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Managerial reforms and developmental state capacity

Andrew Nickson

The last thirty years have witnessed a radical reshaping of the priority focus for public management reforms in LMICs, one which has largely been in response to a paradigm shift in the wider understanding of public sector reform. Prior to the 1980s, the stated focus of public management reform programmes was the establishment and strengthening of Weberian-style public management systems characteristic of many OECD nations. These tended to be characterised by meritocratic systems of recruitment, promotion and performance monitoring. Yet from the 1980s onwards, as the 'neo-liberal' development paradigm gained ascendancy around the world, so the understanding of public management reform gradually turned its attention to the growing importance of the role of the private sector in the overall development process, including the delivery of basic public services. This encouraged the introduction of a package of managerial reforms of the public sector that became known collectively as the 'New Public Management' (NPM). Although there is considerable controversy as to the extent to which neo-liberalism was the intellectual progenitor of the NPM, there is no doubt that the emergence and global spread of the latter coincided with the emergence of the former.

This paper seeks to analyze the impact that the 'policy transfer' of these managerial reforms has had upon enhancing the capacity of the so-called 'developmental state'. Before proceeding, it is necessary to address the conceptual confusion concerning the meaning of the 'developmental state'. Until relatively recently this referred to the particular attributes of the state in a small number of East Asian countries (e.g. Japan, South Korea, Singapore, Hong Kong, Taiwan) that had experienced very rapid economic growth in the second half of the 20th century. This sub-set was later widened to include Botswana (Acemoglu 2003; Leith 2005) and Mauritius (Brautigam 2000), and more, recently Vietnam (Masina 2005) and China.¹ The core feature of the developmental state have been described as "... the intervention of the state in the economy, but in the form of policies that are credible and oriented towards growth, not in the form of the ownership and direct control by the state of large parts of the economy" (Sindzingre 2007:617).

However, from the mid-1990s the term 'developmental state' has been used in a much broader sense, as exemplified by the following quote: "A developmental state is now broadly understood as one that evinces a clear commitment to a national development agenda, that has solid capacity and reach, and that seeks to provide growth as well as poverty reduction and the provision of public services" (Fritz & Rocha 2006:4). In the contemporary era of democratisation, it has even been suggested that the conception of the developmental state must be reconfigured to include a framework of competitive party politics (Randall 2007). Furthermore, a linkage has emerged between the developmental state and the wider good governance agenda. A central and distinguishing feature of the development state – 'government effectiveness' – is now incorporated as one of the six criteria used for ranking countries under the World Bank (WB) Governance Indicators Dataset.²

¹ Loriaux (1999) presents a persuasive argument that France is also a classic developmental state.

² The Government Effectiveness indicator is the unweighted average of five perception-based indicators – the quality of public service provision, the quality of the bureaucracy, the

Two very different groups of countries can be identified within this wider characterisation of the developmental state. First, are those states whose governments have reacted against the 'neo-liberal tide' in order to pursue a nationalistic development style in which the state plays a more direct role in the productive process and in the delivery of basic services (e.g. Bolivia, Ecuador, S Africa, Venezuela). Second, are those states whose governments have reacted against the predatory behaviour of their predecessors and now aspire to a new commitment to 'development' in general and to democratisation, good governance and poverty reduction in particular. These are primarily aid-dependent HIPC countries, with governments pursuing a Poverty Reduction Strategy (PRSs) under strong donor monitoring. In both groups of countries, the challenge of strengthening the 'developmental capacity of the state' is an important topical issue of debate. However, in neither case does the current concern for promoting the 'developmental capacity of the state' necessarily imply that these countries are seeking to pursue a growth strategy akin to that of the classic 'developmental state' model referred to above.

The paper begins by outlining the key principles of the NPM-type managerial reforms proposed to governments as a response to the challenges of wider public sector reform. Section 2 analyzes the extent to which these managerial reforms have actually been implemented around the world, with special reference to the experience of countries where they have either been modified or abandoned. Section 3 addresses the issue of 'policy transfer' by examining the extent to which aid-dependent countries have been more prone than other countries to adopt such managerial reforms. Section 4 outlines the major features of the developmental state, with a particular focus on the nature of the bureaucracy. Section 5 provides a critical assessment of the extent to which the introduction of managerial reforms can enhance the overall developmental capacity of the state. The final section offers some broader conclusions.

1 The key principles of NPM-type managerial reforms

The NPM is a generic term used to describe a bundle of management techniques introduced to the public sector, many of which are borrowed from the private sector (Ferlie et al 1996; Hood 1991; Walsh 1995). It emerged in New Zealand and the United Kingdom from the 1980s. Through the leverage of IMF structural adjustment programmes and the powerful intermediary of the World Bank and other IFIs, it began to be forcefully impressed on governments of LMICs around the world. The package of reform measures associated with the NPM is often referred to collectively as 'managerialism'. Broadly speaking, this proposes a shift in the focus of higher levels of public management towards 'steering' rather than 'rowing', strategic thinking and targeting resources in order to achieve defined outputs and outcomes.

The IMF has promoted three main tenets of public sector reform in pursuit of its overarching concern for fiscal balance. The first two of these assert that i) in order to overcome chronic fiscal deficits, the overall role of the public sector in the economy should be reduced, and ii) within the framework of this reduced role, the public sector should retreat from involvement in productive sectors of the economy but strengthen its involvement in social sectors. The policies derived from these tenets – retrenchment/downsizing and privatisation – are commonly referred to as the 'first generation' reforms of the Washington Consensus. The third tenet argues that in those sectors where the public sector retains a strong involvement, the central state should switch from a direct provider role to that of strategic 'conductor', at one and the same time regulating and enabling the delivery of services by other providers, whether from sub-national levels of government (e.g. municipal or regional governments), semi-autonomous state bodies (e.g. executive agencies or deconcentrated administrative units) or the non-state sector (e.g. the private sector or not-for-profit sector). The NPM provides the intellectual basis for these so-called 'second generation' reforms.

The NPM paradigm is underpinned by two key ideas that have shaped the public management reform process as outlined above, namely 'public choice' and 'principal-agent' (Hood 1991). Public choice theory offers a critique of the central assumptions of the Weberian model, arguing that bureaucrats are exclusively motivated by individual utility maximisation (i.e. rational self-interest) rather than the public good. It proposes a series of inter-organisational initiatives as a way of overcoming 'rent-seeking' behaviour inside the state apparatus. These managerial reforms that advocated 'flexibility' in staffing arrangements constituted a frontal attack on the homogeneity of the bureaucratic system that is a central tenet of Weberianism. They seek to open up markets in order to promoting efficiency in service delivery and giving 'choice and voice' to users of public services. The introduction of market and quasi-market mechanisms is designed to stimulate competition between service providers in the belief that this will promote cost savings and customer responsiveness. The most common instruments are contracting-out, franchising, internal markets, vouchers, and user charges or fees. There is also an emphasis on the quality of service provision in an effort to make public services more 'demand' rather than 'supply' driven. This new responsiveness to customers is expressed through initiatives such as 'citizen charters'. There is also an associated change in employment practices from traditional career tenure towards a preference for limited term contracts for senior staff, locally determined pay rather than uniform fixed salaries, the use of wholly monetised incentives, and the introduction of performance-related pay.

The second intellectual idea embedded in the NPM is principal-agent theory. This is central to the argument for the reassignment of roles to the different actors involved in the process of service delivery. It involves a split between the purchaser (the central ministry) and the providers (the rest, irrespective of whether in the public or private sector) that is driven primarily by the effort to capture gains in economic efficiency, equity and effectiveness. Where service delivery is retained within the public sector, this entails the breaking up of large public sector bureaucracies via the disaggregation of functions. A clear distinction is made between the strategic policy core within a ministry (the principal) and the operational arms of ministries that are hived off to form separate executive agencies (the agents). Executive agencies are a tool for ‘unbundling the bureaucracy’ and for ‘letting the managers manage’ in accordance with PA theory. They have four major characteristics that distinguish them from a traditional unified bureaucracy - delegated management and associated financial autonomy, a specialisation on specific operational tasks, a focus on outputs, and performance-related contracts. Each agency is no longer related to the parent ministry through the traditional departmental hierarchy, but by an arms’ length ‘performance agreement’ of a contractual nature that has specified performance targets. In cases in which service delivery is transferred to the private sector, this involves a contractual agreement between the central ministry (the principal) and the private service deliverer (the agent).

The two above ‘drivers’ – public choice and principal-agent theories – have given rise to five broad trends in public management. These are often overlapping and mutually reinforcing and collectively provide the ‘face’ of NPM:

- i) the replacement of traditional ‘tall hierarchies’ with flatter, flexible and more responsive organisational structures that are reformed around the specific operational tasks at hand rather than the traditional functions of finance and personnel.
- ii) the separation between funding, purchasing and the provision of services. This involves making a clearer organisational and financial separation between, on the one hand, defining the need for and paying for public services, and, on the other hand, the actual delivery of those services.
- iii) the delegation of management authority within public sector organisations. This involves giving top management the freedom to manage while at the same time defining more precisely their managerial responsibilities through performance targets linked to fixed-term contracts.
- iv) the delegation of budgets and financial responsibility to decentralised units through the creation of budget centres. This gives managers greater flexibility to consider the most cost-effective means to ensure the provision of required services to a pre-determined standard.
- v) the shift from a focus on inputs and processes to outputs and outcomes in control and accountability mechanisms. This involves a greater emphasis on output controls in resource allocation, performance agreements, and performance-related pay. This requires managers to work to performance targets, indicators and output objectives.

2 *The global spread of managerial reforms*

After decades of inertia around the world, the NPM paradigm kicked off processes of public sector reform from the mid-1980s. Heavily promoted by the World Bank and other IFIs, it was a central feature of the so-called ‘second wave’ of reforms associated with the Washington Consensus. The NPM ‘toolbox’ thus became a major example of ‘policy transfer’ in the field of public management. Although there is a wealth of literature reporting on country-specific examples, there is surprisingly little data that

provides a comprehensive overview of this process of policy transfer of managerial reform.³ A recent study of the ‘public management’ components of four global studies of state efficiency – the ‘government effectiveness’ component of the World Bank Governance Indicators, the European Central Bank’s public sector efficiency study, the ‘public institutions index’ within the Global Competitiveness Report and the ‘government efficiency ranking’ of the World Competitiveness Yearbook – concluded that they all suffered from serious data quality and questionable conceptual validity (Van de Walle 2006). Furthermore, none of them contained disaggregation that would enable comparative measurement of the specific impact of ‘market-driven’ reforms.

Despite the absence of any such comprehensive overview, it is clear that the global spread of these managerial reforms of the public sector has been both uneven and patchy. Among OECD members, there has been a noticeable bias in take-up among the so-called ‘Anglo-American’ countries, from the pioneering countries (New Zealand and United Kingdom) extending to Canada, Australia and, to a lesser extent, United States. A dramatic impact indicator is that by 2007 75% of the UK civil service were employed in executive agencies.

By comparison, the public sectors of EU member nations have been more resistant to the introduction of such market-driven reforms. In France, there is continuing adherence to a body of administrative law regulating procedures and recruitment in the public sector. This *dirigiste* system is controlled by the *grands corps*, a politico-administrative elite. Consequently, attempts to introduce managerialist reforms have made little inroads, such that “... much of the machinery of a centralized civil service remains fundamentally unaltered” (Pollitt & Bouckaert 2004:250).⁴ In Sweden’s highly decentralised system of public administration, local government has long held major responsibility for basic service delivery. Despite the introduction of NPM-type reforms, the ‘outsourcing’ of local government activities and services has been limited to around 10%, on average (SKF/SCB 2004).

In Germany, the *Neues Steuerungsmodell* (New Steering Model) that emerged in the 1990s sought to bring greater flexibility to the Weberian bureaucracy by introducing certain managerial principles such as indicator-based performance management and cost-accounting. The resulting ‘amalgam’ has been referred to as the classic example of the ‘Neo-Weberian State’ (NWS) (Bogumil et al 2008). This term has been coined to express a growing trend among public bureaucracies in Continental Europe to adopt selected features of the NPM-type managerial reforms associated with ‘Anglo-American’ countries. Under this ‘pick and mix’ process, it is argued that these countries are seeking to enhance the efficiency and responsiveness of the state in resource allocation without buying into those aspects of the NPM paradigm that risk jettisoning the benefits of a unified rule-based bureaucracy.

³ In 2005 the OECD launched ‘Government at a Glance’, a major project seeking to produce a biennial publication by late 2009 with comparative information on public management reforms in HICs.

⁴ One exception - the longstanding tradition of private sector participation in the delivery of basic services such as water and refuse collection in large cities, which takes the form of *gestión delegada* (delegated management), *affermage* (lease) or *concession* (long-term concession contracts) - predates the NPM paradigm by over a century.

The continuing commitment in the NWS to the Weberian ideal is expressed through a reaffirmation of the state as the main facilitator of solutions to emerging problems associated with technological change, globalisation, environmental threats and demographic changes; a reaffirmation of the role of representative democracy (at central, regional and municipal level) as the legitimising elements within the state apparatus; a reaffirmation of the role of administrative law in preserving the basic principles of relations between the citizen and the state, such as equality before the law and legal scrutiny of state activities; and the maintenance of the idea of 'public service' imbued with a distinctive status, ethical culture and terms and conditions. The 'neo' elements selected from managerialism are expressed in the NWS through a shift from an inward-looking concern for compliance with bureaucratic rules towards an outward looking orientation to meeting citizen's needs through the creation of a professional culture of quality; supplementation of the classic features of representative democracy with a range of consultative devices and, in some cases, the direct representation of citizens views; a shift in management towards greater focus on outputs rather than observance of procedures, with an accompanying shift from *ex ante* controls towards *ex post* evaluation; and a shift in the concept of bureaucratic professionalism away from a focus on expertise in administrative law towards citizen-oriented managers (Pollitt & Bouckaert 2004: 99-100).

South Korea, itself a leading exponent of the classic 'developmental state' model, has also experimented since the 1997 financial crisis with the introduction of managerial reforms inspired by the NPM paradigm. Under the Kim Dae-Jung administration (1998-2003), the Civil Service Commission established an 'open position system' to attract talented candidates from outside government to 20% of the posts in the top three grades of the civil service. It also introduced performance-related pay for senior managers. Most government agencies and public enterprises adopted Service Charters and introduced a 'Public Customer Satisfaction Index'. By December 2005, there were 23 executive agencies in operation reporting to 16 different ministries. However, there has been widespread informal resistance to the implementation of these reforms, considerably restricting managerial autonomy in executive agencies (Chang 2006).

The picture is equally heterogeneous in LMICs. With the end of communist rule, reforms in Central and Eastern European countries concentrated initially on the establishment of democratic systems of government rather than public management reforms per se. However, as internal and external reform pressures increased in order to implement the *acquis communautaire* needed for closer ties to the European Union, the establishment of classic Weberian bureaucratic norms became the guiding principle - to the neglect of NPM type institutional arrangements. "Classic continental career systems

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