

# The Fragmented State – the Challenges of Combining Efficiency, Institutional Norms and Democracy

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# Preface

This paper is written as a part of the research project «Regulation, control and auditing» at the Rokkan Centre, funded by the Norwegian Research Council. An earlier version of the paper was presented at the seminar «Rebuilding Institutions Under Complexity: Defining Organization in New Century» at the Division of Public Administration of the Centre for Research and Teaching in Economics (CIDE), Mexico City, January 15.–16., 2004. We wish to thank Steinar Askvik, Ishtiaq Jamil and the participants at the seminar for valuable help and comments.

# Abstract

In this paper we describe the emergence of a leaner, more fragmented state brought about by the transformation of public-sector organisations from integrated multi-functional entities into autonomous and single-purpose organisations. This shift has taken place under the auspices of the New Public Management (NPM) movement, which has dominated administrative reforms both in OECD countries and in many developing countries over the past 20 years. We relate this development to structural devolution and to changes in cultural norms and values, but also to a dominant neo-liberal ideology.

We then discuss the effects and implications of these new organizational forms of the modern state and the trade-off between different norms and values, such as democracy, freedom, equity, justice and efficiency, in the public sector. A special focus will be on the balance between political governance, control and accountability on the one hand and managerial autonomy, flexibility and efficiency on the other hand. Finally we discuss the challenges of introducing NPM reforms in countries with different starting points for administrative reforms in their respective political-administrative systems. A central argument is that context matters, and here we focus on the importance of ethical capital, corruption and administrative culture.

As its theoretical basis the paper uses an institutional perspective that focuses on national polity features, domestic administrative culture and external constraints from technical and institutional environments as the parameters for governmental reform. This approach stresses the complex interplay between various internal and external factors as a key to understanding the organisational transformation and its effects. We illustrate the development using empirical data from Norway and from other countries.

# Sammendrag

I dette notatet beskriver vi framveksten av en mer fragmentert stat gjennom omforming av offentlige organisasjoner fra integrerte multifunksjonelle etater til autonome, fristilte «single purpose» organisasjoner. Denne omformingen har skjedd som et ledd i New Public Management bevegelsen, som har dominert administrativt reformarbeid både i OECD land og i mange utviklingsland i løpet av de siste 20 år. Vi relaterer denne utviklingen til strukturell fristiling og til endringer i kulturelle normer og verdier, men også til en mer dominerende nyliberal ideologi.

Vi diskuterer effekter og implikasjoner av disse nye organisasjonsformene i den moderne staten og balanseforholdet mellom ulike normer og verdier i den offentlige sektor som demokrati, frihet, likhet og effektivitet. Et spesielt fokus legges på balansen mellom politisk styring, kontroll og ansvar på den ene side og administrativautonomi, fleksibilitet og effektivitet på den andre siden. Avslutningsvis diskuteres de utfordringer man står overfor ved å introdusere NPM reformer i land med ulike utgangspunkt for administrative reformer i deres egne politisk-administrative system. Det legges særlig vekt på utviklingsland. Et sentralt argument er at kontekstuelle forhold har betydning, og vi fokuserer her på betydningen av etisk kapital, korrupsjon og administrativ kultur.

Det teoretiske utgangspunktet for notatet er et bredt institusjonelt perspektiv som fokuserer på trekk ved nasjonal politisk-administrativ struktur, på nasjonal administrativ kultur og ytre press fra tekniske og institusjonelle omgivelser for å forstå administrative reformer. Denne tilnærmingen legger vekt på det komplekse samspillet mellom interne og eksterne faktorer som en nøkkel til å forstå organsrasjonell endring og dets effekter. Vi illustrerer utviklingen ved å bruke empiriske data fra Norge og fra andre land.



# Introduction

New Public Management (NPM) as a model for public-sector reform has spread rapidly to many countries over the past two decades. Spearheaded by reform entrepreneurs such as the Organisation for Economic Co-operation and Development (OECD) and some Anglo-Saxon trailblazers (Pollitt and Bouckaert 2000), the reform wave has, with varying degrees of intensity, encompassed mainly Western democracies but also affected some developing countries via the influence of the International Monetary Fund and the World Bank. Although NPM now seems to have peaked and been modified in countries that might be regarded as NPM pioneers, such as New Zealand (Gregory 2002), it is still having a major impact on the structure and functioning of the public sector in many countries. In many cases a previously integrated state structure has become considerably more diffuse or even fragmented. While this is the main picture, there is a considerable degree of national variation resulting from differences in the existing structural apparatus prior to reform and in historical-cultural traditions and determined by the extent of external pressure for reform (Christensen and Lægveid 2001). The first part of this paper describes some features of this development, focusing primarily on the structural devolution of the public sector under NPM.

The main focus of the second part of the paper is the broader political effects of NPM and its implications for democracy. Advocates of NPM have tended to portray it as a kind of «brave new world», promising that NPM will make everything better. An increase in efficiency is to be brought about via increased autonomy and deregulation, more flexibility and greater discretion for managerial and commercial institutions and actors. NPM is said to enhance the participation and influence of consumers of public services but also to strengthen political and administrative control, auditing and reregulation. While we are particularly concerned with the effects on political control and accountability, we also take a broader look at various side-effects of NPM, such as changes in political culture, ethical capital and corruption. The paper concludes with a discussion of the implications of introducing NPM reforms in developing and transitional countries. We illustrate the developments discussed using empirical data from both Norway and other countries.

## A transformative perspective

The theoretical perspective used to analyse governmental reform in this paper is a *broad institutional one*, looking at the interaction between *structural* and *instrumental features* (national polity), *cultural features* (historical administrative traditions) and *external constraints* (the technical and institutional environments) (Christensen and Lægveid 2001). This approach focuses on the complex and dynamic interplay between different internal and external factors as a way of understanding the organisational transformation occurring in the public sector generally and in the civil service specifically and its effects.

One school of thought regards the implementation of NPM-related reforms and the creation of a fragmented state primarily as a response to external pressure. This *environmental determinism* (Olsen 1992) can be of two kinds. In the first instance, a country may adopt internationally based norms and ideas about how a civil service system should be organised and run simply because these have become the prevailing doctrine. NPM has its origins in certain Anglo-Saxon countries and international organisations like the OECD, where a kind of reform myth has taken hold, has become ideologically dominant and has spread all over the world (Czarniawska and Sevón 1996; Meyer and Rowan 1977; Scott 1995). This process of dissemination may imply isomorphic elements – i.e., it may create pressure for similar reforms and structural changes in many countries (DiMaggio and Powell 1983). Isomorphism can be seen as a deterministic, de-contextualised, natural process engendered by common dominating norms and values. In the second instance, NPM may genuinely be seen as the optimal solution to widespread technical problems – i.e., it may be adopted to solve problems created by a lack of instrumental performance or by economic competition and market pressure. In this instance NPM reforms are adopted not because of their ideological hegemony but because of their perceived technical efficiency. The two lines of argument treat the environment as *institutional* or *technical*, respectively.

Another view of NPM holds that reforms are primarily a product of the national historical-institutional context. Different countries have different historical-cultural traditions and their reforms are «path dependent», meaning that national reforms have unique features and trajectories (Krasner 1988; March and Olsen 1989; Selznick 1957). The reform roads taken reflect the main features of national institutional processes, where institutional «roots» determine the path followed in a gradual adaptation to internal and external pressure. The greater the consistency between the values underlying the reforms and the values on which the existing administrative system is based, the more likely the reforms are to be successful (Brunsson and Olsen 1993), for a high degree of compatibility furthers adaptation and implementation.

A third view emphasizes national differences in constitutional features and political-administrative structures and contends that these factors go some way to explaining how countries handle national problems and reform processes (Olsen and Peters 1996; Weaver and Rockman 1993). The main features of the polity, the form of government and the formal structure of decision-making within the political-administrative system may all affect a country's capacity to realize administrative reforms. Westminster-style «electoral dictatorships» and homogeneous administrative systems are potentially more conducive to reform than non-Westminster systems with complex party structures, changing parliamentary majorities and a heterogeneous bureaucracy.

Within the constraints outlined political leaders also have varying amounts of leeway to launch and implement NPM reforms via administrative design and an active administrative policy. Their identities, resources and capacity for rational calculation and political control (Dahl and Lindblom 1953; March and Olsen 1995) are to a great extent constrained by the complex interplay of environmental, historical-institutional and polity features. Thus, adaptation to external pressure is not only about environmental determinism but may also have intentional elements ensuing from the actions of the political-administrative leadership, the professionals or consulting firms that «certify»



certain «prescriptions» or reforms, or else represent systematic «double-talk» or «hypocrisy» (Brunsson 1989). Conscious national handling of internationally inspired reforms can, however, also lead to the imitation of only selected reform elements instead of whole reform packages and as such create variation between countries (Røvik 1996). Furthermore, political ability to control reform processes can be enhanced by polity and structural factors increasing the capacity and attention of the political leadership or hindered by negotiation processes or by a lack of compatibility with historical-institutional norms (Christensen and Peters 1999, Brunsson and Olsen 1993). Such features will probably also make political-administrative systems more vulnerable to pressure for reform from the environment.

A transformative perspective emerges when we combine internal and environmental reform features to explain why the content, effects and implications of NPM may be different in different countries (Christensen and Læg Reid 1998). This perspective denies both the optimistic position that wilful political reform actors have full, comprehensive insight into and power over reform processes and the fatalistic position that they have no possibility of influencing reforms through political choice (Læg Reid and Olsen 1993; Læg Reid and Roness 1999; Olsen 1992). Instead, the transformative perspective offers an intermediate position, whereby political leaders are assured a degree of manoeuvrability while their influence is constrained by environmental factors, polity features and the historical-institutional context.

At one extreme, international environmental pressure to adopt NPM reforms, whether through international organisations or economic crises, may have profound effects on national systems if the reforms are simultaneously furthered by the political-administrative leadership and are compatible with historical-cultural traditions. At the other extreme, environmental pressure for reform may produce few changes and effects if political and administrative leaders consciously try to hinder or avoid reforms owing to their lack of compatibility with traditional norms and values and with national reform models (Brunsson and Olsen 1993). These extremes correspond, respectively, to a contextualisation process – which emphasises where environmental change concepts and internal needs match – and a decontextualisation process, which stresses the uniqueness of national systems and the lack of compatibility between their values and norms and reforms of external origin (Røvik 1996).

In reality it is likely that when externally generated reform concepts and processes are transferred to national political-administrative systems, they will become more complex and have more varied and ambiguous effects and implications than the extremes outlined above. In practice political leaders can use certain elements of externally generated reforms or try to redefine ambiguous reform elements and situations in a national context in order to match instrumental goals and national culture. Or they might deliberately manipulate the reforms as myths and symbols, pretending to implement them, but actually having little intention of doing so, and try to further their legitimacy through double-talk or by separating talk, decisions and actions (Brunsson 1989). In yet another scenario political leaders might accept the reforms, leaving their implementation to administrative leaders and thus allowing for adjustment, translation and editing to fit institutional-cultural features (Jacobsson, Læg Reid and Pedersen 2003; Røvik 1998; Sahlin-Andersson 1996).

The effects of NPM-related reforms on political control can, given the potential complexity shown by the transformation perspective, point in different directions. Politicians may intend to retain or strengthen their power and control by consciously using the reform measures. But they may also lose control by accepting reform elements that undermine their leadership. The effects of NPM reforms on political-democratic control may be related to how managers define or redefine their roles and implement reforms. Negotiation processes may also be evident, making political leaders accept compromises or culturally based resistance.

## New Public Management – the source of fragmentation

### **The big picture – a confrontation of state models**

A traditional view, in parliamentary countries, is that democracy and political-administrative control are defined according to the «parliamentary chain of governance» and the mandate given by the population to political leaders through the election channel (Olsen 1983).<sup>1</sup> The people select representatives to political bodies in elections, executive power is based on the political majority in these bodies and the executive has at its disposal a neutral civil service with a wealth of professional expertise, which prepares and implements public policy, including reforms. This perspective on the role of the bureaucracy is still relevant and important, but it has been modified in a number of ways. Olsen (1988) labels this model of governance «the sovereign, rationality-bounded state», meaning a centralised state with a large public sector in which standardisation and equality are prominent features. The model emphasises the collective and integrative features of the political-administrative system, the common heritage and the role of the citizen (March and Olsen 1989). The role of the civil service in such a state can be seen as rather complex, relating to considerations of political control, to decision effectiveness, responsiveness, professional competence and to *Rechtsstaat* values. This complexity is said to enhance the flexibility and political sensitivity of civil servants and is therefore perceived as more of a strength than a weakness (Christensen 1991).

In accordance with this state model, change and reform processes in a political-administrative system are hierarchical and dominated by political and administrative leaders – i.e., the decision processes are closed and have an exclusive group of participants (Hood 1998; March and Olsen 1983). Within the limits of bounded rationality, leaders score high on rational calculation by consistent goal formulation and conscious organisational means-end thinking (Dahl and Lindblom 1953; Simon 1957). As indicated, this ideal is difficult to fulfil in a complex and fragmented state.

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<sup>1</sup> Many of the basic features described here of course also apply in presidential and more mixed systems, but the difference is that in such systems the people have more than one set of representatives or agents.

This traditional model has been supplemented by a variety of others (Olsen 1988; Peters 1996). One of these, closely related to NPM and the focus of our attention here, has been labelled by Olsen (1988) «the supermarket state». In this alternative model of democracy and political-administrative control the state is perceived as a service-provider, with an emphasis on efficiency and good quality, and the people as consumers, users or clients (Hood 1998). In this model the hierarchy is in a sense turned upside down – i.e. rather than the state controlling society on the basis of a democratic mandate from the people, society controls the state more directly through market mechanisms. The supermarket state primarily attends to economic values and norms, meaning that other values and considerations from the centralised state model must be downgraded, making this model more one-dimensional (Nagel 1997). Furthermore, public reform processes are primarily a result of changes in market processes and user demand and hence environmental-deterministic in nature (Olsen 1992).

Administrative reforms, according to this model, appear to be apolitical or even anti-political in nature (Frederickson 1996). Thus, political bodies and politicians tend to be seen almost as illegitimate actors who obstruct efficiency, and the centralised state as overloaded and inefficient at the central level (Boston et al. 1996; Gustafsson and Svensson 1999). What the model lacks is a perspective on the relationship between the influence of voters or citizens on politicians through the election channel, on the one hand, and their more direct influence on public bodies as clients and consumers on the other. And while the model may be said to contain some elements of an alternative view of democracy – namely, a direct, individually oriented democracy with economic overtones – it is not easy to see how atomised actors making choices in a market can participate in creating a stable and responsible democratic system and give political leaders unambiguous political constraints. One might indeed argue that their potential to influence services is also ambiguous and debatable.

To sum up, the supermarket state seems to represent a one-dimensional view of the public sector, where the economic factor predominates, while the society-controlling state is more preoccupied with a complex balancing of a variety of legitimate considerations. The two state models presented have normative-political implications traditionally associated with a left-right spectrum. Socialist and social democratic parties have defended the sovereign state model, while conservative and liberal parties have supported the supermarket state model (Nagel 1997). The attitudes of interest groups have also followed the same cleavage, exemplified by resistance among trade unions and civil servants' unions associated with the labour parties to the supermarket model (Castles, Gerritsen and Volwes 1996; Lægveid and Roness 2003). However, an electoral shift to the right in Western countries during the last twenty years has led to a breakthrough for the supermarket model, such that now even social democratic parties have come to accept some elements from it. While these are still seen by some as highly controversial, others view them as a political necessity or as a «third way» (Giddens 1998), thus generally paving the way for a wider implementation of NPM. It is worth noting that prior to EU enlargement a clear majority of EU countries had social democratic governments, often with a Blair-like profile.

This political-normative debate about the development of the public sector has been accompanied by a parallel debate among scholars around the world. Some economists

and management scholars have pointed to the inefficiency of the public sector and called for a leaner and more efficient state (Boston et al. 1996). These people have played an active role in reform processes, both as producers of models and ideologies and as entrepreneurs in the civil service, as exemplified in New Zealand (Goldfinch 1998). They have seen NPM as a «window of opportunity» to further their own predefined model (Aberbach and Christensen 2001; Kingdon 1984). At the same time, political scientists have often defended a public-sector model based on collective and institutional arguments.

Few countries have adopted all the elements of the sovereign state model or accepted uncritically the major principles of the supermarket state in their reforms, suggesting a discussion about how these could or should be blended and synthesised. The potential exists for a transformation of systems and roles that combines the evolutionary change indicated by the sovereign model with the revolutionary change prescribed by the supermarket model (Greenwood and Hinings 1996). Such a combination draws on both global models of NPM and local versions (Røvik 1998). So what are the characteristics of this new hybrid? How can political-democratic control be secured under more market and management and, conversely, how can the sovereign state be modified by these market elements? Is this a question of structural or cultural change or a combination of both? How does this affect and transform the roles of central politicians and administrative/institutional leaders and what are the wider democratic implications?

Since the 1980s the international tendency in administrative reform has been a neo-liberal one, encompassing managerial thinking and a market mentality. The private sector has become the role model, and public administration has come to be seen as a provider of services to citizens who have been redefined as clients and consumers. These reform trends have weakened the sovereign state model and enhanced the supermarket model.

## **Main features of New Public Management**

New Public Management is a label first used by Hood (1991) to describe an administrative reform wave. The main feature of NPM is its emphasis on neo-institutional economic values. This implies an ideological dominance, whereby many traditionally legitimate values in the public sector are seen solely in economic terms or de-emphasised, making the conflicts and tensions between different values more evident (Boston et al. 1996). In NPM this dominance is also connected to strong, and not always well-founded, opinions about the implications of economic values for the formal organisation of the public sector, for administrative procedures, for the expertise needed and for its relationship with the private sector. These opinions have often been characterised by symbolic features.

When NPM reforms are said to be typically theoretical, as in New Zealand, this often means that economic theories dominate. Examples are public choice theories, principal-agent models and transaction cost models (Boston et al. 1991; Boston et al. 1996). In these models activities in the political-administrative system are seen as strategic games between rational actors whose goal is to make the system more efficient, streamlined

and consistent (Evans et al. 1996). Such economic models seem to regard the ambiguous goals, complicated formal structures and composite cultural norms of a complex civil service as signs of «disease» and not as fundamental distinctive features of a heterogeneous public sector. At the same time, critics of such models emphasise that this way of thinking is simplistic and plays down the importance of public-sector ethics and institutional-cultural constraints; they also point out that it has not proven as fruitful as anticipated when confronted with everyday life in the public sector.

Even if NPM espouses economic values and objectives, the concept is loose and multifaceted and offers a kind of «shopping basket» of different elements for reformers of public administration (Hood 1991; Pollitt 1995). The main components of NPM are hands-on professional management – which is said to allow active, visible, discretionary control of an organisation by people who are free to manage – explicit standards of performance, a greater emphasis on output control, increased competition, contracts, devolution, disaggregation of units and private sector management techniques. The main hypothesis in the NPM reforms is that more market, more management and greater autonomy will produce more efficiency without having negative side-effects on other public-sector values, such as political control. We argue that this hypothesis is contested and that it has yet to be confirmed as a general finding. The effects of NPM are often promised or expected but seldom very well documented (Christensen and Lægreid 2001; Pollitt and Bouckaert 2000).

Tension arises from the hybrid character of NPM, which combines economic organisation theory and management theory (Aucoin 1990; Hood 1991). This tension results from the contradiction between the centralising tendencies inherent in contractualism and the devolutionary tendencies of managerialism. The first set of ideas comes from economic organisation theory and focuses on the primacy of representative government over the bureaucracy (Boston et al. 1996). A lesson from this paradigm is that the power of political leaders must be reinforced against the bureaucracy. This concentration of power requires attention to centralisation, co-ordination and control, objectives that are to be achieved primarily via contractual arrangements. The question, however, is to what extent this actually happens in practice. The second set of ideas comes from the managerialist school of thought, which focuses on the need to re-establish the primacy of managerial principles in the bureaucracy (Kettl 1997). However, enhancing the capacity of managers to take action requires attention to decentralisation, devolution and delegation, which, of course, potentially undermines the very political control prescribed by economic organisation theory. Thus, by advocating both centralisation and devolution, NPM contains an inherent contradiction.

## **Structural devolution – increased vertical and horizontal specialisation**

Devolution can take many forms, but one main idea is to strengthen the discretionary power of managers and give subordinate levels and agencies more autonomy (OECD 1996). Devolution is different from political decentralisation, where authority is delegated to elected representatives (Pollitt, Birchall and Putnam 1998). Vertical

structural devolution entails a transfer of authority downwards in the hierarchy between different organisational forms, either between existing organisations or to new subordinate governmental organisations (Pollitt and Bouckaert 2000). Horizontal specialisation, on the other hand, implies separating administrative functions within the same organisation, something that under NPM has often gone hand in hand with increased vertical structural specialisation.

In many countries structural vertical devolution or specialisation occurs when they change their main organisational political-administrative arrangements by moving units to organisational forms that are further away from the central political leadership, in some cases still within the governmental administrative organisation, in other cases not. Economic arguments for this structural devolution, particularly the more external kind of structural devolution, are based on a kind of deterministic logic. Global pressure to co-operate and compete in new ways is pointing in the direction of more market competition and vast change processes. In order to adjust to this development, so the argument goes, more structural devolution of commercial functions is needed to handle the increased competition. This is a reflection also of the axiom that politics and business should be separated and that private actors make better market actors than public ones. Accordingly, the most effective way of doing business for the public sector is either to create organisational forms that attend more systematically to commercial functions or to let private actors take over some public commercial functions (Boston et al. 1996). Arguments in favour of the more internal kind of structural devolution, involving greater autonomy either for ordinary agencies or for regulatory agencies, are that the former can be more efficient in delivering services and that the latter have a special need for professional autonomy (Christensen and Lægreid 2003).

Counter-arguments to some of the economic arguments behind external structural devolution might be that political and commercial functions have been integrated in many countries for a long time without any great problem, that the considerable financial resources received by the public sector from commercial activities should be kept for collective purposes and that it is important for the public sector to control and regulate economic activities, including via ownership. The nature of political considerations is also changing. Traditional public policy considerations of a broad societal character or sectorial considerations are now seen as either irrelevant or as non-commercial functions that have to be paid for separately (Self 2000). Arguments against the tendency to move agencies out of the government administration are the problems of decoupling policy control and development from service delivery, the potential importance of political control of many of these units and, from a democratic perspective, the problematic implications of elevating professional autonomy to the most important feature of the regulatory function.

In many countries that have implemented NPM-related reforms an increase in horizontal differentiation between administrative functions is evident. Functions that were traditionally organised together, such as policy advice, regulative tasks, ownership functions, control functions, and purchaser/provider functions, have now been separated into distinct units. New Zealand is the most typical example of this type of structural change, having adopted the principle of single-purpose or single-mission organisations (Boston et al. 1996). Arguments for this solution are that it enhances

effectiveness and efficiency by clarifying administrative functions and avoiding overlap and ambiguous coupling of functions that blur the lines of command and authority. One possible effect of such strong administrative specialisation of functions is an increase in the need for co-ordination, because there is more fragmentation in the system. Another effect could be that the new specialised units will grow by adding tasks they have lost through specialisation – e.g., purchaser units might add policy advice functions. All this could potentially lead to an increase in the number of civil servants and resources used – i.e. in a more complex rather than a simplified bureaucracy.

Modern NPM-related reforms have combined vertical and horizontal specialisation, thus creating a state that is much more fragmented than the traditional integrated model. The effects of this development will be analysed in the next section.

## The effects and implications of a fragmented state

### **The effects of complex structural devolution**

The aim of structural devolution is to devolve functions that do not need to be controlled politically and to keep politically important tasks under central control. Together with greater transparency the aim of this process is to allow «more steering in big issues and less steering in small issues». We argue that this is easier in theory than in practice and that the result might easily be less political control, both formally and in reality.

Devolution is inspired by the slogan «let the managers manage», meaning discretion for managers and boards and not too much daily interference from political leaders. The implication of this slogan is that chief executives are better at managing and therefore should be given the discretion and opportunity to do so, thereby reducing the burden on the political leadership and, through a sharp division between politics and administration, increase political control. But one could also argue that the slogan reflects an anti-political trend, potentially undermining political control. «Let the managers manage» may mean that managers gain more resources, tasks and responsibility, making it less legitimate for politicians to interfere in their business. Moreover, structural devolution often means less capacity for central political control. One obvious effect of increased structural devolution of commercial functions is both a slimmer core and generally a slimmer public sector, due to cuts in the workforce in public enterprises and to privatisation (Gregory 1998a). Another effect is growing structural complexity or hybrid forms, because there are new combinations of political and commercial interests built into new public units.

But does increased structural devolution undermine political control, regardless of whether it is efficient? One main argument for answering «yes» is that structural devolution changes the instruments of control and increases the distance between the political leadership and subordinate units and lower levels of management (Egeberg

1989). This logic is based on the notion of erecting new structural barriers or limits. The main lesson is therefore that structural devolution means a decrease in the central capacity for control and in the authority to exercise control and less attention to political considerations in subordinate units, especially market-oriented units (Mascarenhas 1996, Pollitt and Bouckaert 2000). There is a tendency to define political involvement in public enterprises as «inappropriate» interference in business matters. A study of the top political and administrative leadership in Norway shows this clearly (Christensen and Læg Reid 2002). The majority of the ministers interviewed agreed that structural devolution of state commercial functions had undermined their political control, something they saw as somewhat problematic. They also acknowledged the existence of pressure to use their remaining control instruments in a passive and reactive way. The top administrative leaders more easily accepted the effects of devolution and the top state commercial leaders wanted to go further down that road.

The more limited form of structural devolution is the internal procedural one, meaning a transfer of authority from ministries to agencies. This gives them more autonomy, responsibility and leeway in using allocated resources while keeping the main form of structural affiliation stable. This weak version of autonomization has generally not aroused much controversy, even though it potentially undermines political control. It is associated in many countries with various new systems of control, encompassing Management by Objectives and Results (MBOR), performance budgeting, performance management and auditing, a formal «steering dialogue», an annual letter of objectives and resource allocation from the ministries to the agencies, performance reports from the agencies to the ministries and formal meetings. When asked what they thought of the new system, Norwegian ministers and agency leaders generally expressed satisfaction (Christensen and Læg Reid 2002). They saw it as increasing awareness of goals, means and results and making both the control and the activities of the agencies better, although it was not clear whether it actually increased efficiency. But some ministers saw the new system as creating a new type of agency leader who was more autonomous and less sensitive to political signals. The main problem seems to be at the interface between politicians and administrators. The ministers expend little time and energy on the new steering techniques and leave them to a great extent to the administrative leaders, thus in practise transferring power and influence to them.

Another type of internal devolution is the establishment of new regulatory agencies or supervisory authorities. While the regulatory function has always existed side by side with administrative and commercial tasks, it is now often located in specific regulatory bodies with the formal status of agencies. This development, which has a long tradition in the US and has been adopted more recently in other NPM-countries, has proved to be more controversial for a number of reasons. One central issue is whether these regulatory agencies should have more autonomy than other agencies. Cabinet members in the Norwegian study mentioned are the most sceptical towards autonomy, their main argument being that some of the regulatory agencies cover policy areas that require political control and that there is no reason to give them extra autonomy. They also sense a whiff of anti-political sentiment in the argument that regulatory agencies should have special autonomy.



Another controversial question concerning the regulatory agencies is whether the ownership and regulation of state-owned companies should be located within the same ministry. The main argument in OECD and leading NPM-countries is that these functions should be kept separate (OECD 2003). However, the Norwegian study shows considerable disagreement among political and administrative leaders on this point. One argument in favour of having the regulatory agency in the corresponding sector ministry, often supported by political executives, is that this arrangement maintains and strengthens sectoral competence. Most administrative leaders will, however, prefer to keep regulatory and commercial functions apart. They argue that sector-specific expertise is not important for regulatory agencies and that regulatory functions can be organised cross-sectorally.

To sum up: while the single-purpose organisation seems to have emerged as the new administrative orthodoxy, there is disagreement and great institutional confusion and ambiguity among political and administrative leaders about how to organise the central agencies and supervisory authorities horizontally, vertically and also geographically. The Norwegian case, showing that political leaders are the most sceptical, seems to be representative in a comparative perspective.

New Zealand is a kind of extreme case regarding complex structural devolution, because it chose to combine strong horizontal specialisation with strong vertical specialisation. Boston et al. (1996) argue that in New Zealand devolution has had a certain dual effect. On the one hand, the separation of non-commercial and commercial functions, highlighted in the establishment of public enterprises, is said to be efficient and to secure accountability, even though it is designed to weaken political control (Evans et al. 1996). On the other hand, some Crown entities, in competition with private actors, have made political control and co-ordination more problematic and lines of authority more ambiguous, and this has made it more difficult to secure collective interests.

Australia has had a similar profile concerning structural devolution, but chose another, much more integrated horizontal solution as a way of organising the machinery of government. Sixteen core departments were established in the early 1980s, so-called mega-departments, and this feature supported Hawke's policy of strengthening the integrative features of the cabinet (Campbell and Halligan 1992). Compared with a more fragmented solution this probably strengthened the influence of the political leadership, both with regard to top civil servants in the central agencies and departments and as a counterbalance to the subordinate institutions and commercial entities. But structural devolution, commercialisation and privatisation, especially in the 1990s, and even more so now, under the Howard cabinet, generally has weakened the central political leadership, even though its control over the core of the public sector is still rather strong.

Norway chose a structural reform path more similar to Australia's than to New Zealand's in the 1980s, with the emphasis on moderate horizontal specialisation of ministries – though it created nothing resembling Australia's mega-departments – and moderate vertical specialisation. Over the last 5–10 years the reforms have been more reminiscent of New Zealand in the 1980s, and around 50 governmental units have been reorganised by moving them away from the political leadership, including transforming

old public enterprises into new state-owned companies, giving ordinary agencies more autonomy and establishing new regulatory agencies (Lægreid et al. 2003). Several studies have shown that this trend undermines central political leadership and creates increased complexity and confusion.

## **The fragmented state and the challenges of accountability**

An important aspect of administrative reform is the issue of political control and accountability of senior civil servants. With its principles of accountability based on output, competition, transparency and contractual relations, NPM represents a departure from «old public administration», where accountability was based upon process, hierarchical control, trust and cultural traditions. There has been a shift from simple to complex models of accountability (Day and Klein 1987). The traditional notion of accountability, namely, top-down authority responsible to the people through elected policymakers, is challenged by the twin emphasis on customers and results, which in some cases makes administrators focus downwards, towards citizens, rather than upwards towards elected officials.

In administrative reforms such as NPM, much attention has been paid to managerial accountability with sparse consideration of political responsibility. By managerial accountability we mean the obligation to provide an account of one's actions *to* those in superior positions of authority. Responsibility, on the other hand, is accepted *for* actions performed by oneself or others and is a more subjectively felt sense of obligation (Gregory 1995). This means that accountability might be a necessary component of responsibility but not the only one. To be responsible connotes the ability to act as well as simply to report and implies concern for the consequences of this action. There is a moral flavour missing from accountability (Martin 1997).

March and Olsen (1989) emphasise this difference by making a distinction between *aggregative* and *integrative processes* in public organisations. Civil servants will in integrative processes have a feeling of belonging, a shared history and traditions that make it easier to have a sense of integration, obligations and a common purpose and to act appropriately (March 1994). In aggregative processes actors are more atomised and do not have a sense of integration; they need incentives to act in certain ways. Instead of being socialised into an administrative culture and a code of ethics, they are disciplined to change their behaviour by various kinds of formal motivation (Lægreid and Olsen 1984). We see here the contrast between the logic of appropriateness (culturally related) and the logic of consequence (instrumentally related).

There are at least two facets to this question of accountability. First, how are senior civil servants themselves to be accountable? And second, how can ministers best be provided with political analysis and advice to support their policy-making activities? While managerial accountability may have improved, as shown in the New Zealand government, the reforms have also led to fragmentation of the public sector and the acceptance of political responsibility by ministers has been attenuated, as shown by Weller et al. (1997) in a comparative study of the executive in several countries. The

problem of «many hands» (Thompson 1980) has grown. The conceptual distinctions drawn by the reform with regard to the roles of minister and chief executive are amply clear on paper, but they fail in practice. The ambiguity of responsibility becomes especially clear when things go wrong (Gregory 1998b). This means that the reduction in political responsibility would need to be balanced against possible gains in effectiveness and efficiency (Boston et al. 1996). A preoccupation with efficiency tends to overvalue the need for managerial accountability rather than promoting political responsibility. Efficiency is no guarantor of good political and social judgement, which is essential in securing genuine political responsibility and legitimacy (Gregory 1998b). The pursuit of accountability can exact a price in the decline of a sense of responsibility. Basing accountability on *ex ante* specification of performance can have unanticipated consequences, such as when unspecified matters escape accountability. This problem will not be remedied by more detailed indicators of performance. Rather, the solution may have to come from embracing a responsibility model (Schick 1996).

There is an in-built inconsistency in NPM. The model is supposed to increase the influence of elected politicians over the bureaucracy, while at the same time reducing their responsibility for the bureaucracy's actions. One of the greatest concerns in administrative reforms is the balancing of freedom and accountability (Dunn 1997). The traditional bureaucratic model, with little freedom or accountability for results but much responsibility for following rules, has been an extraordinarily successful and durable model of public administration. Today, public administrators around the world are seeking greater freedom but they are also anxious to obtain greater accountability. A system that extends freedom to managers without strengthening their accountability undermines the power of politicians and is inferior to the traditional, bureaucratic model of administration. A reform that involves an imbalance between freedom and accountability is dysfunctional. The system will not work well if officials are given freedom without clear expectations about performance (Scott 1996).

There may be a «zone of indifference» (Simon 1957) in which bureaucrats may operate with great autonomy. If, however, they exceed a certain limit, politicians may tighten political control. This means that the relationship between politicians and bureaucrats may be more a pattern of ebb-and-flow than a linear development towards less political control. NPM ideas about decentralisation, devolution and consequent fragmentation create a need for greater co-ordination and control in order to ensure policy coherence in government (Hart 1998; Peters and Savoie 1995). Giving public managers more authority to manage programs might result in ministers' gaining greater capacity for setting central discretion and priorities, so as to resolve problems of loss of control over policy implementation raised by NPM reforms (Maor 1999). In addition, shrinking the institutional capacity of the central bureaucracy may enhance the power of political leaders. Managerialism may allow executives to exercise greater control over its agencies, but it is greater control over a smaller domain (Davis 1997).

It is, however, a paradox that, while administrative reform has become more comprehensive, it has also become more problematic for the political leadership to meet the requirements of a rationally planned reform process (Lægreid and Roness 1999). In order to understand this paradox it is necessary to consider the fact that time, energy and attention are scarce resources for political leaders.

In Australia public-sector reforms have caused worries over accountability, with a special focus on the distinctive character of public accountability and on the role of the public's interest in the world of Australian public administration (Uhr 1999). There is an underlying tension between the accountability standards of traditional public administration and contemporary public management (Shergold 1997; Minson 1998).

In Norway and New Zealand there has traditionally been a doctrine of ministerial responsibility, which states that the minister takes the political blame as well as the credit for the actions of administrators, who must remain anonymous and beyond credit or blame. The administrative reforms have enhanced public knowledge of the identity and policy obligations of many senior civil servants and separated ministers further from the administrative process, thus challenging this doctrine. In New Zealand the administrative reforms may have altered the doctrine of ministerial responsibility, while a new version of accountability has developed based on contractual relationships between ministers and their chief executives (McLeay 1995). Accountability by contracts is based on the idea of opportunistic behaviour, whereby people learn to distrust each other. This may make control more visible but it is an open question whether this is a better form of control than the old internal control based on trust.

The study of the Norwegian top political and administrative leadership shows a more complex pattern of responsibility and accountability than before (Christensen and Læg Reid 2002). The parliament is pursuing control and scrutiny more aggressively through a control committee, open hearings and performance auditing enhanced by a revitalized Audit Office, something that puts extra pressure on the political executives and gives more exposure to top administrative leaders. While this creates a greater sense of unity in the ministries, it also increases internal tensions, for when political executives have problems obtaining information on critical questions they tend to blame the bureaucrats; the administrative leaders, on the other hand, are reluctant to accept blame and try to push the blame back to the politicians and cover their backs.

NPM has changed some of the fundamental cultural features of the political-administrative system, particular concerning the roles of the administrative leaders and their relationship to the political leadership. In the old integrated state the political and administrative leaders saw themselves as belonging to a collective; there was a feeling that everyone was «in the same boat». In the fragmented state, by contrast, the aggregative features are more evident, i.e. top politicians and administrative leaders tend to be seen as players on different teams; there is more mistrust in the relationship; and administrative leaders are regarded as «tourists» on their way to another job and hence as less committed.

## **Unstable relationships and attempts by the political leadership to regain political control**

We will illustrate the unstable relationship between political and administrative leaders in the fragmented state using two examples from Norway (Christensen and Læg Reid 2003). The cases in question concern immigration policy and hospital policy, but can be used as

a basis for a more general discussion of how politicians may try to regain political control.

In 2001 the Directorate of Immigration (UDI) in Norway was given increased autonomy and authority. The idea was to put decisions on individual cases at arm's length from the political leadership in the ministry and the cabinet. The ministry was to be prevented from instructing the agencies on how to interpret the law, from exercising its judgement and from ruling on individual cases; but the measure also allowed it to avoid blame. Nevertheless, the boundaries of jurisdiction between the ministerial authorities and the UDI remained blurred. Two cases – one involving the handling of a potential terrorist from Northern Iraq living in Norway and the other concerning former hijackers who were granted work and residence permits in Norway – illustrate the unstable relationship between political and administrative leaders in a fragmented state. A particularly interesting issue was whether the cases would be handled independently by the UDI as regular cases or whether the ministry could or should interfere and instruct the agency. In the first case the role of the UDI was reduced to preparing the case, while the decision-making was reallocated to the ministry. In the second case the autonomous role of the agency was respected and the hijackers were granted work and residence permits by the UDI without the ministry being informed or consulted. When the decision became public, the authorities were heavily criticised by the political opposition and the media, and the minister herself admitted that the decision would have been different if the ministry had been informed about the case. However, the ministry could not overrule the decision once it had been taken.

The second policy area we use to illustrate the autonomy-control dilemma is the Norwegian Hospital Reform, which took effect in 2002. Two things happened under this reform: the ownership of hospitals was transferred from the counties (regional level) to the central government; and the hospitals changed their organisational form from public administrative units to become parts of regional health enterprises.

Several cases illustrate the problems of the new structure. There have been increasing conflicts over the mergers or closures of local hospitals and some wards and also disputes over how to use the DRG – (Diagnosis Related Groups) system, where a regional health enterprise was seen as cheating on the system. Many of these cases illustrate the problems of increased autonomy granted in the name of efficiency. The effects have in some cases been politically controversial and pressure is strong to restore the control of the political executive. One intention of the reformers was to put politicians at arm's length by excluding the regional council from the decision-making process and regional party politicians from the boards of hospitals. Although they have formally succeeded in doing this, political involvement is now tending to reappear in the form of local lobby groups and in an increased focus on health policy by members of parliament, thus challenging the balance between enterprise autonomy and central political control that the reform agents wanted to establish. The activities of the media, MPs and lobby groups are often not in accordance with the formal procedures for contact and communication between the ministry and the health enterprises.

The cases cited in the immigration policy and health sector show various kinds of potential for ambiguity and conflicts and reveal a number of different aspects of the problem of politicians' losing control through greater administrative and commercial

autonomy. What all of them demonstrate is that in practice it is hard to live up to the official formal governance model of frame-steering and performance management (Pollitt 2002). According to this model, the ministry is supposed to set policy objectives, translate these into measurable targets and then actively monitor and review agencies' performance annually as they strive to reach the targets, rewarding success and punishing repeated failures. It is not, however, supposed to interfere in the details. Agencies are given latitude in choosing the means to achieve their targets and the ministries hold them accountable for fulfilling them. However, in many cases this model gives an inaccurate picture of what is going on. The ministries often set general objectives that are vague, contradictory and subject to change, involving unresolved trade-offs. Frequently the ministry allows the agencies to set their own standards and targets but neglects to monitor these targets. In cases that are particularly politically salient, or when something goes wrong and there is media pressure or lobbying, the ministry can interfere and withdraw some of the liberties of the agencies, formulate new rules and criticise the agencies for actions that had not actually been discussed or clarified when targets were set (Pollitt 2002).

These Norwegian cases help us to understand how ambiguities and conflicts occur between the political executive and the leaders of the agencies and state-owned companies in the fragmented state. However, we also need to look at the mechanisms for regaining political control. The most obvious instrumental strategy for executive politicians to regain policy capacity and control is simply to reorganise in order to win back their influence. This depends primarily on two preconditions: there must be a winning coalition in favour of regaining control; and the negative effects of autonomization must be so obvious that there would be much to lose politically if nothing were done. The latest developments in New Zealand demonstrate in this respect several ways in which political influence may be regained (Gregory 2002): the political-administrative centre can be strengthened again by employing more people to perform control functions; control of agencies and state companies can be strengthened; contracts can be drawn up that clearly delineate the accountability of subordinate leaders; and programs and projects can be launched to strengthen co-ordination in a fragmented governmental structure. In several of the most radical NPM countries, like the United Kingdom, New Zealand and Canada, governments have over the past few years established «joined-up-government» programs to regain co-ordination power (Bakvis 2002; Gregory 2002; Richards and Smith 2002).

Another instrumental strategy to regain control is for political executives to reassert themselves by using the existing and reformed levers of control more actively. To do this the apparatus around the political leadership would probably need to be strengthened by establishing more positions for political advisers or by recruiting experts able to handle new control functions. The advantage of this strategy is to «take back» influence by being more proactive and to try to decrease the importance of the power vacuum that emerged when the executive political leaders withdrew from strong control. The disadvantage is that they can end up in «double-bind» situations: when they try to control they are blamed, often by the parliament, for being too active according to the new formal devolution; but when they abstain from control, they are accused of being too passive when action is needed. The danger is that politicians will try to

delegate blame but not credit, while the administration accepts credit but not blame. Such attempts by politicians to have their cake and eat it by making credit flow upwards and blame flow downwards is likely to lead to conflicts and deadlock situations and ultimately probably to blame-sharing (Hood 2002).

Executive political leaders may also reassert themselves by proposing new reform programs. The best way to get rid of a reform is to launch a new one, for reforms always look better *ex ante* than *ex post* (Brunsson and Olsen 1993). Typical for these programs is that they have strong symbolic features. They are important for developing meaning and interpreting experience (Lægreid and Roness 1999). Thus, an important task for political leaders is to launch reform ideas, formulate visions of the public sector and talk about what constitutes relevant questions and proper solutions that seem efficiency-oriented. In this sense the reforms can be considered to be opinion-forming and thus rooted more in the world of ideas than in practice (Brunsson and Olsen 1993). However, supporting programs that focus on efficiency may be problematic, since these tend to resemble rather closely the very programs that undermined their political control in the first place.

Another fruitful strategy for politicians who lack time and attention capacity is to exert control by means of random intervention (Hood 1998, Lægreid and Roness 1999). It is important to distinguish between political engagement in *any* matter and political engagement in *all* matters. In practice limited capacity and attention mean that they may only involve themselves in a limited number of matters. An element of contrived randomness or deliberate unpredictability with regard to when and how political and administrative leaders intervene, oversee and control the reform process can compensate for lack of capacity and attention and give them more influence over the policy process. Thus the institutionalisation of random control, which links an element of chance with the exercise of overseeing authority, might be an effective tool of political governance.

## Some lessons and implications for developing countries

One main lesson from these experiences in the field of administrative reform – its content, effects and implications – is that context matters. Although the neatness of ‘one best way’ continues to attract followers, it is fair to say that one size does not fit all. One reason for this is that different countries have different points of departure, economically, politically and socially. Different functions, performed in different administrative cultures and circumstances, require different approaches and different mixtures of norms and values (Pollitt 2003). Public management reforms involve trade-offs between values such as security and efficiency, predictability and innovation, efficiency and equality, speed and accuracy, autonomy and control, flexibility and accountability, effectiveness and justice, etc. These are underlying tensions in multifunctional political-administrative systems which are not easily resolved. How do NPM reforms in general and structural devolution and fragmentation in particular

handle the in-built tensions involved in balancing equality, tolerance and shared responsibility with efficiency? The NPM paradigm does little to highlight two of the cardinal values of democratic governance – equality and inclusion – or the classical features of bureaucratic systems, such as anonymity and permanence for administrative leaders. There is no universally acceptable answer to the question of where the balance should be set, because values and norms differ between cultures.

The idea of structural devolution has been transferred from OECD countries to other parts of the world, either because countries found this form attractive or because it was imposed by international organisations, such as the World Bank or the International Money Fund. While aid donors have been enthusiastic proponents of transforming the Third World states in line with NPM principles (World Bank 1991, 1997), critics point out the difficulty of making such ‘policy transfers’ across different political and bureaucratic cultures (Minogue 2002). In contrast to the donor organisations’ presentation of the NPM reforms as a generic medicine, the application of such reforms in transitional states has in practice been uneven.

Overviews of the effects of NPM in developing countries indicate that the evidence of the impact of NPM is ‘perplexingly equivocal’ (Polidano 2001). It is fair to say that NPM has a weak empirical foundation. There have clearly been problems with implementation, particularly with regard to contracting out (McCourt 2001). The effects have been mixed at best, with some improvements in efficiency and mixed effects on equity. With regard to autonomized service delivery agencies, transaction costs tend to outweigh efficiency gains, and reforms that seek to separate the purchaser from the provider may have decreased accountability and increased inequality (Batley 1999; Manning 2002). There are, however, few empirical assessments of what has worked and there is a need for more research on the link between managerial autonomy, organisational performance and corruption. The impact of agencification on fragmentation is probably greater in developing countries than in many industrialised countries, because the capacity for co-ordinated policy-making at the centre is already difficult enough in many Third World countries (Manning 2002; Polidano, Hulme and Minogue 1998).

Over time there has been a growing realisation that certain crucial factors that might be taken for granted in the stable liberal democracies of the West affect the outcome of agencification in developing states in important ways. Many of the transitional countries have «dual economies» – an informal economy as well as an informal culture in both the public and the private sector, and this makes these countries vulnerable when they introduce NPM reforms based on the notion of Weberian bureaucracy (Schick 1998). Such societies lack a robust market sector, established mechanisms for enforcing contracts, managerial capacity provided by experienced and trained people and clear and transparent laws. In addition, the level of interpersonal trust and trust in governmental institutions is low, as is the ethical capital in the public sector. Norms of conduct are weak and the level of corruption is high (Polidano, Hulme and Minogue 1998). It is risky to entrust public managers with enhanced freedom over resources when they have not internalised the habit of spending public money according to rules. In such situations transferring responsibility from a single central agency to a plethora of individual agencies will probably increase the risk of corruption. Where informality flourishes, two civil service systems coexist, one based on formal rules and the other on



practices, which may be loosely coupled. This may apply to personnel policy, to general budgetary matters and especially to devolved agencies and companies. In such situations NPM reforms involving increased flexibility and autonomy may be seen as a new opportunity for nepotism and clientelism (Pereira 2001). Both devolving authority and competition is constrained by incapacity. Where government capacity is weak direct service provision may be a lower risk delivery strategy (McCourt 2002).

One lesson is that countries should not move directly from an informal public sector to one in which managers are given huge discretion when handling financial and personnel matters. One strategy might be two-phase model of reform implying a sequencing path, whereby civil service reforms should be completed before a country embarks on public management reforms (Pereira 2001). This implies building managerial capacity, trust and experience. Basic processes have to be installed and internalised before one can go on to more advanced practices. The traditional model with its emphasis on probity and due process rather than outcomes is appropriate to countries where corruption is a real problem (McCourt 2002). Managers must be able to control input before trying to control output, to account for cash before accounting for cost, to be loyal to uniform rules before being authorised to make their own rules, and to be familiar with operating within integrated centralised systems before being authorised to go it alone in autonomous agencies (Schick 1998). A first priority if one wants to introduce more agencification and autonomization of the public sector in such contexts is to have a well functioning civil service core with sufficient capacity and skill to match the need for new arrangements for accountability and performance that these kind of reforms require.

One precondition for successful agencification is that the creation of agencies and state-owned companies entails a balance between new operational freedoms and new forms of target-setting and performance reporting. If the emphasis is all on freedom to operate in a «businesslike» way by developing the managerial part of the reform, and too little on the anchoring of that freedom within a firm framework of political or administrative control by means of accountability systems and institutional surveillance over autonomous agencies, as was the case in Latvia and Mexico (Pollitt 2000, Gault 2000), these kinds of reforms represent a challenge to democracy. Many agencies exist in a policy vacuum, meaning an absence of clear politically formulated policy objectives implying vague targets for the daily work of the devolved agencies. Furthermore, in many developing countries external public accountability is challenged partly because of the weakness of independent external control bodies linked to the parliament. Furthermore, internal control by the executive is weakened by motivational and capability deficits. The ministerial capacity and competence to follow-up and monitor the autonomous agencies is often insufficient. The performance management skills in the executive are generally low and the ministries' lines of responsibility for agencies are made ambiguous by the presence of other interests as proxies of agencies. These problems are, however, not unique to transitional countries. They are well known in all countries that have introduced NPM reforms. But some countries are more vulnerable to such shortcomings than others, owing to contextual factors.

Outsourcing, autonomization and structural devolution do not manage themselves. They require active and thoughtful oversight. And such oversight requires a capacity

that is substantially different from traditional bureaucratic tools, such as purchaser capacity and the ability to formulate operational targets and assess results and performance (Kettl 2000). Enhanced autonomization and structural devolution require the establishment of reliable external controls applied in a fair and realistic manner. To deregulate and give line managers broader discretion in operating their programs and organisations without first having a well functioning formal, rule-based and honest public sector is asking for trouble. There has to be a basic level of mutual trust and internalised public ethics among public sector managers in order to succeed with NPM reforms of this kind.

## Conclusion

In this paper we have discussed whether NPM reforms in general and autonomization reforms in particular are appropriate and effective in various countries. To answer that question we need to focus not only on the main objective – efficiency – but also to pay heed to the side-effects on other goals, such as political-democratic control. Our argument is that NPM reforms are generally likely to have negative side-effects on political control but that the scope and importance of such effects depends on context. NPM reforms are especially vulnerable to negative side-effects when they are installed in countries where the basic capabilities, capacity and due processes of the civil service are absent and a civil service culture with high ethical capital and trust in government is lacking. One has to be particularly cautious about introducing reforms in developing countries when their success, even in industrialised countries, is unproven (Minogue 2001). Adding to this the political context is also important to understand why administrative reforms are so difficult to implement successfully. Political commitment is at the root of the failure of many policy initiatives, including New Public Management reforms (McCourt 2002).

Democracy needs government, and government requires loyal, competent and professional civil servants. In recent years a gradual waning of enthusiasm for some of the NPM-related reforms has taken place in the United Nations, The World Bank and elsewhere. There has been a rediscovery of historical-institutional context (Olsen 2003). The need for in-depth understanding of the special situation in individual countries is now underlined to a greater extent (World Bank 2000). In practice a given NPM reform gets refracted through the prism of a particular country's laws, culture political imperatives and so on (McCourt 2002). Priorities have shifted from a drive to create agencies and autonomous bodies to a striving to achieve good governance generally and more specifically to find the right balance between accountability and autonomy by focusing on weak co-ordination devices, lack of governing capacity and weak accountability mechanisms (OECD 2002). This development signals a need to strengthen capacity and capability in public administration. The notions that economic prosperity must be accompanied by social justice and that equity is a necessary condition of democratic governance have made a comeback. The concept of public choice is challenged by the concept of public service (Denhart and Denhart 2003) or public spirit. After September 11 recognition of the need for a strong, democratic and strategic state

has increased, and there are signs of a move to bring back the state. Contracting out tasks related to safety and security is becoming less popular and a discussion has been initiated about strengthening the ability of central government to control and regulate (Wise 2002). The need for capacity-building and capability reinforcement is gaining more attention and there is a growing belief in a stronger and more important role for government.

Increasingly, the focus is on the implication of reforms for professionalism and ethics, on how to prevent the erosion of ethical capital and on how to prepare, educate and train public service employees. It may be fair to say that on all these points the fundamental principles of the NPM mode including downsizing the central government, autonomization and the market prototype have been shown to be weak. Outsourcing, privatisation, structural devolution and partnerships were actively promoted, even though in many countries the basic preconditions for success did not exist. For NPM reforms to flourish economic conditions, administrative integrity and administrative capacity need to be favourable. It is impossible, for example, to privatise successfully in a country without a well-developed system of competitive markets, and contracting-out will not work without a well-developed system of contract law (Kettl 2000). The fact was frequently overlooked that a demoralised and poorly paid public servant is unlikely to be a suitable candidate for such innovative organisational forms and is almost certain to be vulnerable to graft and corruption.

How then are we to balance the different public sector norms and values in a period of New Public Management reform? One position is that NPM, with its strong emphasis on efficiency, tends to undermine traditional public service values of fairness, predictability, honesty, equity, continuity, security, due processes and political control. Another argument is that NPM supplements traditional values by introducing service quality and customer service and responsiveness. A third position is that NPM tends to increase tension between different values in certain specific contexts (Pollitt 2003). In arrangements such as Public Private Partnerships, competitive tendering of public services, welfare state services or in countries with weak ethical capital in the public sector and a low level of trust, the new mixture of values engendered by NPM reforms might be more challenging than in situations with clear boundaries between the public and private sector, strong ethical capital in the public sector and a high level of mutual trust. It would, however, be naïve to expect NPM reforms, with their strong focus on efficiency and customer service, to be successfully adopted right across the public sector or in the public sector in all countries without any loss of other desirable values. Increased efficiency cannot be traded off against public trust.

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