of European states are now riding the wave of public sector modernisation. The spectrum of themes and approaches ranges from traditional cost-cutting, productivity and privatisation strategies, to questions of quality assurance and personnel development and the increasingly acute questions of devolving central state responsibilities to civil society.

This volume seeks to describe and analyse the most recent experiences gained during this restructuring process, focusing on the leading edge of public sector developments in Europe. The analysis of four proto-typical European countries – Great Britain, and Germany, Sweden and Finland – at both central and local government levels forms the centerpiece of the study. This analysis takes in a quantitative examination of transformational trends at the aggregate level of selected OECD countries, an examination of selected sectors of central government, an international bench-marking of local government, and case studies of various public institutions in a number of different policy arenas. At each of these levels, the practical lessons learned are summarised and the relevant issues of public sector modernisation are systematically addressed. The result is to be seen as an intermediate résumé of a broadly-based learning process.

1 Current Trends in Public Sector Modernisation

1.1 A new best practice model of public sector task fulfillment

There is a common core to public sector modernisation in the OECD countries, one which transcends the convergencies and divergencies of the programmatic level: on the one hand the functional shifts in the strategic role of the government from producer to enabler, on the other a systematic decoupling and recomposition of the programming, realisation and financing of service production.

These two new constitutive principles open up design options which go beyond traditional bureaucratic forms of task processing. These include a distinction between politics and managerialist steering, leaner and radically decentralised or-

ganisation structures, the formation of diverse results oriented units with operative autonomy, emphasis on the internal and external competitive environment in ordering and purchasing services, and in particular systematic customer/citizen quality feedback systems. A new best practice model of public sector task fulfillment appears to be forming around these elements.

1.2 Public sector modernisation: a limited plurality of development patterns rather than a linear homogeneous development path

Contrary to the official view taken by the OECD as an organisation, there is no evidence of a linear homogeneous trend in public sector development. Rather, four regulatory regimes of welfare state modernisation can be distinguished within the OECD.

Great Britain and New Zealand have largely followed the logic of the private sector, their strategy being based on the three elements of privatisation/reduction in the size of the public sector, market oriented organisational alternatives and neo-taylorist managerialism. Denmark and the Netherlands are on the development path characterised by far-reaching devolution government activities to civil society together with a broad-based introduction of competitive elements in market-related areas and results steering in the administtry areas. In countries such as Sweden, Finland and Norway, the results steering regime is still predominant, increasingly in conjunction with competitive instruments and selective decentralisation and privatisation projects. Such heterogeneous countries as Japan, Germany, the USA and Australia have in common the clear predominance of administrative rule steering, having largely rejected results steering (except in the USA) and the selective reduction in the scope of state activity by means of competitive instruments and privatisation programmes.

There is not just one, but rather – as a mixture of international trends and local factors – a limited plurality of development paths of public sector modernisation within the OECD. Indeed, as far as future developments are concerned, convergence seems less likely than centrifugal development trends within regulatory models. This is because both the optimality points and the risk areas are very different in a predominantly market regulation system with results steering elements than in a developed system with extended participation by civil society and in systems in which results steering is supplemented by competitive instruments, and of course in classical rule steering with privatisation components. Moreover, contrary to the assumptions made by the OECD, the plurality of regulatory regimes makes it impossible to derive and justify an immanent ranking of these regimes or to presuppose that one specific regime (in particular the anglo-saxon model) is necessarily more efficient than the others.

1.3 Finland: A Late-comer to public sector modernisation in a precarious compromise equilibrium of old and new steering systems. The search for a new momentum

The modernisation trend in Finland at both central and local government level is characterized by a parallelism of the old and new steering system, by a case of “stuck in the middle”.

The compromise equilibrium situated between the two poles of administrative rule steering and results steering cannot, however, be seen as stable. The experience of management by objective and management by results systems has convincingly shown that they are absorbed by the pressure of rule steering and degenerate into mere formalism and thus into bureaucratic paper work if they cannot, by means of political mobilisation, be driven beyond a certain threshold value. And it is precisely at this dilemma that the central controversy has been initiated on the direction to be taken by the ongoing development path, although this has only played a role in the public discussion to a limited extent. Either it will prove possible in Finland to bring in a new momentum to push ahead with the development of MbR systems in the modernisation process, or there is the danger of a degeneration back to the old system of rule steering or, perhaps of a centrifugal fragmentation of the state apparatus. The development alternatives lie in standardised effective mass production such as in Great Britain, in decentralised customer orientated quality production, such as in Sweden, in flexible qualified mass production, such as in Germany, or in a genuinely Finnish variant, i. e. an innovative combination of bureaucratic standardised production and flexible specialisation.

2 The Impacts of Public Sector Modernisation

2.1 Fundamental criticisms of public sector reform: Modernisation as a passing trend and the threat to the democratic welfare state

Since the mid 1980s public sector modernisation has been subjected to two fundamental although mutually exclusive criticisms: the reform strategies are considered to be a cyclical passing trend within the public administration without a significant increase in efficiency compared with traditional bureaucratic systems; in contrast to the first criticism, current modernisation strategies are sometimes also considered to be a danger to democracy and to be dismantling the welfare state. Both criticisms can point to considerable supportive evidence. The reform efforts during the 1970s to introduce PPBS, MbO and ZBB have, indeed, largely

proved to be passing trends with little impact; and in a number of OECD countries modernisation strategies have involved numerous measures which have restricted democracy and dismantled the welfare state, either for ideological or party political mobilisation reasons or in the form of a cut-back strategy motivated by fiscal policy concerns.

2.2 The new organisational principle in current modernisation strategies: from the rationalistic planning model of state actors to the integration of state, economic and social regulatory mechanisms

The reform strategies of the 1960s and 1970s sought to optimise the subjective decision making calculation of state actors in accordance with the “rationalistic planning model”. More recently, however, public sector modernisation has focused on an extension of the administrative logic of action and then supplementing it by the regulatory mechanisms of social devolution (systematic customer/citizen quality feedback systems and increasing powers for civil society organisations) and market-related decentralisation (by means of various forms of internal and external competition). If it proves possible to extend and integrate the various regulatory mechanisms in this way, this would assure a number of vital conditions for the success of the reform strategies currently under way.

2.3 Exemplary developments indicate the strategic relevance, but also the ambivalence of current public sector modernisation

Developments in the OECD countries exhibit a number of cases in which efforts to reform the public sector have been very successful: rising productivity performance by distinguishing between agencies and central government departments; utilisation of the MbR negotiating process as a step towards total quality management; utilising MbR systems in the form of interactive co-planning with citizens in technical and social areas; integrating MbR systems with systematic customer/citizen quality feedback systems; distinguishing between programming, financing and implementation in the sense of various forms of the “enabling authority”; interaction between results orientation, regulation and competition in local government services; integration of MbR systems and organisational outsourcing with the aim of stimulating institutional competition; extending the opportunities for employee participation and further development of industrial relations.

All these examples have achieved a the successful balance of increased organisational effectiveness and efficiency without negative redistributive effects on

product quality and working conditions, whereby organisational design and contextual characteristics can be precisely specified.

At the same time, these examples serve to warn against the promises of easy solutions. The simplistic paths of exclusive internal modernisation, privatisation or unilinear social devolution lead astray. The reality is always a complex mixture of government regulation, economic competition and social devolution.

Equally, all the above examples also indicate the ambivalence of public sector modernisation. The departure from administrative rule steering renders the state regulatory system both more flexible and more precarious, and is thus conducive both to regressive development paths such as to dismantling the welfare state and restricting democracy, ideological privatisation and new-taylorist work intensification, and to progressive modernisation parts involving higher productive and distributive efficiency, greater decentralisation and improved opportunities for participation. Thus the fate of public sector modernisation depends on the specific development dynamic of the reform process. This in turn is very largely politically determined.

3 The Development Dynamic of Public Sector Modernisation

3.1 The deficiencies of incrementalism and the fallacy of programmatic change

The experience with successful modernisation strategies in the OECD countries provide convincing evidence that gradual, incrementalist reforms are no longer adequate in view of the intense pressure for change. Equally unsuccessful, however, are the “grand strategies” of “programmctic change”. Incrementalism remains below the critical threshold for change. The grand strategies of programmatic change, on the other hand, operate largely at the symbolic level, while failing to activate the operative and strategic factors for change, and tend to mobilise the opponents rather than the supporters of a reform strategy.

3.2 Political mobilisation and not economic crisis is the driving force behind public sector modernisation

It is a widely held view that the pressure of economic crisis is an essential precondition for successful public sector modernisation. The experiences of the OECD countries, though, tend to indicate the reverse: in many case economic crisis induces the return to traditional crisis management patterns; very frequently there

is no correlation between economic crisis and public sector modernisation; and only in a very few cases have economic crises been identified as the initiator and catalyst of public sector modernisation. Politicians have no excuses: there is no economic and social determinism; in this area it is political mobilisation which is the driving force behind public sector modernisation.

3.3 The strategic role of political-administrative “Advocacy Coalitions” in the context of party political competition

The key strategic role in the political mobilisation behind public sector reform is played by political and administrative elites in the context of party political competition. To a very large degree the public sector reform depends on the extent to which such roles are performed in an active manner, on the degree to which a common development coalition can be forged between the political and administrative elites, and on the role played by public sector modernisation within the framework of party political competition.

3.4 Rooting the mobilisation for reform in the governance operators

Political mobilisation can only be successfully transformed into concrete modernisation measures if it is well rooted within the institutional framework of government. The office of Prime Minister or, at local level, City Mayor, together with the Ministry of Finance, a small and powerful modernisation unit within the government apparatus to provide operative coordination, a strategically and operatively oriented reform commission situated at the interfaces between politics, business and society at large (as in Japan), and above all process steering which is both differentiated and resolute; these are the indispensable conditions for the success of public sector modernisation.

3.5 Think tanks and meta-organisations to prepare the way for and support public sector modernisation

Political Mobilisation requires broad-based support by means of meta-organisations outside the government operators. Political and other expert associations, institutions for the international exchange of ideas, in some cases audit commissions, can be invaluable in supporting the modernisation process. Stand-alone strategies are nearly always inevitably destined to fail.

Public sector modernisation, in the sense of transformational change requires the paradigm-generating impact of competent think tanks outside the governing apparatus; they can range from research institutes to leading consulting groups. In times of organisational transformation, mere pragmatism, however energetic, will not be sufficient.

Long before it is a question of introducing operative measures, such think tanks can develop the linguistic games and the concepts which underpin a long-term reorientation helping to form the “mental models” within politics, administration and the public at large regarding public sector modernisation.

4 Ten Key Issues of Public Sector Modernisation

4.1 The necessity of and limits to internal administrative modernisation

A consensus now prevails within all the OECD countries studied here, of the necessity of a far-reaching reform of bureaucratic organisations and steering systems. The direction and speed of the reform process, however, remains a subject of great controversy. In those countries in which reform developments are most advanced we now have evidence of the strategic relevance and the actual impact of an internal modernisation of classical administrative structures by means of the concept of strategic management, by results steering including operative controlling and the strategically oriented development of personnel and work organisation. At the same time, the experience of precisely these countries shows that internal public sector modernisation in its own rapidly comes up against inherent limits to reforms. What is then required is to activate the external context within which the administration operates: an extension to civic participation via a comprehensive quality policy and improvement in citizen's freedom to choose by introducing competition into service production.

4.2 From ideological privatisation to the rational use of markets

Two conclusions can be drawn from the experience gained in the OECD countries with the use of competitive and market elements in the process of public sector modernisation. On the one hand, the simple transposition of market models onto the public domain and ideological privatisation usually lead to both cost and quality problems with regard both to the services offered and to the working con-

ditions of those employed in service production. On the other, there is also considerable evidence of the allocatively and productively beneficial effect of competitive elements in the course of public sector modernisation, frequently without undesirable distributive effects. Such elements included “virtual” organisational competition by means of transparent comparisons of performance and costs, organisational development of production units within the public sector by means of results and resource responsibility, planned competition between public sector enterprises and public and private bodies in either a complementary or substitutive sense. Thus the rational use of markets under well specified conditions is clearly an important element of public sector modernisation.

4.3 Citizen and customer participation in quality production: Beyond consumerist managerialism

There is a trend within the OECD reforming countries towards a quality control of public service production through citizen and customer participation. In some cases, though, customer-related quality production in the context of a policy of consumerist managerialism may largely mean that public departments seek to “create” acceptance on the part of citizens. More far-reaching conceptions and practices in the field of quality policy aim to establish interactive co-planning at the programming and implementation level of administrative services together with the relevant citizen and customer segments. Above all, they include systematic and decentralised citizen quality feedback systems and in some cases explicit service obligations by the administration towards citizens within the framework of a citizen charter. The systematic incorporation of citizens into administrative quality policy as part of a democratic process of devolution within the modern state is, in addition to the activation of the competitive context, a further essential element of the far-reaching modernisation process currently under way in the public sector of the OECD countries.

4.4 Internal public sector modernisation involves both results steering and organisational re-engineering

The core element of all internal modernisation programmes is the introduction of the new administrative steering model containing elements of management by results, cost and performance calculations, and results budgeting. Experiences in the OECD countries show that the new steering models can only make their effects felt in full if, and to the extent that, they are accompanied by the restructuring of administrative organisations. It is relatively easy to introduce the new steering systems: the re-engineering of operative administrative units into customer-related

and results-responsible organisations, however, in many ways the acid test of internal administrative modernisation, is still to be accomplished.

4.5 The value added by the central departments

In most countries the introduction of the new steering systems and the re-organisation of the operative administrative units has thrown the central units into crisis: the implementation of new organisational principles poses the question as to the value added by the central units. In all reform countries the “headquarters”, whether at central or local government level, face a double challenge: the change in the role and function towards strategic management within the public sector context, linked to a radical decentralisation of task structures; and the equally radical re-deployment of personnel and influence from the central units to the more customer oriented periphery. The substantial differences observed in the development of such central units and of their volume in the different OECD countries are clear evidence of the difficulties caused by the redistribution resulting from modernisation efforts. This leads to a strategic dilemma in the course of the internal modernisation process: usually the central units prove to be an important if not indispensable motor initiating the reform process; once a certain stage of development has been reached, however, the headquarters often constitute a major barrier for the further course of the modernisation process.

4.6 The new steering model between results steering and Total Quality Management

The new steering systems, e. g. management by results, are, in the final analysis highly developed forms of traditional MbO concepts. Although from both a theoretical and practical perspective we are all aware of the necessity of strategic action, we are also aware of the diverse and serious problems and frequent failure of results steering. Successful reform projects point to a function of the new steering model which normally remains in the background: the strategic importance of the interactive and decentralised negotiating process. The continuous and targeted discussion and negotiations on targets, results and their conditions can often constitute the point of departure for total quality management. In such a case, the new steering systems are to be considered less a rationalistic basis for decision making than a suitable basis for collective and binding learning, experience and conciliation processes.

4.7 Evaluation as a complementary instrument to results steering

One of the aims of abandoning administrative rule steering in favour of results oriented steering is to create the scope for autonomous action by the units at local level. Such a steering logic will, however, lead to the centrifugal segmentation of the administrative system unless monitoring skills accompanying the process of reform are developed as a medium for collective observation, learning and self-steering. Besides the extension and broadening of existing stocks of knowledge, this requires the generation of new knowledge capacities, i. e. the ability to process experiences. These processes of self-observation cannot be limited solely to the top management, but have to be brought down heterarchically throughout the entire system. For this reason it is vital that the capacities required to evaluate bargaining and steering processes are set up as a necessary part of internal modernisation.

Yet the conceptual centrality of evaluation stands in sharp contrast to the role of evaluation in practice. For politicians are keen to set targets, but not so keen to evaluate degrees of goal attainment. In view of the importance of evaluation as a vital feedback for organisational learning, far too few social resources are invested in such activities. Most evaluation studies served to support a position within a relatively limited frame of reference and thus are only conducive to instrumental but not strategic-paradigmatic learning.

For these reasons much work remains in the ongoing modernisation process in developing evaluatory capacities differentiated according to the various functions, the various decision making processes and the different actors within the political-administrative system.

4.8 Overcoming the modernisation dichotomy: on the integration of management and work reform

Clearly, the focus of internal modernisation in all the countries studied here, is to be seen in the reform of the public sector management functions. Nowhere is this emphasis on "managerialism" called into question, as the management function in the public sector, not least in comparison to the private sector, is quite obviously underdeveloped. Equally clear, however, is the dichotomy between the management reform and work reform. In practically all countries, with only very slight variations, the modernisation of the management process has not been accompanied by modernisation of the labour process. Reform on this basis ignores the fact that an internal modernisation is not merely a task for management, but is inherently a function of the work and action of all the employees participating in the value added process. Indeed such a reform approach ignores the fact that

the reform of the management system without the reform of the labour process is bound to be relatively ineffective on the longer run. Thus the development of working structures which are conducive to learning and favour task integration, together with corresponding personnel development systems, is an additional area in which internal public sector modernisation still has a long way to go.

4.9 Process steering and process qualification

The central thrust of the restructuring currently under way in the private sector is the transition from functionally oriented single task-related workshop principles to the comprehensive process orientation of the organisation as a whole. The public sector, with its segmented functions, highly specialised job structures and discontinuous process chains, is generally still far more tayloristically oriented than in the private sector. All the more serious, therefore, is the almost complete lack of a corresponding process steering, one based on different time rhythms, different objectives and degrees of complexity etc., in the public sector. The failure to recognise the fact that political-administrative production processes differ greatly depending on their social, time and substantive structure, and thus require different forms of steering and different forms of process qualification in personnel, organisational and technological terms, is one of the most significant gaps in the process of internal public sector modernisation in all the OECD countries so far.

4.10 Public sector modernisation: an innovative re-regulation of internal reform, social devolution and competitive context

During the 1980s the modernisation campaigns in the OECD countries were for many years dominated by simplistic and single-track reform strategies: deregulation and a market-based strategy on the one hand, a strategy with exclusively internal modernisation on the other; both in opposition to the strategy of simply maintaining the traditional administrative structures of rule steering. The experiences of reform during the past 15 years, however, have rendered this simplification obsolete. What is now required is a new combination of the fundamental regulatory principles of public service production. This does not imply convergence between the very different development paths currently being pursued by local and national governments. What must remain at the top of the political agenda is an innovative re-regulation of political responsibility, internal administrative modernisation, market orientation and social devolution.

New Frontiers in Public Sector Management – Trends and Issues in State and Local Government in Europe

Frieder Naschold

1 Evaluating and Monitoring the Transformation of the Public Sector

Since the 1980s the public sector in many OECD countries has been undergoing far-reaching processes of restructuring. The dynamic and orientation of this restructuring have been determined by the confluence of three factor-complexes: economic crisis, tensions within the institutional framework of the welfare state and party-political mobilisation processes.

The mainstream of public sector modernisation is nowadays oriented towards the views and strategies of the New Public Management Movement (Caiden 1991) (taken here as a combination of public choice theories and managerialism, cf. Aucoin 1992), whose critique centres on the size and, more importantly, the structure of the public sector, focusing on the prevailing regulatory mechanisms, such as governance by rule, the functional division of labour according to the single-task-related workshop principle, pronounced hierarchy, the lack of process-chain-linked cooperation, the lack of strategic management etc.

The inadequacies of the traditional, i.e. bureaucratic, rule-oriented conception of the public sector identified by the New Public Management Movement lead to corresponding demands for change. The most important of these are governance by objective and results, performance management and results budgeting (management by results), contract management of autonomous “results centres”, contracting out and the formation of quasi-markets. Figure 1 summarises the central characteristics of both regulatory models from the perspective of the New Public Management Movement.

While the critique of the underlying mechanisms of bureaucratic governance by rule may well be convincing – and at the very least the alternative concepts put forward appear to have lost none of their attraction –, neither apologetic studies (e.g. the concise and application-oriented analysis by M. Pirie 1988) nor the ideology-critical studies (such as the clear-headed and knowledgeable contribution by Chr. Pollitt 1990) are sufficient to evaluate the development trends of the public sector. What is required in addition is an evaluation of real development trends on the ba-

Figure 1: New Public Management Movement: Two Regulatory Models

Traditional bureaucratic regulatory model	NPM-regulatory model
Governance by rules (Regelsteuerung)	Governance by objectives/results (performance-management) incl. results-budgeting and capping
Functional division of labour according to the single-task-related workshop principle & process-chain-related interface problems in cooperation	Product-related organisation in the form of a process chain
Pronounced hierarchies	Contract management between autonomous "result centres"
Modest use of competitive instruments	Contracting out and the formation of quasi markets
Lack of strategic management	Customer orientation instead of producer dominance

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sis of empirical evidence. What is really needed, therefore – a point taken up by the OECD (1990, 1993) in summarising the trends – is a continuous monitoring of the developments and the evaluation of critical stages in this development. This is also in line with the experiences of, and the demands made by politicians, particularly in the Scandinavian countries, and increasingly in recent years.

Since the beginning or middle of the 1980s, and then even more so from the end of that decade the Scandinavian countries, in particular Sweden, Finland and Norway, have initiated a process of internal modernisation of their public sector under a social-democratic hegemony. From the start of the 1990s this process was pushed forward under the influence of conservative parties, which added market-based steering mechanisms. This development came to a sudden end with the swift onset of economic crisis in 1991/92: the urgent questions of the budget deficit and the problem of mass unemployment displaced the theme of public sector modernisation from the political agenda. At the same time, the steps implemented until then were subjected to critical reflection. Voices were raised, some calling for an acceleration of the existing transformation dynamic, others favouring a return to the allegedly stabilising mechanisms of traditional governance by rule.

Now, in the mid-1990s, two central problem areas are at the focal point of political interest in this field. The first is to obtain information on possible trends and best practices by means of a bench-marking vis à vis international developments; the second is to identify the critical "key values" of a modernisation strategy and the constraints imposed by the conditions in which it is implemented.

Consequently, a social-scientific study of this area must consider three fundamental lines of enquiry:

- identifying the structural development trends and the strategic regulatory mechanisms of the public sector;
- determining the effects of this development in terms of their productive efficiency and their distributive impact within society;
- analysing the development forces behind the process of public sector modernisation.

As far as the methodology and conceptual basis of this evaluation study is concerned, I will restrict myself here to some brief remarks on a number of particularly critical problems inherent in such analyses.

(1) In the well-known methodological dispute between the two paradigms of evaluation research – empirical-analytical impact assessment and the conception of evaluation as a “cooperative learning process” – mediation between the two positions appears to me to be both indispensable and feasible (Naschold et al. 1993: 21 f.).

(2) The analysis of the “effects” of given “structures” and “processes” is generally the most difficult part of any evaluation. At the conceptual level a distinction is to be drawn between effects involving “productive efficiency and effectiveness”, on the one hand, and quality and distributive issues on the other. In theoretical terms these concepts can – with the exception of the question of quality – be defined relatively clearly. At the practical-empirical level, however, the analyst faces massive problems with the data, in measuring effects and assigning them to causes; the larger the unit of analysis, the more difficult these problems are. The “ideal” way to measure “impact” is considered to be by means of a longitudinal, quasi-experimental *ex ante* design. While there can be no doubting the superior power of this approach in identifying effects, this is frequently offset by major problems of practicability and limited explanatory power and analytical precision. Although within the framework of this study I do attempt to make use of such findings from other studies, the emphasis of this evaluation lies in a multi-stage group comparison between various countries. This is done at three levels : the nation-state, individual national bodies, and local level. The combination of an international comparison and intensive case studies over a survey period lasting from roughly 1980 to 1994 should be in a position to make a significant contribution to identifying and explaining the operation and effects of national modernisation strategies and structures.

(3) An international comparison of relevant countries has the additional advantage that, by means of international bench-marking, it offers a guide to best practices. Provided that this approach is made in full consciousness of the relativity of such statements, the study can furnish a major stimulus to, and guidelines for the reform debate within individual countries (Jürgens/Naschold 1994).

(4) An objection frequently put forward against case studies and group comparisons is the limited scope they offer for generalisation. Recent methodological research (Yin 1990) has shown that a distinction must be drawn here between statistical and analytical 'generalisability'. As far as the first criterion is concerned, this study can point to almost 50% representativity among OECD countries over a period of public sector reform lasting roughly thirteen years. Analytical generalisability is to be attained by means of reference to the relatively clearly specifiable concepts of traditional bureaucratic governance by rule, of the New Public Management Movement and, last but not least, of the public sector, with which the empirical findings will be compared. For this reason the central analytical dimensions of this conceptualisation are developed and elaborated in the first three chapters of the study. In sum, the conclusions drawn in this study can claim a significant degree of both statistical and analytical generalisability.

(5) The frame of reference for the study is formed by the various approaches which have been taken to the "crisis of the welfare state" in connection with a "governance" conception of societal steering problems, whose various theoretical orientations cover a wide spectrum. They range from the optimisation of existing welfare state structures (more or less the Scandinavian position), its transformation from a producer to a guarantor of services (the Continental European perspective), and the increasing penetration of the market into the welfare state (a strong trend in New Zealand and Great Britain), to the 'communitarianisation' of the welfare state (a trend which can be found in the Netherlands and Denmark). This complex is dealt with more fully in chapter II. In my view this debate should centre not on abstract theorisation but rather has the task of processing the existing stock of experience and knowledge.

(6) Conceptually, the study focuses on the analysis of systems of state governance. Initially this will concentrate on the debate surrounding the replacement of traditional bureaucratic governance by rule (so-called "conditional programming") by performance, target and results-oriented management. Leading ideas and key elements of results steering are shown in figure 2 (Svensson 1993: 32).

The debate broadens out to encompass the significance of market instruments and mechanisms. In my opinion it is vital that the governance concepts employed in the private sector are also taken into consideration, without at the same time ignoring the specificities of the public sector. The two positions which currently dominate the debate on this issue – the "distinctiveness" of the public sector on the one hand, the "generic" character of new management concepts on the other (cf. Pollitt 1990) – are dogmatic and polarising, and as such neither tenable nor helpful.

(7) One last word on terminology. Any social or political movement of any significance naturally and inevitably develops its own linguistic conventions. Given that the modernisation of the public sector is a relatively recent phenomenon, it is hardly surprising that little has been done to standardise the central concepts in the language of debate. This linguistic uncertainty is exacerbated by the fact that

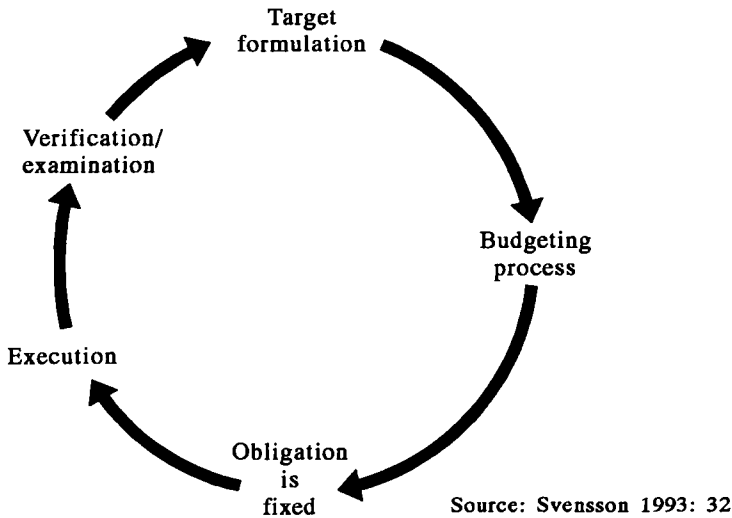


Figure 2: Sketch of the principles of results steering

the reforming countries themselves differ in their linguistic conventions and that more traditionalist countries, such as Germany, cling to the language of administrative governance by rule¹. For the purposes of this study, I would therefore like to establish a number of linguistic conventions:

- Restructuring and reform of the public sector are the colloquial terms used to describe the current processes of change currently under way in the public sector; modernisation and transformation are the rather more scientific terms in the debate².
- Governance instruments are means of action open to the state, collective organisations and firms; regulatory mechanisms are social modes of operation among which state governance constitutes a major element. The ensemble of central regulatory mechanisms is termed the regulation regime.

¹ Translator's note: Many of the terms used in the German version have been derived from Scandinavian concepts, for which neither real-world nor linguistic equivalents exist in the English-speaking countries. Inevitably, this has led to the use of many terms in the English version which will initially be unfamiliar to the native English-speaking reader.

² The modernisation perspective is derived from macrosociological research (Alexander 1994: 166 ff.), the transformation perspective from the theories of "organisational transformation" (Levy/Merry 1986). It is difficult to understand why this debate on public sector modernisation has ignored the discourse on the transformation of the former communist countries (cf. v. Beyme 1994). The two terms tend to be used synonymously. In the present text modernisation is generally used for the macro level, transformation for the micro level of organisational change in cases where the change processes are structural and not incremental in nature.

The methodological approach taken by the study follows an analytical schema according to which the structures, processes and effects of modernisation trends in the public sectors of leading OECD countries are compared from an international perspective by means of the analytical concepts of the three patterns of regulation just mentioned.

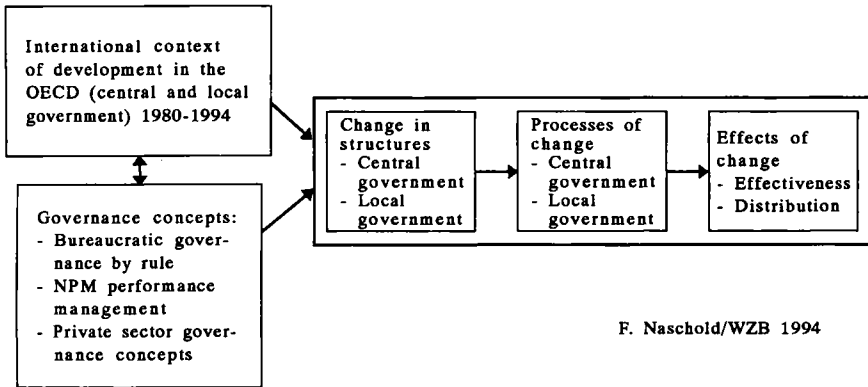


Figure 3: Analytical Scheme of the Evaluation

Figure 4 summarises the most important methodological approaches used in the course of the evaluation study and on which the analytical schema is based.

In the next chapter I will examine development trends – structures, processes and causal chains – of public sector reform in 11 OECD countries at the aggregate level of the nation state (II.). Against this background the conceptions put forward by the New Public Management Movement, in particular results and target-oriented governance within the tension between bureaucratic governance by rule and private sector governance systems, can be analysed (III.). In the two subsequent chapters modernisation strategies at central government (IV.) and local government (V.) level will be examined, by means of combination of intensive case studies in Finland and international comparative analysis. The concluding chapter draws attention to a number of strategic strengths and weaknesses of Finnish developments against the background of international trends.

Figure 4: Evaluatory Methods

Impact analysis	Cooperative learning processes
1. 11 OECD-countries in an aggregated international comparison 1980/5 to 1994; secondary analysis of OECD data and additional national documents and interviews	1. Discussion of the line and direction of enquiry at ministerial level and with the scientific community
2. Five-country comparison of a single policy area and its governance systems (using the example of labour market policies)	2. Start conference to begin the evaluation with scientists and practitioners (2/94)
3. Intensive case studies of 5 central government institutions in Finland	3. Network of scientists and practitioners in Finland and in the comparison countries
4. International comparison of public sector modernisation at local government level (11-city comparison, secondary analysis and own research)	4. interactive interviews in the empirical phase
5. 1 intensive case study at local government level	5. Intermediate presentation to scientific community and practitioners
6. 80 extended interviews in central and local government*	6. Evaluation conference to follow presentation of report (planned)
7. Participatory observation in strategy conferences in central and local government	7. Continuation of the strategic discussion within the scientific and political communities (planned)
8. Control-group research at two private sector firms (one small, one large)	

* Of the 82 interviews conducted, 26 were with scientists/consultants, 29 in the state sector, 23 on the communal level, 4 in the private sector, 4 held in groups.

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2 Public sector reform trends in the OECD: Profiles, processes and effects

The subsequent analysis of public sector reform in the OECD aims to provide an initial perspective on the profiles, effects and process conditions of the public sector in the various OECD countries. The analysis is initially focused on the aggregate level of nation-states, covers the period 1980/85 to 1993/94, and considers developments in 11 countries. The countries were selected on the basis of the most-similar/most-dissimilar approach used in comparative studies, in order to take account both of the diversity of development trends and the depth of very